

# Licensing Software

## A. Overview

### *1. The Concept of Licensing*

A license can be thought of as the permission of the owner of property to use that property. A more precise understanding, however, can be gained by using the old law school example of comparing property ownership to a bundle of sticks. The owner of the property possesses all of the sticks, including a stick for the nonexclusive use of the property. If the owner grants a license, the property owner is giving some of the sticks from the owner's bundle to the licensee. Thus, to understand software licensing it is necessary to understand the sticks, or intellectual property rights, contained in the software owner's bundle.

### *2. Intellectual Property Rights Applicable to Software*

Software is a unique technology, in that it comprises rights that are protectable under copyright law, patent law, and trade secret law. These multiple protections arise because software can be both a work of authorship as well as a business process. Set forth below is a brief overview of the three primary types of intellectual property rights provided for under United States law that are applicable to software.

#### *(a) Patents*

Patents are granted on "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." 35 U.S.C. § 101. A patent is an exclusive right to practice an invention granted by the government. Anyone else who practices the invention without a license from the patent holder is infringing the patent. 35 U.S.C. § 121.

In return for granting a patent, the government requires the inventor to disclose the invention to the public in full, clear, and exact terms. 35 U.S.C. § 112. While the inventor

has the exclusive right to practice the invention, anyone can examine the patent and understand the invention.

For years, software was not believed to be patentable subject matter. See, e.g. *Gottchalk v. Benson*, 405 U.S. 915 (1972) (reversing judgment of the Court of Customs and Patent Appeals on claims to “the processing of data by program and more particularly to the programmed conversion of numerical information” on the basis that the programs were not patentable subject matter). This belief changed in 1998, when the Federal Circuit issued its opinion in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998). In *State Street*, the district court granted summary judgment invalidating a patent governing a data processing system, relying in part on the “business method” exception to patentable subject matter. *Id.* at 1375. The theory behind the “business method” exception was that merely doing business did not qualify as patentable subject matter. *Id.* The Federal Circuit reversed the district court’s decision that a data processing system did not qualify as patentable subject matter and it eliminated the business method exception, opening the floodgates on software patents.

In the United States, the term of a patent depends upon when it was filed. For patents issued before June 8, 1995, and patent applications that were pending on that date, the patent term is the longer of either 17 years from the issue date or 20 years from the earliest claimed filing date, the longer term applying. 35 U.S.C. § 154. For applications filed on or after June 8, 1995, the patent term is 20 years from the earliest claimed filing date. *Id.* Generally, a patent holder may not enforce a patent license beyond the term of the patent. *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). Thus, theoretically, a software licensor could have difficulty enforcing a license to its patented software after the expiration of the patent term. Pragmatically, however, a licensor can also protect its software via copyright.

For an overview of the history of patenting software, see *The History of Software Patents*, [www.bitlaw.com/software-patent/history.html](http://www.bitlaw.com/software-patent/history.html).

### **(b) Trade Secrets**

Trade secrets are another form of intellectual property that can be used to protect software. Trade secrets are protected under the relevant state trade secret laws, almost all of which are derived from the Uniform Trade Secret Act (“UTSA”), which has been adopted in 42 states and the District of Columbia. See, e.g., California: CAL. CIV. CODE § 3426 *et. seq.*; Maryland: MD CODE ANN. COMM. LAW § 11–1201 *et. seq.*; Pennsylvania: 18 Pa. C.S. § 3930. Several commercially important states such as New York, New Jersey, and Texas, however, have not adopted the Uniform Trade Secret Act. For a list of states that have adopted the USTA as of December 2006, see, *Introduction of Trade Secrets*, 228 COMM.L. ADV. 1, 14 (Dec. 2006).

Under the UTSA, a trade secret is information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. As set forth above, the scope of trade secrets

overlaps patents but is also potentially applicable to information which does not meet the standard of patentability. Thus, trade secret protection is potentially broader than that available under patent law. However, a program that is solely functional in nature, i.e., the program's function is readily available or ascertainable, is not protectable under the USTA.

The UTSA defines "Misappropriation" to mean the (i) acquisition of a trade secret by a person who knows or has reason to know the trade secret was acquired by improper means or (ii) disclosure or use of a trade secret without express or implied consent by a person who improperly acquired knowledge of the trade secret or, who at the time of disclosure or use, knew or had reason to know that the trade secret had been improperly acquired, and there was an obligation to maintain its confidentiality. UTSA § 1(2); see, e.g., MD. CODE ANN. COM. LAW § 11-201(c).

