



Neutral citation [2025] CAT 75

Case No: 1570/5/7/22 (T)

IN THE COMPETITION
APPEAL TRIBUNAL

Salisbury Square House
8 Salisbury Square
London EC4Y 8AP

12 November 2025

Before:

JUSTIN TURNER KC
(Chair)
ANDREW LYKIARDOPOULOS KC
ANTONY WOODGATE

Sitting as a Tribunal in England and Wales

BETWEEN:

JJH ENTERPRISES LIMITED
(TRADING AS VALUELICENSING)

Claimant

- v -

(1) MICROSOFT CORPORATION
(2) MICROSOFT LIMITED
(3) MICROSOFT IRELAND OPERATIONS LIMITED

Defendants

Heard at Salisbury Square House on 9-10 September 2025

JUDGMENT (PI TRIAL)

APPEARANCES

Matthew Lavy KC, Henry Edwards and Mark Wilden (instructed by Ghaffari Fussell LLP) appeared on behalf of the Claimant.

Geoffrey Hobbs KC, Jaani Riordan and Nikolaus Grubeck (instructed by Sidley Austin LLP) appeared on behalf of the Defendants.

CONTENTS

A.	Introduction	4
B.	The law.....	10
	(1) EU law and judgments.....	10
	(2) Copyright in Computer Software	11
	(3) Exhaustion of rights and the decisions in <i>UsedSoft</i> and <i>Tom Kabinet</i>.....	13
C.	The facts.....	23
	(1) The Microsoft Products at issue.....	23
	(2) The Microsoft Enterprise Program	24
	(3) The sample transactions	27
D.	Preliminary Issue 1	29
	(1) The relevance of the terms of the Enterprise Agreements	30
	(2) Is it permissible to sell a proportion of user rights from a bulk licence to different customers?.....	33
	(3) What is the evidential burden on VL to show the first acquirer’s copies of programs have been rendered unusable?.....	36
	(4) Ruling on Preliminary Issue 1.....	36
E.	Preliminary Issue 2.....	37
	(1) The non-program works.....	38
	(2) Overall summary of Microsoft’s evidence on the non-program works	43
	(3) Legal analysis.....	44
	(4) Analysis of the present case	52
	(5) Conclusion.....	55
	(6) Ruling on Preliminary Issue 2.....	56

A. INTRODUCTION

1. This is the trial of preliminary issues in this claim directed to the circumstances under which copyright associated with computer software becomes exhausted and the circumstances under which second hand computer software may be sold.
2. The Claimant (hereafter “VL”) was a vendor of pre-owned licences for Microsoft software products, including *Microsoft Windows* and *Microsoft Office* (referred to collectively as “the Products”). Perpetual licences may be resold in the UK and EU in accordance with the Court of Justice of the European Union’s (“CJEU”) judgment in Case C-128/11 *UsedSoft GmbH v Oracle International Corp*, EU:C:2012:407, [2012] 3 CMLR 44 (“*UsedSoft*”).
3. VL contends that from about 2011, the Defendants (hereafter “Microsoft”) migrated customers from the use of perpetual licences to its subscription-based service, Microsoft 365. VL’s case is that Microsoft stifled the supply of pre-owned licences by, in exchange for discounts to its subscription based service, requiring customers to surrender or retain the perpetual licences they no longer required.
4. VL contends *inter alia* that: “*Microsoft agreed to provide certain large customers with discounted Microsoft 365 pricing, subject to their accepting ‘custom anti-resale terms’*”. Microsoft later amended its global licensing terms, which provided for discounted Microsoft 365 subscriptions to enterprise customers which had migrated from perpetual licences, so as to require them to retain their old perpetual licences. The terms complained of are referred to collectively as the “Impugned Terms”.
5. VL says that the Impugned Terms amounted to anti-competitive agreements contrary to Article 101 of the Treaty on the Functioning of the European Union (“TFEU”), and/or that the conduct complained of amounted to Microsoft abusing its dominant position in the markets for desktop operating systems and *Office* productivity suites, contrary to Article 102 of the TFEU (and analogous provisions under the Competition Act 1998 and the EEA Agreement). It

contends that, but for such breaches of competition law, VL would have been able to resell many more pre-owned licenses for Microsoft software than it did. VL claims for damages for lost sales.

6. Microsoft denies that the conduct in issue amounted to a campaign to stifle sales of pre-owned licences. The preliminary issues arise from what have been referred to as Microsoft's "alternative defences". These are: (a) that Article 101(1) of the TFEU does not apply because the relevant agreements fall within the scope of Article 101(3) of the TFEU; (b) that if Microsoft's conduct was *prima facie* anti-competitive under Article 102 of the TFEU it may be objectively justified as being proportionate means of achieving legitimate aims; and/or (c) that any anti-competitive effects arising from Microsoft's conduct were proportionate to the procompetitive effects.
7. Microsoft's explained the substance of its alternative defence at [58] of its Re-Amended Defence which states:

"58. Paragraph 57 is denied. Such conduct as the Defendants did engage in was, to the extent the issue even arises, objectively justified.

58.1. The Terms in Issue (including the New From SA Condition) were necessary and reasonable having regard to any and/or all of the following facts and matters:

(a) The ability to use improved and/or upgraded software products, and their constituent Copyright Works, that was offered to qualifying customers.

(b) The need for the copyright owner to obtain an appropriate remuneration corresponding to the economic value of the Copyright Works in circumstances where access to those works was being offered on a discounted basis to qualifying customers.

(c) The need to safeguard the specific subject matter of the intellectual property concerned, namely the Copyright Works (including both the Program Works and the Non-Program Works), and the need to ensure compliance by licensees with the requirements for resale of second-hand software licences (including the inherent and/or practical difficulty in ensuring that customers render their own copy of any software installed pursuant to Qualifying Licences unusable at the time of resale, and the propositions and matters summarised at paragraphs 23A to 23C above).

(d) The cost of the ongoing provision of services to qualifying customers.

58.2. Further or alternatively, even if (which is denied) there were any, or any appreciable, anti-competitive effects, those anti-competitive effects

were outweighed by, and proportionate to, the pro-competitive benefits referred to at paragraphs 25.2 and 31.2 above. Paragraphs 39, 54.2, 56.4, 57 above, and 64.2(a)-64.2(c) below are repeated.”

8. This allegation was elaborated upon in further information provided on 19 May 2023, as discussed at [15]-[16] of this Tribunal’s judgment in these proceedings regarding summary judgment, dated 28 November 2024 ([2024] CAT 69):

“15. At paragraphs 10 to 12 in the response to Request 1, it was alleged that:

10. The Defendants will contend at trial that, irrespective of any restrictions imposed by the Terms in Issue (the existence and/or appreciability of such restrictions being denied for the reasons set out in Microsoft’s Defence) the first user of a Microsoft software product which was purchased in any of the aforesaid circumstances would not have had any legal right, under Article 4(2) of the Directive or section 18 of the 1988 Act, to resell their copy of that software because the necessary conditions for exhaustion of the distribution right would not have been met in respect of that copy (see paragraph 36.2(a) of the Defence).

11. Any such purported resale, contrary to any of the above requirements, would have been an act which the relevant Defendant, as owner of copyright in the Microsoft software product in question, was in principle entitled to restrain. As such, any further sale or other dealings in the relevant software by the Claimant could also have been lawfully restrained had the Claimant attempted to engage in acts restricted by copyright without the Defendants’ consent.

12. As to paragraph 22, details of the Claimant’s business are not within the Defendants’ knowledge and they are accordingly unable to plead to those matters (see paragraph 24 of the Defence). In any case, it is by no means obvious that “bulk” dealings in second-hand Microsoft software licences would satisfy the applicable conditions for exhaustion of the distribution right or that the Claimant would be able to prove, with respect to individual copies, that those conditions had been satisfied in any or all instances. Further, even where the distribution right is exhausted with respect to a particular copy, that remains subject to the Defendants’ right lawfully to impose other restrictions which are necessary to safeguard the subject matter of the First Defendant’s intellectual property rights in its software, and to restrain unlicensed dealings in other copyright works (such as documentation, templates, graphics, and fonts) supplied to the first user alongside such software.

16. Thus, it can be seen that compliance with *UsedSoft* principles is put in issue. In response to Requests 3 and 4, Microsoft addressed again the alternative defences.

2. If (contrary to that primary case) the Terms in Issue involved a departure from competition on the merits and/or had appreciable anti-competitive effects, the Defendants contend that any such departure and/or effects were objectively justified, in that:

- a. The Terms in Issue were proportionate means of achieving any and all of the legitimate aims pleaded at paragraphs 13.1(d), 32.1(a), 46.3(c)-

(d), 51.1, 57.2, 57.3 and 58.1(a)-(d) of the Defence. As set out above in relation to Request 1, the First Defendant was entitled to restrain (and, for the avoidance of doubt, objectively justified in restraining) the re-sale of its software in circumstances where the conditions for the exhaustion of distribution right were not satisfied and/or in order to safeguard its exclusive rights as copyright owner; and/or

b. In any event, any appreciable anti-competitive effects resulting from the Terms in Issue were very limited, and were outweighed by, and proportionate to, the significant pro-competitive benefits secured by the Terms in Issue, as pleaded at paragraph 58.2 of the Defence (referring to the pro-competitive benefits pleaded at paragraphs 25.2 and 31.2 of the Defence).

3. Whilst a plea of objective justification involves consideration of the necessity for the alleged restriction(s), the undertaking is not required to consider hypothetical and theoretical alternatives. If the application of what appears to be a commercially realistic and less restrictive alternative would lead to a significant loss of efficiencies, the restriction in question is treated as indispensable: see, for example, *Streetmap.EU Limited v Google Inc* [2016] EWHC 253 (Ch). This will be a matter for legal submission in due course.

4. The relationship between the Terms in Issue and both (i) the legitimate aims referred to at paragraph 58.1(a)-(d) of the Defence and (ii) the pro-competitive benefits referred to paragraphs 25.2 and 31.2 of the Defence will be a matter for evidence in due course. The Claimant does not require further detail at this stage in order to understand the Defendants' case on objective justification." (emphasis in original)

9. In a judgment of 28 November 2024 this Tribunal refused an application by VL for summary judgment and/or to strike out these alternative defences. The legal principles on which Microsoft relies have subsequently been elaborated upon at [23A] and [24A] of its Re-Amended Defence of 20 March 2025.
10. On 29 May 2025 at the request of the parties the Chair ordered the hearing of preliminary issues directed to determining two matters. Essentially these are: (a) whether it was permissible to resell *Microsoft Windows* and *Microsoft Office* which have been bought from Microsoft in bulk by enterprise customers, and in so doing divide those works and sell proportions of the works to different VL customers; and (b) whether resale was permissible at all because *Microsoft Windows* and *Microsoft Office* contain copyright in non-program works such as a graphic user interface, clip art, user manuals, helpfiles and typefaces/fonts.
11. On 23 May 2025 the Chair refused an application by Microsoft for a ruling that this Tribunal did not have jurisdiction to determine the preliminary issue ([2025]

CAT 33). Permission to appeal that ruling was granted by the Tribunal on 25 June 2025.

12. Directions were given for the service of an agreed Statement of Facts and for service of evidence. Microsoft served witness statements from 14 witnesses addressing *inter alia* the development of, and scope of, certain non-program works, the manner by which an enterprise customer obtains *Microsoft Office* and *Microsoft Windows* and the contractual terms into which enterprise customers enter. VL served a witness statement from Mr Jonathan Horley, the managing director of VL, which describes its activities.
13. Additionally, VL served a witness statement from Alexander Golev to which objection was taken by Microsoft in its skeleton argument, although this objection was not pressed at this hearing. The witness statement advances opinion evidence as to why people buy Microsoft products. Objection was taken because no permission was given to serve expert evidence. We have considered this evidence but found it of limited assistance to the matters we have to decide.
14. The parties were at liberty to cross-examine witnesses, for which time had been allocated. The parties elected not to cross-examine. Although the agreed Statement of Facts indicated, by use of coloured text, a large number of facts which were not agreed, the parties did not urge us to resolve most of these disputes, as this was not necessary for the purpose of determining the preliminary issues.
15. We were initially concerned that we had not been provided with enough technical material and/or evidence to resolve these preliminary issues. For example, we had not received an explanation of the functions performed by *Microsoft Windows* and *Microsoft Office*. Notwithstanding members of the Tribunal have some familiarity with these well-known programs, we were reluctant to take judicial notice of this and invited the parties to produce an agreed document describing these matters. We also received limited assistance in relation to the extent to which artistic works were encoded in software and the manner in which the software was held and used within organisations. During the course of the hearing we received further technical information on

instructions which was not the subject of dispute and enabled us to resolve these issues.

