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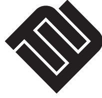
Intellectual Property Bulletin

Fenwick & West LLP — Summer 1999



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The Open Source Software Movement and Intellectual Property

by Laura A. Majerus (lmajerus@fenwick.com)

"Source code" is a human-readable version of software. Programmers need source code in order to understand how a piece of software works and to be able to modify it. At its most basic, "open source" is the idea that if a software developer makes his or her source code available to the public, other innovative programmers will step forward and improve the source code, thereby benefiting the developer. Beyond this simple paradigm, however, there is a wide range of opinion and facts about exactly what it means to be open source and about the legal ramifications of open source. This article provides a background about open source and related intellectual property issues.

A History: Some Open Source Projects and Their Licenses

The GNU Project—The grandfather of the open source movement is the GNU software project of the Free Software Foundation based at MIT. The GNU project (pronounced "G'NU") develops operating systems, compilers and other software tools that are "free" in several senses of the word. GNU software, which is developed by volunteer programmers, often is available free of charge and, more important, can be freely distributed (with certain restrictions). The GNU project does not identify its software as "open source" due to philosophical considerations, although open source proponents often state that GNU software is open source. Instead, GNU software is distributed under a so-called "copyleft" licensing policy.

The GNU General Public License ("GPL") currently tells users that they may copy and distribute verbatim copies of the program's source code, provided that they publish an appropriate copyright notice and disclaimer of warranty on each copy; keep intact the notices that refer to the license and to the absence of any warranty; and give any other recipients of the program a copy of this license along with the program. The GNU GPL definition of source code includes certain library files, interface definition file, "plus the scripts used to control compilation and installation of the executable." The GNU GPL disclaims all warranties, including warranties of merchantability and fitness for a particular purpose. The GPL does not permit incorporating a GNU program into proprietary programs.

This last requirement leads to what is jokingly referred to as the "GNU virus," since use of any GNU software in proprietary commercial software can lead to the software's being covered under the terms of the GNU GPL. This provision has limited the amount of GNU software incorporated into commercial products. The GNU project also uses a GNU Library General Public License ("LGPL"; see www. gnu.org). The LGPL permits linking GNU software libraries into proprietary software under certain conditions.

The Open Source Initiative—The term “open source” only came into vogue in the late 1990s. Eric Raymond’s widely-distributed article “The Cathedral and the Bazaar” discusses the rationale behind companies’ use of open source (the bazaar) as opposed to proprietary software (the cathedral).

The Open Source Initiative (“OSI”) specifies the following requirements that it believes must be met for software to be called “open source” (see www. opensource.org):

Free Redistribution—The license may not restrict any party from selling or giving away the software as a component of an aggregate software distribution containing programs from several different sources. The license may not require a royalty or other fee for such sales.

Source Code— The program must include source code and must allow distribution in source code as well as compiled form.

Derived Works—The license must allow for modifications and derived works and, further, must be distributed under the same terms as the license of the original software.

Integrity of The Author’s Source Code—The license may restrict source code from being distributed in modified form only if the license allows the distribution of “patch files” with the source code for the purpose of modifying the program at build time. The license must explicitly permit distribution of software built from modified source code. The license may require derived works to carry a different name or version number from the original software.

Distribution of License—The rights attached to the program must apply to all to whom the program is redistributed without the need for execution of an additional license by those parties.

License Must Not Be Specific to a Product—The rights attached to the program must not depend upon the program being part of a particular software distribution. If the program is then extracted from that particular distribution and used or distributed within the terms of the program’s license, all parties to whom the program is redistributed should have the same rights as those that are granted in conjunction with the original software distribution.

License Must Not Contaminate Other Software—The license must not place restrictions on other software that is distributed with the licensed software. For example, the license must not insist that all other programs distributed on the same medium must be open source software.

In addition, the OSI specifies that there can be no discrimination against persons or groups or fields of endeavors and mentions several software licenses that it considers to conform to

the OSI definition of open source. These include the GNU GPL, the GNU LGPL, the BSD license, the X Consortium license from MIT, the Artistic license, the Mozilla Public License ("MPL") from Netscape, and the QT Public License ("QPL") from Troll Tech.