A fundamental distinction between patent protection and trade secret protection is the requirement that the owner of a trade secret use reasonable efforts to maintain the secrecy of information. This is sharp contrast to the duty of disclosure and enablement under patent law. Thus, a licensor seeking to protect software should include confidentiality provisions in the license agreement. Special care should be taken to protect the confidentiality of source code. See Chapter 8 for a detailed discussion of the issues involved in confidentiality provisions.

Trade secret protection offers several advantages over other types of protection for intellectual property law, principally the perpetual protection offered for trade secrets (e.g., the formula for Coke®) and initially the minimal cost to obtain such protection. These benefits are often outweighed by the fluid nature of such protection and the immediate loss of trade secret status even in the event of an inadvertent disclosure. The disclosure of the protected information in a patent or copyright application will also cause a loss of protection. See *BondPro Corp. v. Siemens Power Generation, Inc.*, 463 F.3d 702 (7th Cir 2006). Further, a competitor that is able to reproduce a trade secret without use of illegal means, is free to do so. In short, trade secrets generally retain their value so long as they remain secret.

State trade secret laws offer broader protection than copyright laws because the trade secret laws apply to concepts and information, that are both, excluded from protection under federal copyright law. See 17 U.S.C. § 102(b). Information eligible for protection includes computer code, *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 663 (4th Cir.), *cert. denied*, 510 U.S. 965 (1993); *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518 (5th Cir.), *reh'g denied*, 505 F.2d 1304 (5th Cir. 1974); *Integrated Cash Management Servs., Inc. v. Digital Transactions, Inc.*, 732 F. Supp. 370 (S.D.N.Y. 1989), *aff'd* 920 F.2d 171 (2d Cir. 1990); program architecture, *Trandes*, 996 F.2d at 661; *Computer Assocs. Int'l, Inc. v. Bryan*, 784 F. Supp. 982 (E.D.N.Y. 1992), information content including order, structure and sequence, *Q-Co. Indus., Inc. v. Hoffman*, 625 F. Supp. 608, 617 (S.D.N.Y. 1985) and algorithms, *Vermont Microsystems, Inc. v. Autodesk, Inc.*, 88 F.3d 142 (2d Cir. 1996); *Micro Consulting, Inc. v. Zubeldia*, 813 F. Supp. 1514, 1534 (W.D. Okla. 1990), *aff'd without opinion*, 959 F.2d 245 (10th Cir. 1992). Mathematical algorithms are also protectable under patent law. *Arrhythmia Research Technology v. Corazonix Corp.*, 958 F.2d 1053 (Fed. Cir.) *reh'g denied*, 1992 U.S. App. LEXIS 9888 (Fed. Cir. 1992); *In re Iwashii*, 888 F.2d. 1370 (Fed. Cir. 1989).

Courts are divided as to the application of trade secret protection for customer lists. See *Morlife, Inc. v. Perry*, 56 Cal.App.4th 1514 (Cal.App. 1997) (file of customer business cards maintained by sales manager are trade secrets); *Fireworks Spectacular, Inc. v. Premier Pyrotechnics, Inc.*, 147 F. Supp.2d 1057 (D Kan. 2001) (customer lists constitute trade secrets, applying Kansas law) and *In re American Preferred Prescription, Inc.*, 186 B.R. 350 (Bankr. E. D. N. Y. 1995) (client list is trade secret). See also *DeGiorgio v. Megabyte Int'l, Inc.*, 468 S.E.2d 367 (Ga. 1996) (only tangible customer lists are subject to protection as a trade secret), and *Ed Nowogroski Insurance v. Rucker*, 944 P.2d 1093 (Wash. 1997) (memorized client list constitutes trade secret), but see *Vigoro Indus. v. Cleveland Chem. of Ark.*, 866 F. Supp. 1150 (E. D. Ark. 1994) (customer lists alone not considered a trade secret), and *WMW Machinery Company, Inc. v. Koerber A.G.*, 658 N.Y.S.2d 385 (App. Div. 1997) (customer lists are not trade secrets where lists are readily ascertainable from sources outside employee's business). Further, at least one court has held that the execution of a nondisclosure agreement by an employee does not in and of itself create trade secret status for the employer's customer lists. *Equifax Servs., Inc. v. Examination Management Servs., Inc.*, 453 S.E.2d 488 (Ga. App. 1994). For a further discussion, see *Intellectual Property Issues in the Employment Setting*, 119 INTELL. PROP. COUNS. 1, 4 (Nov. 2006).