16. As stated in the Tribunal's Order of 29 May 2025, the preliminary issues to be determined in the circumstances of this case are:

“(a) [**Preliminary issue 1**] Does the distribution right or the reproduction right enjoyed by the owner of the copyright in a computer program permit or prevent sub-division and resale without the consent of the rightholder of the user right obtained by the lawful acquirer on first sale of a copy of that program within Article 4(2) of the Software Directive, where the user right acquired by the lawful acquirer was obtained for:

(i) a licence covering a particular combination of multiple computer programs; and/or

(ii) a licence covering a numerically specified plurality of users, by reference to a sample of five transactions entered into by or with the Claimant and their associated specific contractual terms, on the basis of which the above points of law are to be determined, comprising (the “Sample Transactions”):

(iii) transactions under or involving licences originally granted to Cooperative Rabobank UA under Microsoft agreement number 7621419;

(iv) transactions under or involving two additional Microsoft agreement numbers nominated by the Claimant; and

“(b) [**Preliminary issue 2**] Does the first sale or transfer of ownership of a digital copy of Microsoft Office or Microsoft Windows in electronic form, by or with the consent of the owner of the copyright in the non-computer program works made accessible or perceptible by means or use of that product, exhaust the distribution right or the reproduction right of the copyright owner in relation to the non-computer program works under either, neither or both of: (i) Article 4(2) of the Software Directive; (ii) Article 4(2) of the Information Society Directive?”

17. The parties referred to these issues respectively as “Preliminary Issue 1” and “Preliminary Issue 2” – also as Issues 1 and 2 respectively. As was made clear to the parties when the hearing of the preliminary issues was ordered, these issues were not to be addressed in the abstract but were to be considered in the circumstances of this case. To that end, five sample transactions were identified to which evidence was addressed. This number was subsequently reduced to three transactions identified by Microsoft. These were the Rabobank, Carillion and ABN AMRO transactions.

18. At the outset of the hearing the Tribunal sought confirmation that the scope of the preliminary issues were such that that all matters relating to copyright infringement/exhaustion were to be determined at this hearing, and that further argument in relation to these issues would not be stood over or arise thereafter. Mr Lavy KC who represented VL expressed some doubt about this when this was first put to him. He was asked to consider the position and identify any additional issues after the short adjournment. Mr Hobbs KC, for Microsoft, and Mr Lavy KC both stated that there may be an issue relating to client access licenses (“CALs”) which may arise at a later hearing.

B. THE LAW

(1) EU law and judgments

19. The parties were agreed that the preliminary issues could be determined in light of the Software Directive,¹ the Infosoc Directive,² and relevant CJEU judgments. Following Brexit, legislation which transposed an EU directive into domestic law prior to 31 December 2020 remains part of UK law unless repealed or amended. Neither the Software Directive nor the Infosoc Directive have been repealed or amended. Further, the supremacy of EU law continues to apply so far as relevant to the interpretation, disapplication or quashing of any enactment or rule of law passed or made before 31 December 2020: section 5(2) European Union (Withdrawal) Act 2018 (“the 2018 Act”).
20. Arnold LJ explained in *Wright v BTC Core* [2023] EWCA Civ 868 (“*Wright*”) at [34] that although the Court of Appeal now has the power under the 2018 Act (as amended) to depart from decisions of the CJEU rendered before 31 December 2020 in an appropriate case, the default position is that such decisions remain binding.

¹ Directive 2009/24/EC on the legal protection of computer programs (“Software Directive”).

² Directive 2001/29/EC on the harmonization of certain aspects of copyright and related rights in the information society (“Infosoc Directive”).

21. Mr Hobbs KC correctly submitted that we should take care to distinguish CJEU judgments from the judgments of non-UK national courts seeking to interpret and apply EU law.

(2) Copyright in Computer Software

22. The law in this area was reviewed by Arnold LJ in *Wright*. Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs (“Directive 91/250”) provided that Member States shall protect computer programs, by copyright, as literary works. Articles 1, 4 and 5 of Directive 91/250 are for present purposes materially the same as Articles 1, 4 and 5 of the later Software Directive, which we set out below. Article 4(2) provided for exhaustion of the distribution right:

“Article 4: Restricted acts

...

2. The first sale in the Community of a copy of a program by the right holder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.”

23. The World Intellectual Property Organisation Copyright Treaty, agreed in Geneva on 20 December 1996 (“WIPO Copyright Treaty”), similarly provided, under Article 4, that “[c]omputer programs are to be protected as literary works... whatever may be the mode or form of their expression”. Article 6 of the WIPO Copyright Treaty provides for an exclusive right of distribution for *inter alia* literary works and Article 8 provides for the exclusive right of “communication to the public”.

24. The WIPO Copyright Treaty left questions of exhaustion to contracting states. It states:

“Article 6: Right of Distribution

(1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.

(2) Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in

paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.*⁵

[FN5] *Agreed statement concerning Articles 6 and 7: As used in these Articles, the expressions "copies" and "original and copies", being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects."*

An agreed statement concerning Articles 6 and 7 provided that the expressions "copies" and "original and copies" under the Articles refers exclusively to "*fixed copies that can be put into circulation as tangible objects*".

25. The meaning of computer program in the context of Software Directive is considered in Case C-159/23 *Sony Computer Entertainment Europe Ltd v Datel Design*, EU:C:2024:887 ("*Sony*"):

"38. As the Advocate General observed in points 38 and 40 of his Opinion, the protection guaranteed by Directive 2009/24 is limited to the intellectual creation as it is reflected in the text of the source code and object code and, therefore, to the literal expression of the computer program in those codes, which constitute, respectively, a set of instructions according to which the computer must perform the tasks set by the author of the program."

26. During argument an issue arose as to whether any of the non-program works relied upon by Microsoft, when incorporated into the software, were protected at all as computer programs. It was common ground that insofar as non-program works were data files they were not so protected, notwithstanding that they comprised information in a digital format. There was a dispute as to whether the source code relating to the graphic user interface comprised a computer program. It is accepted that the graphic user interface for *Microsoft Windows* and *Microsoft Office* are artistic works which are the subject of copyright protection as such. There is code associated with the graphic user interface which gives effect to the representation and behaviour of the artistic works on the computer screen. Microsoft submitted that this computer code was not protected as a literary work and that this had been determined, as a matter of law. It relied upon *Sony* at [35] which states:

"35. On the other hand, the Court has held that the graphic user interface of a computer program, which does not enable the reproduction of that program, but merely constitutes one element of that program by means of which users make use of the features of that program, does not constitute a form of expression of a computer program within the meaning of that provision (see,

to that effect, judgment of 22 December 2010, *Bezpečnostní softwarová asociace*, C-393/09, EU:C:2010:816, paragraphs 41 and 42).”

27. Case C-393/09 *Bezpečnostní softwarová asociace – Svaz softwarové ochrany v Ministerstvo kultury*, EU:C:2010:816, [2011] FSR 18 (“*Bezpečnostní*”) was concerned with whether a graphic user interface is an expression in any form of a computer program. It stated:

“40. In particular, the graphic user interface is an interaction interface which enables communication between the computer program and the user.

41. In those circumstances, the graphic user interface does not enable the reproduction of that computer program, but merely constitutes one element of that program by means of which users make use of the features of that program.

42. It follows that that interface does not constitute a form of expression of a computer program within the meaning of art.1(2) of Directive 91/250 and that, consequently, it cannot be protected specifically by copyright in computer programs by virtue of that directive.”

28. We interpret this passage as meaning that if a graphic user interface is copied, without sight of the source code associated with that graphic user interface, and an alternative code is written to produce the same effect and function, there may be infringement of artistic copyright in that interface. In these circumstances, without more, copyright in the underlying computer program will not have been infringed because the graphic user interface is not an expression of the computer program. It does not follow from this that the source code associated with a graphic user interface is not protected as a literary work at all or does not form part of a literary work which would be infringed if that source code was copied.

(3) Exhaustion of rights and the decisions in *UsedSoft* and *Tom Kabinet*

29. The principle of exhaustion of rights is well-established in European jurisprudence. It strikes a balance between the necessary protection of intellectual property rights and the free movement of goods. In Case C-78/70 *Deutsche Grammophon Gesellschaft GmbH v Metro-SB-Großmärkte GmbH & Co. KG.*, EU:C:1971:59, [1971] ECR 487 (“*Deutsche Grammophon*”) the court was concerned with whether copyright could be used to prevent the sale of sound recordings in Germany which had been put on the market in France. It stated:

“11. Article 36 mentions among the prohibitions or restrictions on the free movement of goods permitted by it those that are justified for the protection of industrial and commercial property. If it be assumed that a right analogous to copyright can be covered by these provisions it follows, however, from this Article that although the Treaty does not affect the existence of the industrial property rights conferred by the national legislation of a member-State. the exercise of these rights may come within the prohibitions of the Treaty. Although Article 36 permits prohibitions or restrictions on the free movement of goods that are justified for the protection of industrial and commercial property, it only allows such restrictions on the freedom of trade to the extent that they are justified for the protection of the rights that form the specific object of this property.”

30. The principle of exhaustion of rights applies to the exclusive distribution right. The agreed statement on Articles 6 and 7 of the WIPO Copyright Treaty, states that the principle of exhaustion is limited to tangible objects.
31. The Infosoc Directive sought to harmonise the legal framework for copyright protection in the digital environment. Recital 20 records that it is without prejudice *inter alia* of Directive 91/250 on the legal protection of computer programs. Article 3 of the Infosoc Directive provides:

“Article 3: Right of communication to the public of works and right of making available to the public other subject-matter

1. Member States shall provide authors with the exclusive right to authorise or prohibit any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them.

2. Member States shall provide for the exclusive right to authorise or prohibit the making available to the public, by wire or wireless means, in such a way that members of the public may access them from a place and at a time individually chosen by them:

(a) for performers, of fixations of their performances;

(b) for phonogram producers, of their phonograms;

(c) for the producers of the first fixations of films, of the original and copies of their films;

(d) for broadcasting organisations, of fixations of their broadcasts, whether these broadcasts are transmitted by wire or over the air, including by cable or satellite.

3. The rights referred to in paragraphs 1 and 2 shall not be exhausted by any act of communication to the public or making available to the public as set out in this Article.”

32. Historically the first right of “communication to the public” could readily be distinguished from “distribution to the public”: distribution of a copy of a work of art or the DVD of a film is different to the display in public of a work of art or the showing of a film in the cinema. But in the digital age these distinctions are becoming less clear. The distinction is relevant because Article 3 of the Infosoc Directive explains that “communication to the public” does not give rise to exhaustion, whereas Article 4 recognises that a distribution right may be exhausted.
33. Recitals 28 and 29 of the Infosoc Directive provide:
- “28. Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article. The first sale in the Community of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object in the Community. This right should not be exhausted in respect of the original or of copies thereof sold by the rightholder or with his consent outside the Community. Rental and lending rights for authors have been established in Directive 92/100/EEC. The distribution right provided for in this Directive is without prejudice to the provisions relating to the rental and lending rights contained in Chapter I of that Directive.
29. The question of exhaustion does not arise in the case of services and on-line services in particular. This also applies with regard to a material copy of a work or other subject-matter made by a user of such a service with the consent of the rightholder. Therefore, the same applies to rental and lending of the original and copies of works or other subject-matter which are services by nature. Unlike CD-ROM or CD-I, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which should be subject to authorisation where the copyright or related right so provides.”
34. Recital 29 does not explicitly equate online services with “communication to the public”, nor does Article 3, which is concerned with communications to the public, explicitly refer to online services. Nevertheless, the provisions are readily understandable. Just as the broadcasting of a film or a piece of music does not give rise to exhaustion nor should viewing that film or listening to that piece of music online.
35. Both recitals 28 and 29 again draw a distinction between tangible and intangible copies. As recital 29 makes clear there is a difference between works viewed or listened to online (communication to the public) where the question of exhaustion “*does not arise*” and those distributed by CD-ROM or CD-I

(distribution to the public) the first sale of which “*exhausts the right to control resale of that object in the Community*”.

