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Does Your Company Use End User License Agreements to Protect its Software?

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While it is commonly understood that software is protected under U.S. copyright laws, when the software is distributed, the scope of that protection may vary greatly depending on whether the software is sold versus licensed under an End User License Agreement (EULA). The issues created by selling software versus providing it under an EULA are often overlooked, particularly in situations where the software is embedded in or provided with products or equipment that is sold. For example, when machinery containing embedded software is sold to a customer, the embedded software typically will be considered to have been sold along with the machinery to the customer, and the seller will have lost certain important protections in the software, unless there is a separate EULA governing the use of the embedded software. Companies wishing to protect their software and maintain control over the end-users' use of the software should consider licensing their software under an EULA instead of selling it.

When software is sold, the individual copy of the software that is sold falls within the "first sale" doctrine, which allows the purchaser to resell the product that constitutes or contains copyrighted works without the copyright owner's consent. The first sale doctrine is codified in the U.S. Copyright Act at 17 U.S.C. § 109 and provides a defense in the event a copyright owner sues for copyright infringement. Illustrative is *Adobe Systems, Inc. v. Christenson*, 809 F.3d 1071 (9th Cir. 2015). In the Adobe case, Joshua Christenson and his software company purchased physical copies of Adobe Photoshop software from a distributor. Christenson and his company operated a website where they resold those copies without Adobe's permission. Adobe sued Christenson and his company for copyright infringement. Christenson came forward with proof that he lawfully purchased the copies of the software from the distributor. The federal trial court in Nevada ruled that the first sale doctrine protected the resale of the software from Adobe's infringement claim and granted summary judgement for Christenson and his company. The U.S. Court of Appeals for the Ninth Circuit affirmed.

Importantly, the sale of software also gives the purchaser the right to reverse engineer the software for interoperability purposes, make a copy of the software in certain circumstances, and otherwise use or copy the software for "fair use" purposes such as criticism, comment, news reporting, teaching, scholarship, or research.

On the other hand, when software is licensed under an EULA the first sale doctrine does not apply. Also, an EULA gives the software owner an opportunity to impose additional contractual restrictions on the customer's use of the software, which can protect against reverse engineering and other unwanted uses of the software.

Given the risks to a copyright owner associated with the sale of software, many companies utilize EULAs which provide that the customer is only acquiring a license to use the software and not ownership. Typically, the EULA will provide that the license rights are non-transferrable, that the software can only be used for its intended purpose, that reverse engineering is strictly prohibited, and contain other restrictions and provisions to protect the copyright owner. An EULA is customary where the product being licensed is stand-alone software, and it should also be customary where software is licensed in connection with the sale of hardware products. This might include, for example, operating software licensed in connection with the sale of machine tools, printing devices, vehicles, computers, and other equipment or machinery. In these situations, the equipment/machinery can be sold under a sales agreement while the software should be licensed under a separate EULA. In this way, a properly drafted EULA will maximize the copyright holder's ability to protect its software.