



Selling 'used' software

Businesses will regularly licence different types of software with different types of functionality often at significant cost. But what happens to the software if the business evolves, is reorganised or merges with another? These situations may result in software becoming no longer needed. It may come as a surprise that in certain circumstances, the licences of this 'used' software can be sold on to a third party – without the permission of the rights holder/original supplier.

What you might have thought

Licences are more commonly considered to be the granting of limited rights to use something. The supplier or licensor (commonly the owner of the IP in the software) can grant many licences provided the licence is not exclusive to the licensee and the licensee may be able to (subject to the terms of the licence) grant sub-licences. A licence contrasts with an assignment which is the transfer of ownership meaning the licensor loses the right to licence the software to another party or use it itself.

On this basis, you may have thought that a licensee would not be able to sell their licence to a third party, without the need to get permission from the rights holder/original supplier. But, as explained below, there are circumstances where this is possible.

What the law says

The main laws that control the distribution of software are set out in the Software Directive and there have been a couple of significant cases in the EU which have refined the way in which the Software Directive should be applied.

The law says that the first sale of a particular copy of a software program exhausts the distribution rights (the ability to control the sale of) that copy (within the EU) if:

- the sale is for the use of the software for an unlimited period; and
- for a lump-sum payment (rather than a subscription).

The exhaustion of such rights means that the first licensee can sell its licence to a second licensee. The supplier would be unable to prevent the first licensee from doing so even with transfer and assignment restrictions in the wording of the licence document.

Qualifications

1. **Maintenance**

If the software is being licenced with a supplementary maintenance agreement, the exhaustion principle would not apply to the maintenance agreement meaning the second purchaser of the software licence would not benefit from it (unless the original licensee is not prevented from assigning the maintenance agreement). Therefore, in respect of any software that is largely useless without continued maintenance from the licensor, the impact to the licensor of the ability to sell 'used' software will be reduced because the second licensee would also need to agree a maintenance agreement.

2. **Dividing up the licence**

The first licensee cannot divide up the licence to then sell to multiple second licensees. If the licence is to multiple end-users, the entire licence must be sold. The first licensee cannot keep some for its own use, or to sell to other third parties.

3. **First licensee stopping use**

The first licensee must stop using the software after it has sold the licence to the second licensee. If it doesn't, the second licensee will be able to continue using the software unaffected, but the first licensee would be infringing the supplier's rights.

4. **Backup copies**

But what if the initial acquirer of a copy of a computer program accompanied by an unlimited user licence tries to resell that copy and its licence to a new acquirer but its original material medium of the copy that was initially delivered to them has been damaged, destroyed or lost, can that initial acquirer provide its back-up copy of that program to that new acquirer without the authorisation of the rights holder/original supplier? The answer is, no.

What does this mean for suppliers?

Due to the potential rights just described, it will be important that suppliers check that they are making their software available either in a way that prevents its licensees from selling the software to a third party, or that they are happy for customers to act in this way. There are a number of considerations:

- By moving to a subscription licensing model, the licensee will only have the right to use the software for the duration of their subscription. When the subscription term expires, their right to use the software will cease.
- By moving to a SaaS model, the software is provided on an ongoing basis for as long as the customer is paying for access to the software. There are a number of benefits for both suppliers (regular and secure income stream) and customers (access to the most up-to-date version).

What if you are a potential second licensee?

Opting to licence from a first licensee rather than from a supplier is not without its risks. Whilst it may be possible to get the licence more cheaply, as noted above, if maintenance/upgrades are an essential

requirement, the second licensee will still have to negotiate terms with the supplier. If the software will be business critical, the second licensee might feel uncomfortable with not going directly to the supplier.