36. The Infosoc Directive makes no direct reference to copyright in computer programs other than in Article 1 where it explains that it is not seeking to affect the existing Community provisions relating to the protection of computer programs which will necessarily include Directive 91/250. Recital 20 and Article 1 of the Infosoc Directive state:

“Article 1: Scope

1. This Directive concerns the legal protection of copyright and related rights in the framework of the internal market, with particular emphasis on the information society.
2. Except in the cases referred to in Article 11, this Directive shall leave intact and shall in no way affect existing Community provisions relating to:
 - (a) the legal protection of computer programs;
 - (b) rental right, lending right and certain rights related to copyright in the field of intellectual property;
 - (c) copyright and related rights applicable to broadcasting of programmes by satellite and cable retransmission;
 - (d) the term of protection of copyright and certain related rights;
 - (e) the legal protection of databases.”

37. The Software Directive postdates the Infosoc Directive and is described as a *lex specialis*. It has a number of provisions which are found in the earlier Directive 91/250. The Software Directive retains the principle of exhaustion of rights for computer programs. Article 4 states, in paragraph 2:

“Article 4: Restricted acts

...

2. The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.”

38. No distinction is expressly drawn between software provided on a material medium and online services. Exhaustion extends only to the distribution right

and not to other restricted acts such as copying. Article 5 of the Software Directive nevertheless entitles a lawful acquirer to use a computer program:

“Article 5: Exceptions to the restricted acts

1. In the absence of specific contractual provisions, the acts referred to in points (a) and (b) of Article 4(1) shall not require authorisation by the rightholder where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction.

2. The making of a back-up copy by a person having a right to use the computer program may not be prevented by contract in so far as it is necessary for that use.

3. The person having a right to use a copy of a computer program shall be entitled, without the authorisation of the rightholder, to observe, study or test the functioning of the program in order to determine the ideas and principles which underlie any element of the program if he does so while performing any of the acts of loading, displaying, running, transmitting or storing the program which he is entitled to do.”

39. The implementation of the Infosoc Directive and the Software Directive set the scene for *UsedSoft* and Case C-263/18 *Nederland Uitgeversverbond v Tom Kabinet Internet BV*, EU:C:2019:1111, [2020] 2 CMLR 20 (“*Tom Kabinet*”) which are central to the preliminary issues to be determined in this case.

40. *UsedSoft* considered the effect of the Software Directive on exhaustion. Questions were referred from the Bundesgerichtshof. The essential facts were that Oracle owned copyright in databank software (“the Oracle Software”). Once sold (licensed in perpetuity), the Oracle software was sent to a customer, most often by downloading from the Oracle website, and would be stored on a client customer server from which it could be accessed by downloading onto a user’s workstation. The technical relationship between the software on the customer server and the software downloaded onto the workstations is not explained in the Court of Justice decision. When the case returned to the German courts after the ruling of the Court of Justice, the Bundesgerichtshof, explained that “[t]he right of use to [the programs/client-server software] includes the authority to permanently store the software on a server and to grant access to a certain number of users by loading it into RAM of their workstation computers”: Case I ZR 129/08A, *UsedSoft 2*, German Federal Court (Bundesgerichtshof) (17 July 2013) (“*UsedSoft 2*”) at [2].

41. UsedSoft traded in used software licences. It obtained licences to Oracle Software from Oracle customers which it then sought to resell. UsedSoft customers, not already in possession of Oracle Software, would be required to download the software from Oracle's website. The court had to consider whether, in the absence of a physical copy of the program being distributed, the principle of exhaustion applied.
42. AG Bot, at [AG72] of his opinion in *UsedSoft*, doubted that the right to make a work available to the public (communication to the public) to which reference is made in Article 3(1) of the Infosoc Directive applied to computer programs. He went on to find that although exhaustion applies to internet downloads the obtaining of a licence from a first acquirer does not mean the second acquirer is entitled to download the Oracle Software and is not therefore a "lawful acquirer" for the purpose of engaging Article 5(1). The second acquirer would be infringing copyright by copying the Oracle Software onto their computer.
43. The Court of Justice reached a different conclusion. The making available of a copy of the computer program to a customer for an unlimited period, in return for payment of a fee, comprised a sale within the context of Article 4. Furthermore, the distribution of a tangible copy, such as a CD, was not necessary to engage the principle of exhaustion:

“47. It makes no difference, in a situation such as that at issue in the main proceedings, whether the copy of the computer program was made available to the customer by the rightholder concerned by means of a download from the rightholder's website or by means of a material medium such as a CD-ROM or DVD. Even if, in the latter case too, the rightholder formally separates the customer's right to use the copy of the program supplied from the operation of transferring the copy of the program to the customer on a material medium, the operation of downloading from that medium a copy of the computer program and that of concluding a licence agreement remain inseparable from the point of view of the acquirer, for the reasons set out in [44] above. Since an acquirer who downloads a copy of the program concerned by means of a material medium such as a CD-ROM or DVD and concludes a licence agreement for that copy receives the right to use the copy for an unlimited period in return for payment of a fee, it must be considered that those two operations likewise involve, in the case of the making available of a copy of the computer program concerned by means of a material medium such as a CD-ROM or DVD, the transfer of the right of ownership of that copy.

48. Consequently, in a situation such as that at issue in the main proceedings, the transfer by the copyright holder to a customer of a copy of a computer program, accompanied by the conclusion between the same parties of a user

licence agreement, constitutes a “first sale ... of a copy of a program” within the meaning of art.4(2) of Directive 2009/24.”

44. The court then dismissed the suggestion that making a program available online was a communication to the public, which cannot give rise to exhaustion:

“50. Secondly, the argument put forward by Oracle and the European Commission that the making available of a copy of a computer program on the copyright holder’s website constitutes a “making available to the public” within the meaning of art.3(1) of Directive 2001/29, which, in accordance with art.3(3) of that directive, cannot give rise to exhaustion of the right of distribution of the copy, cannot be accepted.

51. It is apparent from art.1(2)(a) of Directive 2001/29 that the directive “leave[s] intact and ... in no way affect[s] existing ... provisions [of EU law] relating to ... the legal protection of computer programs” conferred by Directive 91/250, which was subsequently codified by Directive 2009/24. The provisions of Directive 2009/24, in particular art.4(2), thus constitute a *lex specialis* in relation to the provisions of Directive 2001/29, so that even if the contractual relationship at issue in the main proceedings or an aspect of it might also be covered by the concept of “communication to the public” within the meaning of art.3(1) of the latter directive, the “first sale ... of a copy of a program” within the meaning of art.4(2) of Directive 009/24 would still give rise, in accordance with that provision, to exhaustion of the right of distribution of that copy.

52. Moreover, as stated in [46] above, in a situation such as that at issue in the main proceedings, the copyright holder transfers the right of ownership of the copy of the computer program to his customer. As the A.G. observes in point AG73 of his Opinion, it follows from art.6(1) of the Copyright Treaty, in the light of which arts 3 and 4 of Directive 2001/29 must, so far as possible, be interpreted (see, to that effect, *Peek & Cloppenburg KG v Cassina SpA* (C-456/06) [2008] E.C.R. I-2731 at [30]), that the existence of a transfer of ownership changes an “act of communication to the public” provided for in art.3 of that directive into an act of distribution referred to in art.4 of the directive which, if the conditions in art.4(2) of the directive are satisfied, can, like a “first sale ... of a copy of a program” referred to in art.4(2) of Directive 2009/24, give rise to exhaustion of the distribution right.”

45. The court observed that the right of exhaustion conferred by Directive 91/250 was left intact by the Infosoc Directive. Neither Directive 91/250 nor the Software Directive expressly refers to whether exhaustion occurs in the case of online distribution, but the court noted the similar function of the two modes of distribution. It repeated this at [61]:

“61. It should be added that, from an economic point of view, the sale of a computer program on CD-ROM or DVD and the sale of a program by downloading from the internet are similar. The online transmission method is the functional equivalent of the supply of a material medium. Interpreting art.4(2) of Directive 2009/24 in the light of the principle of equal treatment confirms that the exhaustion of the distribution right under that provision takes

effect after the first sale in the European Union of a copy of a computer program by the copyright holder or with his consent, regardless of whether the sale relates to a tangible or an intangible copy of the program.”

46. One of the differences between online distribution and distribution by CD-ROM or DVD is that online distribution is not constrained by a physical object and is arguably more permissive of the multiplication of copies. The court made it clear that the original acquirer who resells a copy of a computer program is to delete its copy. It stated at [70]:

“70. An original acquirer who resells a tangible or intangible copy of a computer program for which the copyright holder’s right of distribution is exhausted in accordance with art.4(2) of Directive 2009/24 must, in order to avoid infringing the exclusive right of reproduction of a computer program which belongs to its author, laid down in art.4(1)(a) of Directive 2009/24, make his own copy unusable at the time of its resale. In a situation such as that mentioned in the preceding paragraph, the customer of the copyright holder will continue to use the copy of the program installed on his server and will not thus make it unusable.”

47. Any subsequent acquirer will obtain their copies by downloading from Oracle’s website. But they will nevertheless be “lawful acquirers” for the purpose of Article 5(1) of the Software Directive and therefore be entitled to download the copy (see [80] and [81]).

48. As stated by Mr Lavy KC, for VL, in these circumstances there is no sale of a physical copy and no actual transmission of software, directly or indirectly, from the first acquirer to the second acquirer (being in this case UsedSoft’s customer). What is sold may be thought of as a notional copy. As the court puts it in [44] and [84] of *UsedSoft*, there is an indivisible link between the copy on the rightholder’s website and the user licence relating to that copy.

49. At [75] of *UsedSoft* the Court of Justice explains that downloading a copy of the computer program is in these circumstances an authorised act.

“75. When the customer of the copyright holder purchases a copy of a computer program that is on the rightholder’s website, he performs, by downloading the copy onto his computer, a reproduction of the copy which is authorised under art.5(1) of Directive 2009/24. This is a reproduction that is necessary for the use of the program by the lawful acquirer in accordance with its intended purpose.”

50. The Court of Justice in *UsedSoft* stated that the imposition of contractual terms to the contrary does not entitle a rightholder to prohibit further transfer and therein contract out of the consequences of exhaustion.

“77. It must be recalled, next, that the copyright holder’s distribution right is exhausted, in accordance with art.4(2) of Directive 2009/24, on the occasion of the first sale in the European Union by that rightholder, or with his consent, of any copy, tangible or intangible, of his computer program. It follows that, by virtue of that provision and notwithstanding the existence of contractual terms prohibiting a further transfer, the rightholder in question can no longer oppose the resale of that copy.”

51. No consideration was given in *UsedSoft* to the impact on exhaustion of any non-program works associated with the Oracle Software and the effect of the Infosoc Directive on those works.

52. Between the judgments in *UsedSoft* and *Tom Kabinet* there was a further decision of the Court of Justice in Case C-355/12 *Nintendo Co Ltd v PC Box Srl*, EU:C:2014:25, [2014] ECDR 6 (“*Nintendo*”). This concerned the correct interpretation of Article 6(3) of the Infosoc Directive. The subject matter was video games, which comprise artistic works and sound recordings in addition to computer programs. The court described them as complex works stating:

“23. That finding is not weakened by the fact that Directive 2009/24 constitutes a *lex specialis* in relation to Directive 2001/29 (see *UsedSoft GmbH v Oracle International Corp* (C-128/11) [2012] 3 C.M.L.R. 44; [2012] E.C.D.R. 19 at [56]). In accordance with art.1(1) thereof, the protection offered by Directive 2009/24 is limited to computer programs. As is apparent from the order for reference, videogames, such as those at issue in the main proceedings, constitute complex matter comprising not only a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value which cannot be reduced to that encryption. Insofar as the parts of a videogame, in this case, the graphic and sound elements, are part of its originality, they are protected, together with the entire work, by copyright in the context of the system established by Directive 2001/29.” (emphasis added)

53. Although the Infosoc Directive was said to apply, the question of exhaustion was not addressed in *Nintendo*.

54. *Tom Kabinet* concerned the question of exhaustion of copyright in the context of an e-book. Tom Kabinet, the defendant in the main proceedings, had a website which supplied an online market for used e-books among members of

its reading group. It acquired books from distributors or other individuals and charged prices lower than that charged by official distributors. It encouraged individual members of its book club to resell e-books they had obtained through the site. It required that in these circumstances they delete their own copy.