A majority of courts have held that claims based on state trade secret laws are not preempted by federal copyright law (§ 301 of Federal Copyright Act). *Dun & Bradstreet Software Services, Inc. v. Grace Consulting, Inc.*, 307 F.3d 197 (3d Cir. 2002); *Nat'l Car Rental Sys., Inc. v. Computer Assocs. Intl., Inc.*, 991 F.2d 426 (8th Cir. 1993); *Bishop v. Wick*, 1998 WL 166652, 11 U.S.P.Q.2d 1360 (N. D. Ill. 1988); *Brignoli v. Balch, Hardy and Scheinman*, 645 F. Supp. 1201 (S.D.N.Y. 1986), but see *Computer Associates International v. Atari*, 775 F. Supp. 544 (E.D.N.Y. 1991); *Enhanced Computer Solutions, Inc. v. Rose*, 927 F. Supp. 738 (S. D. N. Y. 1996); *Benjamin Capital Investors v. Cossey*, 867 P.2d 1388 (Or. Ct. App. 1994). See also *Lennon v. Seaman*, 63 F. Supp.2d 428, 437 (S.D.N.Y. 1999) which discusses in detail the dichotomy among the different courts. At the same time, two commentators have suggested that trade secret laws may be the only method of protection for the ideas incorporated in the functionality of mass distributed commercial software. Johnston & Grogan, *Trade Secret Protection for Mass Distributed Software*, 11 COMPUTER LAW. 1 (Nov. 1994).

Matters of public knowledge, general knowledge of an industry, routine or small, skill and knowledge readily ascertainable, and differences in procedures or methodology are not considered to be trade secrets. *Anaconda Co. v. Metric Tool & Die Co.*, 485 F. Supp. 410, 421–22 (E.D. Pa. 1996). Furthermore, any skill or experience learned during the course of employee's employment is not considered to be a trade secret. *Rigging Int'l Maintenance Co. v. Gwin*, 128 Cal. App.3d 594 (1981), *American Red Cross v. Palm Beach Blood Bank, Inc.*, 143 F.3d 1407 (11th Cir. 1998) (employer may not preclude former employees from utilizing contacts and expertise gained during employment) but see *Air Products and Chemicals, Inc. v. Johnson*, 442 A.2d 1114 (Pa. Super. 1982) (details of research and development, projected capital spending, and marketing plans are trade secrets); *Den-Tal-Ez, Inc. v. Siemens Capital Corp.*, 566 A.2d 1214 (Pa. Super. 1989) (detailed units costs, profit margin date, and pricing methods are trade secrets).

An owner of trade secrets is entitled to receive injunctive relief and damages for the misappropriation of its trade secrets. USTA § 3. Such damages include the actual loss

caused by the misappropriation and any unjust enrichment arising as a result of the misappropriation that is not taken into account in computing any actual loss. UTSA § 3; see, e.g., MD. CODE ANN. COM. LAW § 11–1203. A court may also award attorney’s fees if willful and malicious misappropriation exists. UTSA § 4(iii); see, e.g., MD. CODE ANN. COM. LAW § 11–1204.

Section 7 of the UTSA provides that except for contractual remedies, whether or not based upon the misappropriation of a trade secret or other civil remedies that are not based upon the misappropriation of a trade secret, the USTA “displaces conflicting tort, restitutionary and other laws . . . providing civil remedies for misappropriation of a trade secret”. See e.g., *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F. Supp.2d 784 (W.D. Ky. 2001) (Kentucky Uniform Trade Secrets Act replaces all conflicting civil state law regarding misappropriation of trade secrets, except for those relating to contractual remedies); *Boeing Co. v. Sierracin Corp.*, 738 P.2d 665 (Wash. 1987) (USTA merely displaces conflicting tort, restitutionary, and other law regarding civil liability for misappropriation and does not displace claims for breach of contractual and confidential relationship).

Given the differences in state trade secret laws, the choice of governing law is very important. For example, South Carolina has enacted legislation providing that written agreements not to disclose trade secrets will be enforced without limitation on duration or geographic scope when the employee knows or has reason to know of the trade secret’s existence, S.C. CODE ANN. § 39–8–30(d) (Law Co-op. 1997), while the Wisconsin Court of Appeals in an unpublished decision declined to enforce a nondisclosure provision in an agreement because it was unlimited as to time and overly broad. *Williams v. Northern Technical Services, Inc.*, 568 N.W.2d 784 (Wis. App. 1997).

