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LEGAL ISSUES IN AUTODESK LICENSING GUIDE

By Julie Machal-Fulks and Keli Johnson

Autodesk products are used by more than 10 million architects, designers, engineers, manufacturers, and digital artists across multiple industries, including architecture, engineering, construction, manufacturing, automotive, media and entertainment, and utilities and telecommunications.ⁱ To help combat pervasive piracy, Autodesk, along with other publishers, founded The Business Software Alliance (the BSA), an organization designed to investigate and punish businesses that are using software they cannot prove they own. The BSA claims that 42 percent of the software used in the global marketplace is pirated.ⁱⁱ For every legal copy of Autodesk software sold in the marketplace, five more illegitimate copies are distributed.ⁱⁱⁱ What does all of this mean for the average business? If you are using Autodesk products, you should ensure that you fully understand your obligations under Autodesk's sometimes confusing license terms and that you have dated documentation to demonstrate ownership of each product you are using. If you are being audited by Autodesk or the BSA, you should seek experienced counsel to guide you through the process.

AUTODESK SOFTWARE AUDITS

Autodesk typically initiates audits four ways –through its internal compliance team, through an outside law firm, as part of a BSA audit, or as part of a Software and Information Industry Association (SIIA) audit. Although the process is slightly different depending on which of the above entities initiates the audit, the basic information requested pursuant to the audit framework is the same – the quantity and serial number of Autodesk products installed on each computer, the number of licenses owned and the serial numbers of any licenses owned.

When Autodesk audits a business' use of software, it is looking for several common licensing issues: the business has more licenses installed than it owns, the serial number is invalid or registered to another company, the company is using licenses that were previously used as an underlying license for an upgrade. All of these actions are prohibited under Autodesk's license provisions and companies should be aware of the restrictions before purchasing or deploying any Autodesk software.

Audit targets typically receive a letter from Autodesk, its law firm, the BSA, or the SIIA demanding the business' cooperation in disclosing the number of Autodesk installations on its network and the number of Autodesk licenses it owns, including serial numbers. The auditing entity may assert that it has received information that indicates the business may have more installations of Autodesk software than it is licensed to use. The letter often describes the various penalties associated with copyright infringement and sometimes threatens the business with civil litigation if the business does not cooperate.

In many cases, as a result of the audit Autodesk demands a settlement payment calculated as the MSRP of the allegedly unauthorized products installed on the business' network multiplied by three. The multiplier, Autodesk argues, is the penalty for using unauthorized software and is assessed in lieu of proceeding with formal judicial resolution. The use of multipliers as an approximation of damages is a hotly contested issue.

UNDERSTANDING AUTODESK'S LICENSING TERMS

Autodesk's End User License Agreement ("EULA") contains a number of provisions that restrict a user's ability to purchase, install, use, or transfer Autodesk products. Users are often unfamiliar with the licensing terms or even when they take the time to learn the terms, misunderstand their obligations. Autodesk claims that any violation of the license agreement is not only a breach of contract, but likely constitutes copyright infringement as well. Because the penalties for copyright infringement can be severe, it is important to understand and comply with the often complex Autodesk licensing requirements.

Initially, Autodesk restricts the number of installations and indicates that certain licenses can only be installed on certain kinds of computers. For a standalone product, the EULA allows one installation of the product on a single computer in the office setting. The EULA also allows one installation on a portable or home computer to be used only by the same person who uses the office installation. A standalone product cannot be installed on a network computer or a server. Furthermore, it is improper to install a network license on both a server and a standalone computer. Even though it is technologically possible to install Autodesk software in violation of the license agreement, the license terms prohibit the installations and can result in penalties.

Autodesk also contractually limits redistribution or transfer of its software products. The grant of the license in the EULA is explicitly non-transferable, and the EULA also prohibits a lawful license holder from redistributing the license to anyone without Autodesk's written permission. What this means to those in the Autodesk market is that if the business bought the software from anyone other than an Autodesk reseller, Autodesk will claim that the copy is unauthorized. This can pose a problem in the following circumstance – Autodesk stops selling a particular version of a software product, but for compatibility reasons, the business needs to purchase an out-of-date, unsupported version of Autodesk software. According to Autodesk, the business cannot buy a used, legal copy of the proper version because it is not distributed by an authorized reseller.

Furthermore, if a business owned a legal copy of an Autodesk product and later purchased an upgrade, the earlier version of the product is no longer valid and cannot be used legally after a short period of time for transition from one product to the next has passed. In some instances, a software user with a valid subscription may upgrade to the latest version and continue to receive technical support, or may continue to use the authorized older version without technical support. But, typically purchase of an upgrade license invalidates the older license. If your business has a need to use both licenses, do not purchase an upgrade, buy a full version license instead.

AUTODESK HAS POWERFUL ENFORCEMENT RIGHTS

The Copyright Act of 1976, 17 U.S.C. §101, and the Digital Millennium Copyright Act ("DMCA"), 28 U.S.C.A. § 1295 protect, among other works, software. Autodesk regularly avails itself of copyright laws to protect against unauthorized use of its copyrights and software piracy. The DMCA focuses on internet piracy and the unauthorized distribution, copying, and use of copyrighted materials. The anti-circumvention provision of the DMCA is designed to prevent copyright infringers from overcoming security protocols that block duplication of software. These provisions enable copyright holders to pursue damages against copyright infringers, resulting in civil fines or potential criminal charges.