55. The District Court of The Hague referred four questions to the CJEU directed to whether the copyright in the work was exhausted and whether the copyright holder had received remuneration equivalent to the economic value of the work belonging to him. The CJEU did not directly answer these questions and did not explicitly address exhaustion, rather it reformulated the question to ask:

“34. ...whether the supply by downloading, for permanent use of an e-book is covered by the concept of communication to the public within the meaning of art. 3(1) [of the Infosoc Directive] or by that of “distribution to the public” as referred to in art.4(1) of that directive.”

56. In its judgment, the court in *Tom Kabinet* makes reference to the “Agreed Statements” concerning Articles 6 and 7 of the WIPO Copyright Treaty and the explanatory memorandum to the Infosoc Directive to conclude at [45]:

“45. It thus follows from that explanatory memorandum that the intention underlying the proposal for the directive was that any communication to the public of a work, other than the distribution of physical copies of the work, should be covered not by the concept of “distribution to the public”, referred to in art.4(1) of Directive 2001/29, but by that of “communication to the public” within the meaning of art.3(1) of that directive.”

57. At [53] the court observes that in *UsedSoft* computer programs were exhausted and that no distinction was drawn between the tangible and intangible forms of the copy in question. It continued at [54]:

“54. However, as the referring court correctly points out and as the Advocate General noted at AG67 of his Opinion, an e-book is not a computer program, and it is not appropriate therefore to apply the specific provisions of Directive 2009/24.

55. In that regard, first, as the Court expressly stated at [51] and [56] of *UsedSoft* [2012] 3 C.M.L.R. 44, Directive 2009/24, which concerns specifically the protection of computer programs, constitutes a *lex specialis* in relation to Directive 2001/29. The relevant provisions of Directive 2009/24 make abundantly clear the intention of the EU legislature to assimilate, for the purposes of the protection laid down by that directive, tangible and intangible copies of computer programs, so that the exhaustion of the distribution right under art.4(2) of Directive 2009/24 concerns all such copies (see, to that effect, *UsedSoft* at [58] and [59]).”

58. The court contrasts this position with the relevant provisions of the Infosoc Directive where it is apparent that a clear distinction was being drawn between electronic and tangible distribution of protected material. The court repeated the observation that in the case of a computer program, the sale of a program on a material medium and the sale by downloading are functionally equivalent, stating at [57]:

“57. Secondly, the Court noted at [61] of *UsedSoft* [2012] 3 C.M.L.R. 44 that, from an economic point of view, the sale of a computer program on a material medium and the sale of a computer program by downloading from the internet are similar, since the online transmission method is the functional equivalent of the supply of a material medium. Accordingly, interpreting art.4(2) of Directive 2009/24 in the light of the principle of equal treatment justifies the two methods of transmission being treated in a similar manner.”

59. The reason why the e-book in *Tom Kabinet* was different to the computer program in *UsedSoft* is explained at [59]. The e-book is protected because its literary content is an “essential element”, whereas the computer program is “only incidental”.

“59. Even if an e-book were to be considered complex matter (see, to that effect, *Nintendo Co Ltd v PC Box Srl* (C-355/12) EU:C:2014:25 at [23]), comprising both a protected work and a computer program eligible for protection under Directive 2009/24, it would have to be concluded that such a program is only incidental in relation to the work contained in such a book. As the Advocate General noted at AG67 of his Opinion, an e-book is protected because of its content, which must therefore be considered to be the essential element of it, and the fact that a computer program may form part of an e-book so as to enable it to be read cannot therefore result in the application of those specific provisions.”

60. Leaving aside the analysis, the conclusion is readily understandable. An e-book is to the consumer first and foremost a literary work to be read (communicated). The purpose of the computer program was to give effect to this communication by displaying the text of the book on the digital device.

C. THE FACTS

(1) The Microsoft Products at issue

61. *Microsoft Windows* is a desktop operating system which allows an individual user of a personal computer (“PC”) to operate and manage the hardware and

software contained within the PC. *Windows* handles background computing operations such as processing, memory management, resource scheduling, and provides a graphical user interface allowing the computer to interact with files and documents.

62. *Microsoft Office* is an office productivity suite made up of multiple personal productivity products, such as Word (a word processing and document creation and design application), Excel (a spreadsheet and data processing application), and PowerPoint (a slideshow and presentation application). Depending on the version of *Office*, other programs, may also be included as part of the *Office* suite.

(2) The Microsoft Enterprise Program

63. Enterprise customers agree to enter into a series of agreements with Microsoft in order to access the Products, in particular; a Master Agreement, an Enterprise Agreement, an Enterprise Enrollment Agreement, and a Product Selection Form. These agreements contain the following provisions:

- (1) Cl. 2 of the Enterprise Enrollment Agreement states that an initial order “*must include at least 500 Licences in a single Product pool for Enterprise Products*”. In other words, each customer must commit to a minimum of 500 qualified users or qualified devices who will be able to use the selected Products. Additional users or devices can be added for a fee.
- (2) Cl. 2(a) and (b) of the Enterprise Agreement grant enterprise customers a non-exclusive, worldwide and limited right to download, install and use software Products in the quantity ordered under an Enrolment. After three years, if all payments have been made, the licences become perpetual.
- (3) Cl. 3(a) of the Enterprise Agreement permits an enrolled customer to make as many copies of Products as are needed to distribute within the Enterprise, only from master copies obtained from Microsoft.

- (4) Cl. 4 of the Enterprise Agreement provides for the ability to transfer and assign licences with Microsoft’s consent, including notification procedures. This is done using a Perpetual License Transfer From (“PLTF”). It is common ground that none of the relevant transactions in the present case made use of these procedures (although Microsoft complains about VL’s use of non-authorised PLTFs – discussed under Issue 1 below).
- (5) Cl. 4(c) of the Enterprise Agreement provides that “[n]othing in this Agreement prohibits the transfer of Software to the extent allowed under applicable law if the distribution right has been exhausted”. Reference was made to this clause during the hearing, but it is hard to see how it affects matters. The questions for this preliminary issue trial concern whether rights are exhausted under applicable law and this term does not assist in answering that question.
64. Mr Clarke, a Commercial Executive at Microsoft Limited in the UK, explained in his statement that an enterprise customer is provided with a single link to the Microsoft server to download an installation file. From that, the customer installs the requisite number of copies permitted by its licences.
65. In order to activate each installation for each user, a unique digital key is needed. These are either referred to as a Multiple Activation Keys (“MAK”) or Key Management Systems (“KMS”). These digital keys enable the Microsoft systems to validate that the installed software is genuine, and that the key is valid. Without a digital key, the software will not activate.
66. Microsoft says that the MAKs and KMS keys are each technological measures within the meaning of Article 6(3) of the Infosoc Directive, something VL does not dispute – although VL submits, correctly, that this is irrelevant for the preliminary issues trial.
67. Customers may also enter a CAL which is not directed to the Products *per se*, but instead permits access to the Microsoft servers where the Products can be

accessed. Microsoft says that VL's use of CALs was unlawful. CALs are necessary to access the servers in order to access the Products.

68. The Products are grouped into product suites and a customer is granted a licence to download, install and use a particular combination within a suite.
69. The effect of the above agreements is that an enterprise customer can download and install from the Microsoft website the number of copies of the Products (either by number of users and/or devices) it had ordered upon enrolment. These Product licences become perpetual after three years, assuming all payments have been made.
70. Microsoft characterises the arrangement as being a single licence providing multiple user rights to access the copy of the Product on the Microsoft server. VL characterises it as an agreement to provide a bundle of licences (up to an agreed number) to download, copy and use the Products from the Microsoft server. VL's interpretation of the arrangements is the fairer interpretation in light of the contractual documentation, in particular:
 - (1) Cl. 2(b) of the Enterprise Agreement refers to the licences (plural) becoming perpetual after three years and when fully paid up.
 - (2) Cl. 2 of the Enterprise Enrollment Agreement, speaks of a requirement for "*at least 500 Licences in a single Product pool for Enterprise Products*" and that a customer must ensure that it orders "*enough Licences from the Product pool for each Enterprise Product ordered to cover all Qualified Users and/or Qualified Devices*".
 - (3) Cl. 2(g) of the Enterprise Enrollment Agreement provides for a "True-up" under which further licences can be purchased if the number of users or devices has increased over time. This clause provides that a customer "*must order additional Licences*" if the numbers of users or devices has increased.

71. These provisions support an interpretation that multiple licences are purchased (and indeed more can be purchased) rather than this being a single licence for multiple users and/or devices.

(3) The sample transactions

72. Before the pre-trial review hearing for this trial, the parties agreed five sample VL transactions in respect of which the preliminary issues were to be determined. Microsoft proposed that the issues could be determined using three of these transactions (Rabobank, AMB AMRO and Carillion). VL proposed that a single transaction (the Carillion transaction) would be sufficient to determine the issues.

73. Although neither party identified why any differences between the sample transactions was material to either of the preliminary issues, the issues will be decided on the basis of the three transactions proposed by Microsoft, together, the “Sample Transactions” (which in any event include the transaction proposed by VL).

(a) Rabobank

74. Rabobank originally acquired 52,998 copies of *Office* and 4,721 of *Windows Server* software. It also acquired 52,998 CALs. Rabobank had already resold licences using the authorised transfer procedure.

75. VL acquired for resale an initial batch of 25,000 *Office* Products followed by two further batches (20,000 and 4,500). It sold the licences in 40 transactions, ranging from a handful of users to 17,829 sold to Softcorner (another re-seller).

76. As with all the transactions, VL did not obtain and then pass on any actual copy of the licensed software. Instead VL acquired the product keys (the MAKs or KMSs) from the enterprise customers, such as Rabobank. VL’s customers could then use the MAKs or KMSs (together with the CALs if needed to access the Microsoft server) to download for themselves copies of the software directly from Microsoft.

77. As with all three transactions, VL also acquired at least 25% more MAKs from Rabobank than the quantity corresponding to the number of users licensed by Microsoft. No conclusive explanation has been given by VL as to the purpose of this over-supply of MAKs. Microsoft suspects that this was to avoid detection and that if a particular MAK was flagged as having been resold and blocked for suspicious activity, VL would then have a ready supply of other MAKs to give to its affected customers. VL did not expressly deny this, but instead said that the issue was outside the scope of the preliminary issues trial.
78. It is unfortunate that VL has not been more open about the reason behind the additional MAKs (and this may be relevant later in the main proceedings) but for the present this is not relevant for the issues to be determined at this trial.
79. VL also provided its customers with a PLTF bearing Microsoft's logo and closely resembling, if not identical to, the PLTF provided by Microsoft to its customers if they wished to obtain consent for a licence transfer. Microsoft says that the VL PLTFs were designed to give the impression to its customers that the transaction had been notified to Microsoft and are therefore evidence that VLs business model was not sanctioned by Microsoft, that VL went to great lengths to give the impression that the transactions were sanctioned and the problems faced by rights holders to protect their rights. None of this is relevant for the preliminary issues trial and the Tribunal makes no findings in respect of any of these allegations.
80. For the first two batches acquired from Rabobank, Rabobank stated by letter that they were no longer in use by Rabobank. For the third batch, Rabobank stated by letter that the software covered by the licences had been rendered unusable.

(b) Carillion

81. Carillion had obtained 14,750 copies of *Office* 2016 products and 14,750 *Windows* 10 products. Carillion became insolvent and VL acted as a broker to supply the user rights from Carillion to VL's clients. 11,744 copies of *Office*

and 662 of *Windows* were acquired and re-sold in the same manner as has been discussed above for Rabobank.

82. Neither Carillion or PwC (acting in the insolvency) said that any of the software had been *rendered unusable*. Instead, it was stated that the software was no longer *being used*. VL brokered 23 transactions ranging from a single user to 1,877 users.

(c) ABN AMRO

83. ABN AMRO had purchased 29,230 copies of *Office* and VL acquired 23,500 *Office* licences from it, selling them over 49 transactions, ranging from a single user to over 1,300 users. Again, the transactions were undertaken as discussed above for Rabobank.