For a general overview of trade secret issues, see *Rodgers & Marrs, Trade Secrets and Corporate Espionage: Protecting Your Company’s Crown Jewels*, 22 ACC Docket. 60–78 (April 2004); William L. O’Brien, *Trade Secret Reclamation: An Equitable Approach in a Relative World*, 21 J. COMPUTER & INFORMATION LAW 227 (2003); Peterson, *Trade Secrets in an Information Age*, 32 HOUS. L. REV. 385 (1995); Dodd, *Rights in Information: Conversion and Misappropriation Causes of Action in Intellectual Property Cases*, 32 HOUS. L. REV. 459 (1995) Gross, *What Is Computer “Trade Secret” Under State Law*, 53 A.L.R 4th 1046 (1987); Gulbis, *Disclosure or Use of Computer Application Software as Misappropriation of Trade Secret*, 30 A.L.R 4th 1250 (1984); POOLEY, *TRADE SECRETS*, Law Journal Press (1997).

### (c) Copyrights

Copyright law protects “works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” 17 U.S.C. § 102. Copyright protection, however, does not “extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.” *Id.*

Thus, copyright only protects the expression, not the underlying ideas or concepts. Software is a work of authorship that is fixed in a tangible medium of expression. As such

it is entitled to protection under copyright law. Copyright protection does not extend, however, to the processes that software performs or the ideas that it implements. Instead, only the expression itself is protected. This is a fundamental distinction between the protection offered by copyright law and that potentially offered by patent and trade secret law. In a nutshell, copyright law prevents anyone from copying source code without the owner's permission, but it does not prevent third parties from independently writing software that performs the same functions as the copyright software.

Confusion often arises as to the role of registration in copyright law. A work of authorship is protected when it is fixed in a tangible medium. See *In re World Auxiliary Power Company*, 303 F.3d 1120, 1125 (9th Cir 2002). Placing a copyright notice on the work eliminates any claim of innocent infringement.

While registration is permissive, not mandatory, and not a pre-condition for protection, it does confer a number of benefits. *Id.* An originator must register the copyright with the U.S. copyright office prior to bringing an infringement claim, 17 U.S.C. § 411(a). Registration within three months of the publication of the work permits a copyright holder to obtain up to \$150,000 in statutory damages for intentional infringement without proof of an actual loss and the right to obtain attorney's fees. 17 U.S.C. §§ 504(c), 412. If the work is published within five years from the date of creation, the registration is prima facie evidence of the validity of the copyright, shifting the burden of proof to the other party. 17 U.S.C. § 410(c). The ability to obtain statutory damages and attorney's fees is important as the copyright owner's actual damages and the infringer's profits may be less than the cost of the litigation. Registration also allows the copyright owner to record its registration with the U.S. customs service to protect against infringing copies being imported into the United States.

For an overview of copyright protection for software, see Buckman, *Copyright Protection of Computer Programs*, 180 A.L.R. FED 1.

## B. The First Sale Doctrine

### 1. In General

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).<sup>1</sup> In short, the First Sale Doctrine addresses a *copy owner's rights* as opposed to the *copyright owner's rights*.

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."

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).<sup>2</sup>

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 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.*

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).

*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.

## 2. Applicability to Software

A software owner needs to consider how it will protect its software. It may be able to protect methods and processes by either trade secret or patent. Patents, however, require revealing the protected process to the public, while trade secret protection requires keeping it confidential. Thus, the same process cannot be protected by both methods.

By writing the software, the owner receives copyright protection on the actual expression. This protection does not, however, prevent third parties from independently developing software which performs the same function.

When granting a license to a licensee, a vendor needs to consider what protections it has in the software, and what rights (or sticks in the bundle) it wishes to convey to the licensee. The scope of the license granted will govern the licensee's use. Only if the licensee exceeds the scope may the licensor seek damages or other remedies from a licensee under any intellectual property regimen. Thus, the license grant should be drafted broadly enough to permit use by the licensee, but narrowly enough to enable the intellectual property holder to use copyright, patent or trade secret law to stop or prevent infringement by the licensee.

For a discussion of several different types of intellectual property protections available for software, see, Neelakantan & Armstrong, *Source Code, Object Code, and the Da Vinci Code: The Debate on Intellectual Property Protection for Software Programs*, 23 COMPUTER & INTERNET LAW. 1 (Oct. 2006).

## C. The Transfer of Intellectual Property Rights

In general, there are two means of conveying intellectual property rights: assignments and licenses. In an assignment, the property owner conveys all of the sticks in the owner's bundle, while in a license the property owner only transfers certain sticks, and retains the rest. Under copyright law, 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).

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 4.A.7 and 4.B for a more detailed discussion.