When a copyright owner claims that a company is using its software without a license, the burden shifts to the software user to prove that the user had a valid license. Although the license agreement does not require users to retain proofs of purchase to demonstrate ownership, those proofs of purchase are the only acceptable documentation in many audit cases. There is no requirement that the copyright owner show that the accused infringer had knowledge of the infringement or an intent to infringe the copyright.

The penalties for copyright infringement can be severe. If a copyright holder successfully sues for copyright infringement, the copyright holder can seek actual damages, statutory damages, punitive damages, injunctions, and in some cases, federal prosecutors can initiate a criminal copyright action that may result in imprisonment. The statutory damages increase and punitive damages may be awarded if the copyright infringement is willful or knowing.

THERE ARE FEW VIABLE DEFENSES TO A CLAIM OF COPYRIGHT INFRINGEMENT

There are not many defenses to a claim of copyright infringement. One possible defense to copyright infringement is fair use. The fair use of a copyright ranges from news reporting, to parody, research, or other non-infringing ways. Some factors used by courts to determine whether the copying or use qualifies under the fair use defense include the following:

- 1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- 2) the nature of the copyrighted work;
- 3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- 4) the effect of the use upon the potential market for or value of the copyrighted work.

If the court determines the use of the protected work constituted fair use, damages will not be assessed against the alleged copyright infringer. However, it would be difficult for a business using a copyrighted software product in violation of the license agreement to qualify for the fair use defense.

Another affirmative defense to a claim of software infringement is the first-sale doctrine. The first-sale doctrine enables the owner of a legal copy of protected work to transfer, sell, rent, or otherwise distribute the copyrighted materials without permission from the copyright holder. A copyright holder's exclusive right to distribute the particular copy ends once it is sold to a third party.^{iv} This doctrine is applicable to computer software, and cannot be waived by the End User License Agreement ("EULA"). However, a purchaser of copyrighted software may not resell the product contrary to a license agreement if the purchaser is a merely licensee of the protected work, and not an owner of a copy of the work.^v Whether a purchaser of retail software is an owner or a licensee is a question that continues to be examined by the courts in cases like *Vernor v. Autodesk*.^{vi}

In *Vernor*, Timothy Vernor claimed he was entitled to resell the Autodesk software that he purchased from another individual. A federal district court in Washington agreed, but the Ninth Circuit Court of Appeals reversed, finding that the first-sale doctrine does not apply to a person who possesses a copy of a copyrighted work without owning it, such as a licensee. After reviewing the software license agreement between Autodesk and the original owner, the Court determined that the original owner was a licensee who was not allowed to resell the software to Vernor. Because it is unclear whether the first-sale doctrine could ever apply to software when a license agreement prohibits transfer, companies should be cautious when trying to acquire software from third parties.

CONCLUSION

Autodesk diligently pursues companies it suspects of violating Autodesk's EULA. Businesses should ensure that they are aware of their obligations under the license agreement and that they are complying with the obligations. If a company is facing an Autodesk audit, it should take the matter seriously, recognize that the exposure could be significant, and understand the ramifications of providing information to Autodesk. Having visibility into the process and the information requested by Autodesk is an important component in minimizing the risks associated with a software audit.

ⁱ <http://usa.autodesk.com/adsk/servlet/index?siteID=123112&id=12268773>.

ⁱⁱ Business Software Alliance, *Seventh Annual BSA/IDC Global Software 2010 Piracy Study*, at http://portal.bsa.org/globalpiracy2010/downloads/study_pdf/2010_BSA_Piracy_Study-Standard.pdf (May 2011).

ⁱⁱⁱ *Autodesk Steps Up Anti-Piracy Efforts to Combat the \$13 Billion Revenue Loss to Global Software Developers* (August 7, 2003), at <http://usa.autodesk.com/adsk/servlet/item?linkID=14271595&id=3504252&siteID=123112>.

^{iv} 17 U.S.C. §109.

^v 17 U.S.C. §117. *Novell, Inc. v. CPU Distrib., Inc.*, Not reported in *F.Supp.2d (S.D. Tex. 2000)*; *Softman Product Co., L.L.C. v. AdobeSystems, Inc.* 171 *F.Supp.2d* 1075 (*Cal.-C.D.*, 2001).

^{vi} *Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010).



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As a partner at Scott & Scott, LLP, Julie Machal-Fulks leads a team of attorneys in representing and defending clients in legal matters relating to information technology. Her practice focuses on complex litigation ranging from privacy and network security, data breach notification and crisis management, intellectual property disputes, service provider negligence claims, and content-based injuries such as copyright and trademark infringement in software, the Internet, and all forms of tangible media.

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As an associate attorney at Scott & Scott, LLP, Keli is primarily focused on software licensing and copyright infringement matters. She advises clients in a variety of industries to ensure compliance with software licenses and develop strategies for maximizing the value of software licenses.

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