84. For the first batch of licences purchased from ABN AMRO, ABN AMRO stated that the software the subject of the licenses was no longer in use by ABN AMRO or any other entity entitled to use them. For the second batch, it stated that the software relating to the licences had been rendered unusable.

(d) Summary of the transactions

85. As mentioned above, neither party suggested that any of the differences between the transactions mattered for the issues to be decided. As discussed under Issue 1 below, the only potential difference that would appear to be potentially material is that in some of the transactions or batches, no confirmation was given that the software had been rendered unusable by the initial purchaser (as opposed to no longer being used by them). Whether this is important is discussed below under Issue 1.

D. PRELIMINARY ISSUE 1

86. Preliminary Issue 1 concerns whether VL was entitled to engage in a business which required the subdivision and resale of licenses sold, pursuant to

Enterprise Agreements, in minimum quantities, referred to by Microsoft as “bulk licences”.

87. Microsoft submits that *UsedSoft* states in terms that the subdivision of bulk licences is not permitted. It says that the Enterprise Agreements, into which an enterprise customer enters, require a specific type of commitment from the customer: it is said that an enterprise customer has received favourable pricing and other terms and is obliged to purchase a minimum quantity of licensed usage. Microsoft contends that these same conditions must attach when the copy is sold to a second acquirer. It submits that the second acquirer cannot obtain rights broader than the rights of the first acquirer. It only “*can step into the shoes of the first acquirer*”.
88. Microsoft also relies upon an obligation on the first acquirer, on sale of a copy of the software to a second acquirer, to delete its own copy. It contends that this must be done if the exhaustion of rights is to be relied upon. In particular it pleads that “*unless it [VL] can prove the conditions for exhaustion, including that the first acquirer has ensured that any copy still in his hands were deleted or rendered unusable by all technical means at his disposal*” the rights are not exhausted and VL is not entitled to rely upon Article 4(2) of the Software Directive (see [23C.6] of the Re-Amended Defence).

(1) The relevance of the terms of the Enterprise Agreements

89. Addressing the first of these points, when analysed from the perspective of contract law, it may be said that a sublicensee will only be able to obtain rights which the first licensee enjoys and is in a position to grant. In this case, however, we are not just concerned with principles of contract law, but the requirement of free movement of goods and the legal effect of exhaustion under Article 36 of the TFEU. As stated by AG Stix-Hackl in Case C-16/03 *Peak Holding AB v Axolin-Elinor AB*, EU:C:2004:324, [2005] Ch 261, a case concerning trade mark infringement:

“48. That approach misunderstands the legal nature of exhaustion as a restriction on the rights conferred by the mark which arises by operation of law, as the Swedish Government rightly submits. Both semantically and from

the point of view of its spirit and purpose, the concept of exhaustion requires that a distinction be made between putting on the market by the trade mark proprietor himself and putting on the market by a third party – but with the proprietor’s consent. The concept of consent in Article 7(1) of Directive 89/104 represents a criterion of attributability which allows it to be established whether the putting on the market of goods in the EEA by a third party is to be attributed to the trademark proprietor.

49. Where the goods bearing the mark are put on the market in the EEA by the trade mark proprietor himself, exhaustion of rights arises by operation of law, irrespective of the contract between the proprietor and the purchaser. Breach of any territorial restrictions on sale which the proprietor may have imposed on a purchaser of the goods in relation to their sale in the EEA may give rise to claims under the contract, but is irrelevant in principle under trade mark law.” (emphasis added)

90. Microsoft place reliance upon *UsedSoft* to support its position. The Court of Justice in *UsedSoft* observed in the case of computer software, obtained by downloading from the vendor’s server, that the “*downloading [of the program] and the conclusion of a user licence agreement for that copy form an indivisible whole...*” (at [84]). It does not follow from that observation that any restrictive terms within that licence modify the scope of the exhaustion. Further at [77] of *UsedSoft* the court stated:

“77. It must be recalled, next, that the copyright holder’s distribution right is exhausted, in accordance with art.4(2) of Directive 2009/24, on the occasion of the first sale in the European Union by that rightholder, or with his consent, of any copy, tangible or intangible, of his computer program. It follows that, by virtue of that provision and notwithstanding the existence of contractual terms prohibiting a further transfer, the rightholder in question can no longer oppose the resale of that copy.” (emphasis added)

91. This passage explains that a rights owner cannot contract out of the legal effect of exhaustion.
92. Following the Court of Justice decision in *UsedSoft* the matter returned to the Bundesgerichtshof in what is referred to as *UsedSoft 2*.³ This was followed by another judgment of the Bundesgerichtshof in Case I ZR 08/13, *UsedSoft 3*, German Federal Court (Bundesgerichtshof) (11 December 2014) (“*UsedSoft 3*”). *UsedSoft 3* concerned different software, in particular a suite of Adobe software called Adobe Creative Suite 4 Web Premium. In *UsedSoft 3*, 40 licences were purchased from an authorised vendor of the Adobe group by ESV,

³ See discussion at paragraph 40 of this judgment.

pursuant to a membership arrangement. Members and users were required to be educational institutions. ESV's affiliate, RZV, then sold 40 licences to UsedSoft. The Defendant then sold only two of the 40 licences to the Central Office of Darmstadt.

93. The Bundesgerichtshof held that exhaustion covered not only the software package provided by the customer portal and downloaded by RZV but also the 40 associated software licences. It repeated “[t]he freedom to resell the software resulting from the exhaustion could not be restricted by contractual provisions” (at [13]). The fact that the rights holder had only agreed to the use of the programs in educational institutions and for educational purposes did not mean the rights were not exhausted (see [34]). The court stated at [36]:

“36. Once a workpiece has been placed on the market by way of sale with the consent of the right holder, the right of distribution is exhausted and further distribution can no longer be controlled by the right holder. An effective restriction of the right of use therefore does not have the effect that the right holder can, after the product has been put on the market with its consent, review further acts of distribution to determine whether they are in accordance with the original limitation of the right of use. The exhaustion of the right of distribution depends solely on whether the right holder has consented to the (first) placing on the market by sale. The right holder cannot make this consent dependent on the manner in which the work is subsequently used. The exhaustion of the right of distribution serves the interests of the users and the general public in keeping works marketable that have been placed on the market with the consent of the right holder. If the right holder, having sold the work or given its consent to its sale, could still intervene in the further distribution of the work, prohibit it or make it subject to conditions, this would constitute an unacceptable restriction on the free movement of goods (see Federal Court of Justice, judgment of 6 July 2000 - I ZR 244/97, BGHZ 145, 7, 10 to 13 - OEM version).”

94. And at [39]-[40]:

“39. The Court of Justice of the European Union does not consider whether the right holder actually received remuneration corresponding to the economic value of the copy of its work; rather, according to the Court of Justice, it is sufficient that the right holder had the possibility of obtaining an appropriate remuneration when the copy in question was sold for the first time (ECJ, GRUR 2012, 904 para. 72 - UsedSoft/Oracle; Federal Court of Justice, judgment of 17 July 2013 - I ZR 129/08, GRUR 2014, 264 para. 60 - WRP 2014, 308 UsedSoft II).

40. The plaintiff had this option because it could make its consent to the downloading of the copy dependent on the payment of a fee. In doing so, it could determine the amount of the fee based on the scope of the right of use granted. It is irrelevant whether this fee is reasonable, taking into account the uses permitted after the resale of the programmes.”

95. Microsoft also placed reliance upon Case C-13/20 *Top System SA v Belgium*, EU:C:2021:811, [2022] ECDR 4.⁴ This case concerned the application of Article 5(1) of the Software Directive. It was held by the European Court of Justice that contractual exclusions were relevant in that case however such a finding does not impact whether contractual exclusions impact exhaustion of rights under Article 4.

96. We hold that once it is established that the licence amounts to a “sale” under Article 4 of the Software Directive (which is not in dispute) the terms of the licence between Microsoft and its enterprise customers do not limit the effect of exhaustion, which operates by law.

(2) Is it permissible to sell a proportion of user rights from a bulk licence to different customers?

97. It is necessary then to consider whether, irrespective of the contractual terms, exhaustion will have occurred if a contract is for a minimum number of users or devices and the licence(s) are then sold to more than one second acquirer.

98. The Court of Justice held in *UsedSoft*, in respect of Oracle Software, that the distribution right the first acquirer had obtained did not mean it could sell a proportion of user rights it did not require (at [69]-[70]). On the other hand, in the case of the Adobe Software in *UsedSoft 3*, the Bundesgerichtshof reached a conclusion that a proportion of copies could be sold. It stated:

“44. It should be noted that the exhaustion of the distribution right does not entitle the initial purchaser to split the licence acquired by it and to resell the right to use the computer programme in question only for a number of users determined by it and to continue to use the copy installed on its server (see ECJ, GRUR 2012, 904, paras. 69 to 71 and 86 – *UsedSoft/Oracle*). If the initial purchaser has acquired a licence that permits the use of the copy of the computer programme installed on a server by multiple users (a so-called client-server licence), the subsequent purchaser of the copy of this programme can therefore only successfully invoke the exhaustion of the distribution right in relation to this copy if the initial purchaser has rendered this copy unusable.

45. If, on the other hand, the initial purchaser has acquired a licence that permits the use of several independent copies of the computer programme (a so-called volume licence), it is entitled to resell the right to use the programme

⁴ See also the AG’s Opinion, EU:C:2021:193, [2021] ECDR 11.

in question to a number of users specified by it and to continue using it for the remaining number of users. The individual licences are independent rights of use that can be transferred independently (see OLG Karlsruhe, GRUR-RR 2012, 98, 101 f.; Kotthoff in Dreyer/Kotthoff/Meckel, loc. cit., Section 69c UrhG, marginal no. 29; Schneider/Spindler, CR 2012, 489, 497; CR 2014, 213, 219; Marly, EuZW 2012, 654, 657; CR 2014, 145, 148 f.; Hoeren/Försterling, MMR 2012, 642, 645 et seq.; Stieper, GRUR 2014, 264, 271; dissenting opinion Hartmann, GRUR-Int. 2012, 980, 981; Stögmüller, K&R 2014, 194, 195; see also Leistner, WRP 2014, 995, 998 et seq.). In such a case, the subsequent purchaser of copies of this computer programme can therefore successfully invoke the exhaustion of the distribution right to these copies if the initial purchaser has rendered a corresponding number of copies unusable.” (emphasis added)

99. The distinction the Bundesgerichtshof draws is that in the *UsedSoft* case before the Court of Justice the licence was to a single copy of software held on a central server (for use by multiple users), whereas in *UsedSoft 3* the licences were to be understood as being individual licences. This was relevant to what the first acquirer must render unusable, and the consequences of failing to do that.

100. At [27] of its judgment, the Bundesgerichtshof in *UsedSoft 3*, when interpreting this aspect of the Court of Justice’s decision, stated: “*the subsequent purchaser of a copy [the second acquirer] can only successfully invoke the exhaustion of the distribution right in that copy if the initial purchaser has rendered its own copy unusable...*”, citing [69]-[71] of *UsedSoft*.

101. Here the Bundesgerichtshof is summarising what the Court of Justice held. This phrasing did not matter for *UsedSoft 3*, but care needs to be taken when applying the reasoning of the Court of Justice in this case. What those cited paragraphs in *UsedSoft* state is not that rendering a first copy unusable was a condition of exhaustion but that the failure of the first acquirer (“the initial purchaser”) to render unusable the first copy will result in the first acquirer infringing the exclusive right of reproduction. See [70] of *UsedSoft*:

“70. An original acquirer who resells a tangible or intangible copy of a computer program for which the copyright holder’s right of distribution is exhausted in accordance with art. 4(2) of Directive 2009/24 must, in order to avoid infringing the exclusive right of reproduction of a computer program which belongs to its author, laid down in art. 4(1)(a) of Directive 2009/24, make his own copy unusable at the time of its resale. ...” (emphasis added)

102. Under Article 4(a) of the Software Directive it is “the first sale” with consent that shall exhaust the distribution right. We find that exhaustion takes place once

that sale has been made (full payment made and a perpetual licence granted). At that point the distribution right is exhausted. That exhaustion is not suspended pending examination of the later activities of the first acquirer nor is it circumscribed by, or conditional upon, those acts. At the time the first sale has taken place, it is unknown whether the first acquirer will comply with its obligations on resale but at that point the “first sale” has taken place and the rights are exhausted.

103. The teaching of the Court of Justice in *UsedSoft* is clear. If a first acquirer chooses to sell a copy of software which it has obtained from the rightsholder, it cannot keep the original copy and carry on using it. If it does this it has taken a copy of a work, sold it, and then carried on using what is then, practically speaking, an additional copy of the work. It is this retained copy which after the sale is unlicensed, and the use of which will give rise to infringement. The second acquirer is entitled to use the copy it has purchased because the rights in that notional copy are exhausted.
104. Unlike the position with the Oracle Software, in this case there is no suggestion that when individual users operate *Microsoft Windows* or *Microsoft Office* they are running a program on a central server. As explained by Mr Lavy KC for VL (and not contradicted by counsel for Microsoft) although *Microsoft Windows* and *Microsoft Office* are initially downloaded onto a central server this is only for the purpose of, thereafter, distributing the copy to the various users in the organisation.
105. Microsoft contend that, correctly analysed, the Enterprise Agreements in issue are not for a collection of licences but for a single licence. We agree that there is a single purchase agreement but for the reasons explained above we see no sound basis for saying this only gives rise to a single licence for multiple devices rather than a contract for multiple licences. No sound criteria have been advanced by Microsoft by which a single licence may be distinguished from multiple licences. What matters, in our judgment, is not this contractual distinction, but whether the first acquirer’s actions in failing to dispose of copies it has acquired means there are more copies in circulation than originally licenced. If that is the case then the first acquirer may be infringing the exclusive

right of reproduction. This is the case whether or not the contract is analysed as a contract for a single licence or multiple licences. The point is the same. The first acquirer is permitted to re-sell what it purchased. If it does not render unusable its own copy following a resale, then it may infringe. But that does not affect the validity of what was purchased by the purchaser.

106. In this case it is not apparent by reference to the Sample Transactions that VL's transactions have resulted in a greater number of copies of *Microsoft Windows* and *Microsoft Office* being used. There is no evidence provided by Microsoft to support the suggestion that the first acquirers in the example transactions have not deleted, and have carried on using, the copies they originally downloaded. It is true that some of the letters use different language but in each the meaning is the same: that the first purchaser is no longer using the software concerned.

(3) What is the evidential burden on VL to show the first acquirer's copies of programs have been rendered unusable?

107. In *UsedSoft 2* the Bundesgerichtshof held, at [64], that it is the responsibility of the Defendant to demonstrate, and if necessary prove, that the customers of the rightsholder render their copies unusable. No reference to that evidential burden was made by the Court of Justice and we interpret this evidential burden to be a matter of German domestic law. Even if those first acquirers were not accurate in their letters, and were continuing to use the software, for the reasons given above, liability would fall on them and not on VL or its customers.

(4) Ruling on Preliminary Issue 1

108. Our ruling is that on the facts of this case, by reference to the Sample Transactions, that the distribution right and reproduction right enjoyed by Microsoft in the Products does not prevent the subdivision and resale of the user right obtained by the first acquirer of the Products.

E. PRELIMINARY ISSUE 2

109. As in paragraph 16 above, the question under Preliminary Issue 2 to be determined in the circumstances of this case is:

“(b) [**Preliminary issue 2**] Does the first sale or transfer of ownership of a digital copy of Microsoft Office or Microsoft Windows in electronic form, by or with the consent of the owner of the copyright in the non-computer program works made accessible or perceptible by means or use of that product, exhaust the distribution right or the reproduction right of the copyright owner in relation to the non-computer program works under either, neither or both of: (i) Article 4(2) of the Software Directive; (ii) Article 4(2) of the Information Society Directive?”

110. The issue arises from a relatively late amendment to Microsoft’s pleadings (made on 20 March 2025) by which Microsoft put in issue whether a first sale in electronic form of *Microsoft Word* and/or *Microsoft Office* exhausts the distribution or reproduction right of the non-program works incorporated within the Products.

111. Microsoft says that even if the distribution right under Article 4(2) of the Software Directive is exhausted in respect of the computer programs within the Products (Issue 1), there can be no exhaustion of the rights in the non-program works. If correct, even though the Products were put on the market in the EU with Microsoft’s consent and constitute a “first sale” of the computer programs under Article 4(2) of the Software Directive, Microsoft can continue to control resale because of the non-program works contained within them.

112. The issue arises due to the interplay between the CJEU judgments in *UsedSoft* and *Tom Kabinet*. In *UsedSoft*, the Court was clear that the distribution right as regards computer programs protected under the Software Directive can be exhausted by electronic distribution by download (at [59]). By contrast, in *Tom Kabinet*, the Court held that exhaustion does not apply to downloads of non-program works, due to the different protection provided by the Infosoc Directive (at [45]).

113. VL points out that, despite the large resale market in the UK and EEA over many years (involving around 50 substantial businesses), Microsoft has never

before raised the argument about non-exhaustion in non-program works. Be that as it may, the pleading amendment was allowed and so must now be considered on its merits. There may be many reasons why Microsoft has not raised this point before (including that nobody thought of it), but it does not follow that the point is necessarily a bad one.

114. VL also points out that the CJEU considered online exhaustion of Oracle software in *UsedSoft*. In *UsedSoft 3*, the Bundesgerichtshof considered the issue in respect of image editing and graphics software from Adobe (Photoshop, InDesign, Illustrator, Flash, Fireworks, Dreamweaver and Acrobat). Yet neither Court suggested that resale was nonetheless prohibited due to the non-program works contained in the software products.
115. Microsoft accepts that programs such as Adobe Photoshop and Illustrator would inevitably have non-program artistic works associated with them. Yet, if Microsoft is correct, the Bundesgerichtshof and/or the parties overlooked the fact that the resale of the products was in fact not permitted due to the non-program works within the products. If the Oracle software contained non-program works, the same would be true of the Court of Justice. Mr Hobbs KC did not shy away from this and characterised it as a “*collective failure to observe what has now been revealed by Tom Kabinet...*”: see Transcript Day 2/40/7.

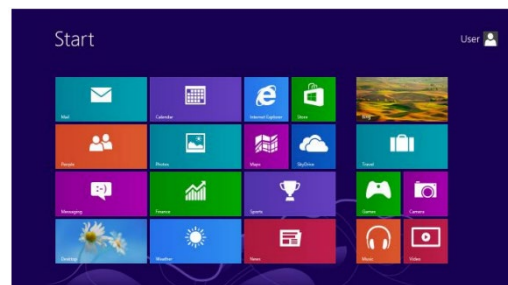
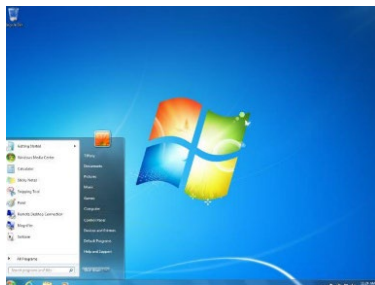
(1) The non-program works

116. From the description of both Products, it is clear that *Microsoft Office* and *Microsoft Windows* are both computer programs. They are acquired by users for the function of providing instructions to a computer to perform the tasks set by the author of the program.
117. They also comprise elements which are not computer programs, some of which it is accepted are likely to attract copyright protection. These are described by the parties as the “non-program works”. Microsoft led evidence to show that there is nothing minor or *de minimis* about the non-program works.

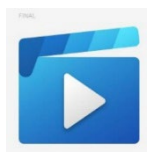
118. Microsoft’s pleading (at [13.1(ii)] of the Re-Amended Defence) describes these compendiously as being works such as the graphical user interfaces, the databases underlying and/or utilised by the software, clip art, graphics, fonts and other resources available for use in the software, document templates, text snippets and drafting aids available for use by users, icons, text labels and/or external libraries and resources associated with such computer programs.
119. Microsoft relied on written evidence from 14 witnesses who described these works in their Witness Statements and who detailed the work that was involved in their creation. None of this evidence was challenged.

(a) The Windows user interface

120. Mr Knudsen (a Principal Designer at Microsoft) gave evidence on designing the new interface for *Windows 8*. He explained how the *Windows 7* interface (on the left) was radically redesigned for use primarily as a finger touch interface with *Windows 8* (on the right) as shown below:

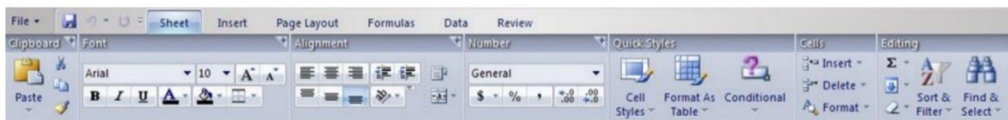


121. Mr LaJoie (an outsourced designer) designed the icons used in the interfaces for *Windows Vista* and *Windows 10* and *Windows 11* (indeed, he has designed over a thousand icons for Microsoft). An example is the icon for the “movies and TV” app which is shipped with *Windows 10* and shown below:



(b) The Office user interface

122. Mr Harris led the redesign of the *Office* user interface (“UI”). He explained that he worked with the design team and the engineers who wrote the code to make the new interface over many years. He explained that the *Office* UI was one of the largest single investments in terms of time and intellectual property that had ever been put into the *Office* software products. An example was the ribbon used which developed across different versions of *Office*, such as below:



123. He explained that the launch of the new interface for *Office 2007* received numerous accolades with the Wall Street Journal declaring that the “*Bold Redesign improves Office 2007*”.

(c) Windows resource files or “assets”

124. *Windows* also contains files called resource files or “assets”. Mr Novak (an engineer at Microsoft) explained that when the *Windows* operating system is installed, both the object code and resource files are installed. The object code does the work of *Windows*. The resource files are separate and are used by the object code to display certain information, images or sounds. They are stored on the user’s PC separately from the code.
125. Some resource files or assets are essential for *Windows* to operate, such as word strings making up error message, a list of items in a menu or icons. If these types of resources were deleted or corrupted, *Windows* would not install or work properly.
126. Other resource files are important but not essential to the operation of *Windows* (such as helpfiles). Others are not essential at all, such as fonts, sound effects and sample graphics. If these were not present, *Windows* would continue to work perfectly well. Having said that, they are present when a user downloads *Windows*.

127. A large set of resources supplied with *Windows* are text “strings”, essentially the text seen when the operating system is use. Examples are the words “Search” or “Start”.
128. Mr Novak was clear that most of the *Windows* user experience critically depends upon the resources and assets shipped with *Windows* to present a coherent and functional experience. He explained at [15] of his Witness Statement that:

“15. ...Everything from the words presented in the experience (on buttons, on menus etc.), the layout of the controls and dialogs (what buttons and controls exist and where they are relative to one another), and the icons and imagery present are powered by the resources and assets.”

(d) Office icons

129. Mr Custer, a Principal Product Design Manager, explained the role of icons in *Office*. Icons are important in that they help the user “*navigate the Office ecosystem*”. He was heavily involved in designing a new icon representing a person. He explained at [10] of his Witness Statement that “[i]cons in the *Microsoft Office Suite of programs are an important feature because they allow a user to access the features of the program that are most valuable to them*”.

(e) Office clip art

130. Ms Jones is the Director and user experience web marketing manager at Microsoft. From 2000-2007 she managed the *Office* clip art and Media web site and *Office* image collection, serving over 25 million users per month.
131. As part of this she managed a team of vendor graphic designers and production artists to create and compile a library of clip art that was shipped with versions of *Office*. As part of that she worked with the *Office* engineers to compile and format the clip art library to make sure the clip art would appear in the correct place and in the right format within the library shipped with the Product.
132. Although they were separate to the *Office* applications themselves, clip art assets sit in a folder structure normally created as part of the installation of

Office by a user and stored on the user's device. They could also be downloaded online by users who have a copy of *Office*.

(f) *Windows or Office fonts*

133. Mr Hitchcock (a Principal Software Engineering Manager) gave evidence on the fonts in Windows. He explained that until around 2016 fonts were stored in a raw “.ttf” file format or “.ttc” format and were preinstalled as system wide resources in *Windows* or *Office*.
134. From around 2016, the majority of fonts which users obtained with *Office* would be stored in the cloud and available for download once the user had *Office*. However, perpetual licensed versions of *Office* would still have a minimum set of fonts that came installed with the product, including ClearType fonts like Corbel and Constantia.
135. Mr Hudson, a designer of typefaces, gave evidence on the design of Constantia, as well as a further typeface called Gabriola. Mr Tankard (another independent designer of typefaces) gave evidence about designing Corbel which he explained has been shipped with *Windows* and *Office* since 2007.

(g) *Office or Windows helpfiles*

136. There are many “helpfiles”. If printed out, these are voluminous. Mr Novak's evidence is that approximately 33 megabytes' worth (208 helpfiles) were accessible with *Windows 8*. In *Windows 8* these took the form of “.hlp” or “.chm” files.
137. Helpfiles are downloaded with either *Office* or *Windows*. Mr Martin (Head of Content Operations of Microsoft 365 for Business and Enterprise) explained that helpfiles show up as part of an in-product help browser or an HTML-linked web browser. Helpfiles include text but also can include screenshots and videos embedded in them.

(2) Overall summary of Microsoft’s evidence on the non-program works

138. Neither party suggests that it is necessary to assess the position on subsistence or ownership in respect of any specific work or works. VL admits that there is copyright owned by Microsoft “*in at least some*” of the non-program works associated with both *Office* and *Windows* (Statement of Facts, [116] and [132]).
139. The parties also agree that the use of a digital copy of either *Office* or *Windows* on any computer will inevitably result in copies of at least some of the non-program works, or a substantial part thereof, being made on that computer, including in random-access memory (Statement of Facts, [122] and [138]). Again, neither party suggested that a greater level of detail was needed.
140. At [110] and [126] of the Statement of Facts, Microsoft states that the digital copy of *Office* and *Windows* that is downloaded and installed on a user’s computer contains all non-program works, including the helpfiles. VL did not suggest that this is incorrect.
141. From a review of the evidence, it is apparent that the non-program works are not all of the same kind. A user interface is an integral part of the program and essential to the working of that program by the user. The same is true of some of the resource files (e.g. error messages, menus or icons). Other works are downloaded and copied with the programs but are not essential to the working of the programs (e.g. fonts, sample graphics or helpfiles). Moreover, some works (like clip art) could also be downloaded online or, like helpfiles, could be accessed via an HTML-linked browser.
142. In a different case, it may be that these differences would have been investigated. However, that is not how Microsoft put its case on Issue 2. To seek now to assess Issue 2 by considering each of the non-program works separately (applying potentially different considerations to each) would be unfair on VL, which might otherwise have relied upon different evidence or argued its case differently.

143. In its skeleton, Microsoft said that the clearest examples of the non-program works are the *Windows* and *Office* graphical user interfaces, the *Windows* resources, fonts, *Office* Icons and clip art. The case relied as much on the graphical user interface of *Office* or *Windows* as it did on non-essential resource files or clip art (Microsoft skeleton at [85]-[94]). Issue 2 therefore falls to be decided on the basis that either exhaustion applies to these works as a genus or it does not apply at all.
144. A notable feature of the non-program works is that they were all created to further the attractiveness and usability of the *Office* and *Windows* computer programs and are downloaded with those programs. Many of them are essential to the working of those programs. An enterprise customer has no choice but to copy them when installing them on their computer.
145. Overall, a fair description of the non-program works as a whole is that they are part of the *Office* and *Windows* Products and are ancillary to the computer program functionality for which *Office* and *Windows* are purchased and used.

(3) Legal analysis

146. The graphical user interface of *Windows* and *Office* are good touchstones with which to test Microsoft's case. The question is whether it makes sense that a rights owner can continue to control the distribution and reproduction of the graphical user interface, when the rights in the underlying computer program have been exhausted by first sale in the EU. Neither *Bezpečnostní* nor *Sony* was concerned with this issue.

(a) The intent behind the Software Directive in terms of exhaustion

147. The European Commission Green Paper on Copyright and the Challenge of Technology, COM(88), of 7 June 1988 ("the Green Paper") emphasises at [5.2.1] the importance of computer software to the Community's economy. Having discussed the restricted acts of reproduction, translation, adaption and use, the Green Paper explains at [5.6.11]:

“5.6.11. It is clear that authorized use of a program under a licence agreement implies authorization for reproduction, adaptation and translation of this kind, without which the program could not be used for its intended purpose.”

148. At [5.6.13], the Commission discussed different ways in which software is put on the market referring to the public interest in its free circulation following sale. The Green Paper concludes at [5.6.14]:

“5.6.14. In brief, a broad use right, either formulated as such or resulting from rights to authorize reproduction rental, adaptation and translation, seems appropriate given the way software is used in practice. It provides the legal foundation for relating the remuneration received by the right holder to use being effectively made of the program. At the same time, authorization to use a program must necessarily imply authorization for all acts inherent in any such use.” (emphasis added)

149. This is then reflected in the “Commission Proposal”⁵ at [5.4] which explains that the Commission favoured “*the free circulation of computer programs*” to avoid detrimental effects on the Community software industry and the operation of the internal market. Article 4(1)(c) of the Commission Proposal provides that:

“Article 4: Restricted acts

...

1.c. Once a product has been sold with a right holder’s consent he should no longer be able to exercise control over subsequent sale, that is sale to third parties of legally acquired programs. ...”

150. Article 5(1) of the Commission Proposal expands on that by saying:

“Article 5: Exceptions to the restricted acts

1. Where a program is sold to the public, it is normal that certain rights to use the property thus acquired should apply. These rights should of necessity include the right to use the program without further express authorization from the right holder. ...”

151. In the 4th paragraph of Article 5, the Commission Proposal discusses “*shrink wrap licences*”. This is a term used for licences (which were then common) provided within the packaging (e.g. of a CD-ROM) which could not be read until after the CD-ROM had been purchased and the packaging opened. The Commission made clear that these should be treated as sales and not as licensed

⁵ Proposal for a Council Directive on the legal protection of computer programs (COM(88) 816 final) (5 January 1989).

goods. But in so doing, the intent of the legislator as regards the correct balance between rights owners and purchasers of computer programs within the Community was made clear, with the Commission stating:

“Where the current practice of 'shrink-wrap' licensing applies, program producers impose conditions on the use of programs which have been in reality 'sold' to the consumer. The provisions of Articles 4 and 5 are intended to have as their effect that where software is licensed in the normal sense of the word, right holders will be able to exercise exclusive rights in respect of all acts of reproduction and adaptation, the exact provisions being the subject of contractual arrangements under the terms of the licence. But where no written, signed licence agreement is employed, as is the case with “shrink-wrap” licences (the customer being merely advised by means of instructions contained within the packaging which surrounds the program carrier of his rights in respect of his purchase) the provisions of Art. 5(1) will allow the purchaser to assume the rights described above. This is a necessary compromise between the interests of suppliers and consumers of computer programs. Art. 4 of the Directive gives wide powers to right holders to control the acts of reproduction, adaptation and distribution, but these powers should not in fairness be used to circumscribe the normal enjoyment of property by a person who legally acquires a program by purchase. If program producers wish to ensure the greater degree of control over the reproductions, adaptation and distribution of their programs which the system of licences permits, the would-be purchaser of a program should be required to read and sign a legally binding licence agreement at the point of sale.” (emphasis added)

152. The Commission was saying in this passage that purchasers of computer programs are entitled to normal enjoyment of their property and if rights owners wish to continue to exert control over those programs, they need to do so by licensing and not by sale.
153. The above reflects the balance between the necessary protection of intellectual property rights and the requirements of free movement of goods in respect of goods placed on the market by the rights holder or with their consent: see discussion of *Deutsche Grammophon* at paragraph 28 of this judgment).
154. In Case C-403/08 *Football Association Premier League Ltd v QC Leisure* EU:C:2011:631, [2012] 1 CMLR 29 (“*FAPL*”) the Court of Justice explained that a restriction on fundamental freedoms guaranteed by the European Treaty (such as free movement of goods) can only be justified for the protection of intellectual property rights for the purpose of safeguarding the rights which constitute the specific subject matter of the intellectual property concerned. The specific subject matter is intended in particular to ensure appropriate

renumeration for the right to exploit commercially the marketing or the making available of the protected subject matter (see *FAPL* at [105]-[107] and the cases cited therein).

155. This is the principle being reflected in the Commission Proposal and which was later reflected in the Software Directive. As AG Bot explained in *UsedSoft* (at [AG45]), the exhaustion rule is justified, economically, by the consideration that the holder of parallel rights in other Member States must not profit unduly from the exploitation of their right.
156. Microsoft cautioned against referring to the Treaty or Treaty obligations because the general rule is that where a particular area of commercial activity engaging the principle of free movement of goods is regulated by harmonising legislation of the EU, then that legislation supersedes the general provisions of Articles 34-36 of the TFEU: *Oracle America v M-Tech Data Ltd* [2012] UKSC 27 (“*Oracle*”) at [13]. However, that does not mean that the Treaty provisions become irrelevant. As Lord Sumption JSC explained in *Oracle*, the Treaty remains relevant as the dominant instrument which informs the construction of a particular directive. It is permissible to construe a directive on the assumption that it was intended to be consistent with the Treaty relating to free movement of goods (*Oracle* at [14]).

(b) *The UsedSoft judgment*

157. We have considered aspects of the *UsedSoft* judgment above. When considering exhaustion, the downloading of a computer program and the conclusion of a user licence agreement must be seen as an “indivisible whole”. As the Court explained “[d]ownloading a copy of a computer program is pointless if the copy cannot be used by its processor” (*UsedSoft* at [44]). The two operations must be examined as a whole for the purpose of their legal classification. The Court referred by analogy to Cases C-145/08 and C-149/08 *Club Hotel Loutraki AE v Ethniko Simvoulío Radiotileorasis*, EU:C:2010:247, [2010] 3 CMLR 33 (“*Club Hotel Loutraki*”) at [48] and [49] where to determine which directive should govern a contract, the Court looked for the main object or predominant feature of the contract (*UsedSoft* at [44]).

158. The Software Directive provides a *lex specialis*, effectively carved out from the Infosoc Directive. The Infosoc Directive “leave[s] intact and ... in no way affect[s] existing ... provisions of [EU law] relating to ... the legal protection of computer programs” (at Article 1(2)).
159. Microsoft submits that it is necessary in copyright law to consider rights separately. A work such as a film may comprise various copyrights, including film copyright, literary copyright and music copyright. In order to carry out protected acts, it is necessary to obtain the consent of the owners of each of these rights: getting the consent of the owner of film copyright would not be sufficient to avoid copyright infringement in the literary or musical works. It says that when *UsedSoft* and *Tom Kabinet* are properly analysed the same position arises here. If a work comprises software which is the subject of copyright protection, and artistic works which are the subject of copyright protection, then these rights have to be considered separately. Exhaustion of the relevant rights in software does not give rise to exhaustion of rights in artistic or literary copyright. These are powerful submissions.
160. Microsoft also submits that, following *Tom Kabinet*, the online distribution of non-program works is a “communication to the public” and does not therefore engage the distribution right. The right of communication to the public under the Infosoc Directive is not capable of exhaustion.
161. *UsedSoft* and *Tom Kabinet* take different approaches to the characterisation of communication to the public. Moreover, neither *Usedsoft* nor *Tom Kabinet* provide guidance on how exhaustion is to be addressed if the work under consideration is software which incorporates artistic or literary copyright works. In *Tom Kabinet* the court was concerned with one end of the spectrum being a program which was “incidental” to the literary work and where “an ebook is protected because of its [literary] content” (at [59]).
162. As to the meaning of communication to the public, in *UsedSoft* the Court stated at [51]:⁶

⁶ See also, *Wright* at [39] (Arnold LJ).

“51. ... The provisions of Directive 2009/24, in particular art. 4(2), thus constitute a *lex specialis* in relation to the provisions of Directive 2001/29, so that even if the contractual relationship at issue in the main proceedings or an aspect of it might also be covered by the concept of “communication to the public” within the meaning of art.3(1) of the latter directive, the “first sale... of a copy of a program” within the meaning of art.4(2) of Directive 2009/24 would still give rise, in accordance with that provision, to exhaustion of the right of distribution of that copy.”

163. It went on to explain at [52] that “*the existence of a transfer of ownership changes an ‘act of communication to the public’ provided for in [Article] 3 of that [Infosoc] directive into an act of distribution...*”. The Infosoc Directive does not define the meaning of the right to communicate works to the public or a right of distribution, but those rights ought to be interpreted as far as possible in light of the WIPO Copyright Treaty. Article 6(1) of that treaty refers to the distribution right as being the right to authorise the making available to the public of original works and copies of a work “*through sale or other transfer of ownership*”. In *UsedSoft AG Bot* described this as unequivocal: it means that the existence of a transfer of ownership clearly changes a mere act of communication to the public into an act of distribution. The Court agreed (see [AG73] and the Court at [52]).
164. Accordingly, in *Tom Kabinet* the Court held that the sale of an intangible article by download does not engage the distribution right and is a communication to the public. In *UsedSoft* the fact of sale meant that the downloads were not merely acts of communication to the public but became acts of distribution. These different approaches are not easy to reconcile. The reasoning of AG Bot and the Court in *UsedSoft* is applicable and understandable in the context of software: a transfer of ownership means that the act is no longer merely a communication to the public of the work (i.e. no longer akin to a cinema viewing) but becomes a distribution of the work.
165. The Court in *Tom Kabinet* did not engage in a discussion on transfer of ownership.⁷ Instead, the Court in *Tom Kabinet* avoided *UsedSoft* on the grounds that the Software Directive is a *lex specialis* in respect of which different rules apply (at [53]-[55]). More helpfully for the present case, the Court in *Tom*

⁷ This was a matter which was considered by AG Szpunar at [AG43]-[AG44].

Kabinet did touch on how to approach goods which are put on the market in the EU and which comprise both program and non-program works. In so doing, and material to the present case, the Court approached the issue by considering what had been put on the market as a whole. It did not consider each type of work separately and apply the appropriate rule of exhaustion to each work.

166. The issue of how to approach exhaustion of mixed work products put on the market electronically with the rights owner's consent was not directly relevant to the question the Court had to decide. AG Szpunar did not consider e-books to be computer programs at all, rather he considered them to be digital files from which content is read (at [AG67]). Accordingly, in his view the Software Directive was not relevant, and these were not mixed work products. The Court agreed with this analysis (*Tom Kabinet* at [54]).
167. Notwithstanding that finding, the Court went on to consider the position where an e-book is considered to contain not just a work of literature (the book) but also a computer program and so would include both program and non-program works. The Court referred to this as "complex matter" taking the phrase from *Nintendo* which concerned which directive to apply to assess the protection of technological measures for computer games.
168. The Court in *Tom Kabinet* took a similar approach to that taken in *Nintendo*. It did not assess the exhaustion of the computer program in an e-book (if there is one) separately from exhaustion of the work of literature and then apply different exhaustion regimes to each. Instead, the Court took a broader view and held that the computer program element of an e-book is only "incidental" in relation to the literary work of the book itself. Accordingly, even if the product included a computer program, the essential element of an e-book remains the work of literature which the reader enjoys, not the computer programs which may run beneath (*Tom Kabinet* at [54] and [59]). The protection of the Infosoc Directive therefore applied to the whole.
169. The English translation of *Tom Kabinet* used in the hearing authorities bundle filed in this case was seemingly agreed until Microsoft (for the first time in its skeleton argument) raised an issue with the word "incidental" in the English

translation of *Tom Kabinet*. Using the Google Translate function (again only in its skeleton argument), Microsoft says that in other languages of the judgment the words translate back into English as “accessory character”.

170. The correct translation is not an issue that can be resolved at this stage. If it mattered it ought to have been raised by Microsoft much earlier in the proceedings. However, the difference in wording is unlikely to be material. Microsoft says that the phrase “accessory character” means that there is concurrent protection and does not indicate any hierarchy of importance. This ignores the word “only” used in all of the translations. In context, the words “only incidental” in *Tom Kabinet* does not mean “*de minimis*” or “of no consequence” but instead conveys a similar meaning to the words “*to have only an accessory character*”. The computer program in the e-book is only accessory (i.e. added for use) to the books themselves.
171. It is true that neither in *Nintendo* nor in *Tom Kabinet* did the Court by its decision remove protection from a work to which it would otherwise be entitled. In *Nintendo* the protection afforded by the Software Directive in respect of protective measures was lower than that afforded by the Infosoc Directive, which directive the Court applied to the whole. Nonetheless, if the correct approach is to consider each copyright work within the whole separately, and then apply the appropriate directive to that particular work, the Court in both cases could easily have said that. Instead, in both the Court took an approach akin to the approach taken in the contract case of *Club Hotel Loutraki* and evaluated what had been put on the market as a whole in order to determine which directive ought to apply. This is essentially a practical, economic approach to what has been put on the market with the rights owner’s consent and avoids what might otherwise be a rather artificial approach to a question such as exhaustion of rights.
172. In *Valve Corporation v UFC-Que Choisir*, FR:CCASS:2024:C10055 the French Court of Cassation also had to consider an online distribution service for digital content such as video games, movies and TV series which were downloaded onto a user’s computer. It was argued that the computer program works involved were not incidental. The French Court referred back to the

finding in *Nintendo* that a video game is not a computer program but a complex work and that the Infosoc Directive applied. The French Court followed suit. Microsoft says in its skeleton that this is a “*complete answer to the question raised for determination in [Preliminary Issue] 2*”. In fact, this is an example of the French Court following the CJEU’s approach to video games and does not take things further forward on the issue in the present case.

173. Microsoft also points to *Safarov v Azerbaijan* [2022] ECHR 647, where the European Court of Human Rights emphasised the importance of intellectual property protective measures and that, under Article 6 of the WIPO Copyright Treaty, exhaustion of the distribution right applies to fixed copies of works put into circulation. In that case, there was nothing to suggest that the right’s owner had “*ever authorized its reproduction and communication to the public in a digital form*”. Microsoft emphasises the protection of property and the need for proper enforcement measures for that property. VL says that if we followed the approach which Microsoft argues for, to consider each copyright work separately, the effect would be to emasculate the concept of exhaustion in the context of a computer program. It suggests that most computer programs will incorporate an artistic or literary work, such as a user interface or text (or could very easily do so). There may be some force in this submission, but we have not attached weight to it as an aid to construction. We cannot form a view as to what proportion of computer programs, or parts of computer programs, may incorporate such works.

(4) Analysis of the present case

174. In the present case the essential element of the Products is the computer program. The non-program works are ancillary or incidental to those programs. By ancillary or incidental we do not suggest that the non-program works are not of themselves substantial or that their creation is not the result of considerable skill and effort. The non-program works are ancillary to the computer programs in that they exist to enable a user to run or to use fully the programs so that those programs may fulfil their function.

175. Nothing about the contractual documentation provided by Microsoft differentiates between program and non-program works. It clearly tells a purchaser that after 3-years (and when fully paid up) that purchaser obtains the right to use the Products in perpetuity. Following *UsedSoft* this ought to be akin to a sale. Ms Cason, the General Manager of the EMEA Desk at Microsoft, explained in her Witness Statement that enterprise customers “*typically purchase a perpetual licence*” for an Enterprise Product, such as *Windows* or *Office*. There is no suggestion in her evidence that a customer would understand (or it would be reasonable for them to understand) that they cannot deal with that purchased Product as if it was their own purchased product, without Microsoft’s consent because of non-program elements.
176. If the Products and user licences are taken as an “indivisible whole” to create a user right (as per *UsedSoft*) and the question is asked what in substance has been purchased by an enterprise customer, the answer is a computer program. In the words of *Tom Kabinet*, the other works are incidental or have mere accessory character. They are present only to further the use of the computer programs.
177. The purchaser of either *Office* or *Windows* would have a legitimate right to expect to be able to continue to use and sell that computer program as if it was their own. The reason for the purchase was to obtain a desktop operating system or a productivity suite. The purpose was not to obtain a user interface, specific resource files, icons, clip art, fonts or helpfiles. They are all ancillary to the computer program and subsumed within it.

(a) *The effect of Microsoft’s approach*

178. Microsoft’s approach would negate a purpose of the Software Directive (as explained in *UsedSoft*) in that it would divorce the principle of exhaustion from reality. Assessing exhaustion by dividing up a product into different copyright works and then applying different rules of exhaustion to each part, ignores what has actually been put on the market in the EU with the rights holder’s consent.
179. If Microsoft is correct, it would mean that in any case where the computer program has a user interface (to help someone actually use that program) or is

bundled with any other non-program works in which copyright subsists, the resale market for the computer program itself could be controlled. In effect, a user interface added to help a purchaser use the program, would actually act to prevent effective exhaustion in the program upon sale.

180. Further, Microsoft's approach would lead to the following results which are contrary to the purposes of the Software Directive as explained in *UsedSoft*:

(1) First, it would mean that those who distribute and sell computer programs by download can control the resale market in a way that they could not do if the computer programs were distributed by CD-ROM. In the hearing, Microsoft accepted that if *Windows* or *Office* were to be first sold via CD-ROMs, then exhaustion would apply (because the non-program works have been distributed in tangible form), but not if downloaded. This result is directly contrary to *UsedSoft*.

(2) Secondly, it would mean that all that would be required to avoid the effect of *UsedSoft* would be to include some icons or clip art with the program. This renders rather meaningless (or at least very easily avoided) the right of resale for computer programs, something the Commission thought was important for the economy of the Community. This would lead to odd results. During the hearing, Microsoft's Counsel was asked what would result if there was only a single small icon or piece of clip art bundled with the computer program. Mr Hobbs KC did not want to answer the question, but then suggested that possibly some form of *de minimis* rule might arise. It is hard to see why this would arise if each work within a product is taken on its own merit: no work is *de minimis* as to itself.

181. In these circumstances the Infosoc Directive would not "*leave intact and ... in no way affect existing Community provisions relating to ... the legal protection of computer programs*" as provided for by Article 1(2)(a). The opposite would be the case.

182. Microsoft points to Article 8 of the Software Directive (which also says that the provisions of that directive “*shall be without prejudice to any other legal provisions*”) to suggest that both directives have these saving provisions and so the Software Directive must not erode the Infosoc Directive. The problem for Microsoft is that the wording of the two are not comparable. The wording in the Software Directive is far more vague (indeed, recital 16 of the Software Directive makes clear that this applies only in “appropriate cases”). No such qualification is found in the Infosoc Directive when discussing the protection of the *lex specialis* of computer programs.

(5) Conclusion

183. Microsoft submits that the Software Directive applies only to computer programs and that the exhaustion rules applicable to computer programs cannot be applied to non-program works. To do so, it says, would impermissibly extend the *lex specialis* of the Software Directive to cover works that it was not intended to cover. This is a powerful argument and, on its face, has force. Non-program works have a right to protection under the Infosoc Directive which (according to *Tom Kabinet*) provides that online distribution of those works does not affect the distribution right and are instead communications to the public to which exhaustion does not apply.

184. The present case, however, is not about the protection of the non-program works *per se*. This is a case where Microsoft decided to incorporate the non-program works as ancillary to computer programs to be downloaded and copied with those programs and be sold as a whole within the EU. Microsoft consented to the works being first sold in the EU in products which are predominantly computer programs and which products were sold (and purchased) for their computer program functionality. In those circumstances, Microsoft should not be able to use the provisions of the Infosoc Directive to erode or adversely affect the *lex specialis* of the Software Directive which protects the computer programs but which also protects those who purchase computer programs put on the market in the EU with a right holder’s consent. To do so would be contrary to Article 1(2)(a) of the Infosoc Directive.

(6) Ruling on Preliminary Issue 2

185. Issue 2 is drafted broadly and could be read to suggest that the distribution right or reproduction right of the non-program works is exhausted generally, as opposed only when incorporated and downloaded within *Office* and *Windows*. That would go beyond the ambit of the exhaustion provided by the Software Directive.
186. Accordingly, the answer to Issue 2 is that, in the circumstances of this case, the online first sale of *Windows* and *Office* exhausts the distribution and/or reproduction right under Article 4(2) of the Software Directive in all of the works that are supplied and inevitably downloaded by a purchaser as part of *Windows* and *Office*, to the extent those works are distributed, downloaded and copied in accordance with the intended purpose for which *Windows* and *Office* were first sold.
187. This judgment is unanimous.

Justin Turner KC
Chair

Andrew Lykiardopoulos KC

Antony Woodgate

Charles Dhanowa CBE, KC. (*Hon*)
Registrar

Date: 12 November 2025