FreeBSD—FreeBSD is a Unix-like operating system developed by volunteer programmers at the University of California in the 1990s. The FreeBSD license (www.freebsd.org) states that redistribution (and presumably modification) of source and object code must retain the FreeBSD copyright notice, the FreeBSD condition notice and a disclaimer of warranties. Some portions of FreeBSD are subject to the GNU GPL or to various other persons' intellectual property rights.

The Linux Operating System—The Linux operating system (pronounced "Lin-ux," not "Line-ux") is a version of the Unix operating system that was initially developed by a large group of volunteers under the direction of Linus Torvalds of Helsinki University. Linux, which can be downloaded at no cost or can be purchased on CD-ROM, is gaining adherents and is claimed to be used by several million people worldwide. Several companies, such as Red Hat Software, Caldera Software and Debian/GNU Software currently distribute Linux for a fee. Various companies, such as Red Hat Software and Cygnus, provide Linux technical support for a fee. In addition, IBM has started shipping Red Hat Linux, and many versions of Linux are shipped under the GNU GPL.

The Netscape Public Licenses— Netscape Communica-tions Corporation ("Netscape") announced in early 1998 that it would make its Communicator browser software open source. Netscape has made its source code publicly available, and users are invited to inspect and improve the software. Netscape controls which improvements are placed in each official release of the browser. Third parties can also use the browser source code to implement their own versions.

Netscape actually has two versions of its open source license. The Netscape browser source code is covered by the Netscape Public License ("NPL"). Modifications and deletions to the browser code by third parties are also covered by the NPL. In contrast, certain types of user-created additions to the browser code are not covered by the NPL, but are covered instead by the Mozilla Public License (see MPL above).

The NPL and the MPL are virtually identical, except that the NPL grants special rights to Netscape. For example, Netscape can: (1) use code covered by the NPL in nonbrowser Netscape products without those products' becoming subject to the NPL, and (2) license such additional products to third parties under different terms from those in the NPL.

Explicit Treatment of IP Rights Varies

Most of the licenses discussed above, except for Netscape's NPL, have received the stamp of approval from the Open Source Initiative. The software covered by these licenses meets the

certification requirements to be branded as “open source” software, but the explicit treatment of intellectual property rights in these licenses differs. At one end of the scale, the Netscape MPL and NPL cover the rights and responsibilities of Netscape, third-party software developers, third parties whose intellectual property is licensed by Netscape and third-party intellectual property owners who use Netscape products. The GNU GPL discusses copyrights and states that if you cannot distribute software without infringing upon intellectual property rights, you should not distribute the software. Other open source licenses, such as the FreeBSD license, do not mention the term “intellectual property” at all, although they do discuss copyrights.

How the FCRA Affects Information Exchanges

by John Hancock

The Fair Credit Reporting Act (“FCRA” or the “Act”) can limit uses of personal information and constrain activities that are becoming more common on the Internet. Internet firms increasingly try to multiply the value of their Web sites by using and trading the information they have about site visitors and users. While privacy laws may soon be enacted that affect such activities, sites exchanging information with other sites must assess whether the FCRA applies as well.

The FCRA was enacted in 1970 to address perceived abuses in the credit reporting industry. However, the definitions used in the Act can bring within its scope a broader range of activities in collecting and using personal information. The emergence of shared cookies (cookies accessed by several sites, which pool resulting user data), and the sharing of information relating to them, raises a particular risk of violating the FCRA, depending on the information shared and the purpose to which it is put.

While the following discussion is only a summary of a detailed statute, it outlines which activities will require FCRA compliance and the key compliance requirements. As a rough rule of thumb, a company that furnishes to others almost any information about consumers obtained from third parties, other than very basic information such as name and address, will be subject to the FCRA.

When Does the FCRA Apply?

Broadly speaking, the Act covers “consumer-reporting agencies” that make “consumer reports.” The definition of “consumer reports” is the key to the coverage of the Act. It is important first to know that the Act only applies to consumer reports, where “consumer” means an individual. Credit reports and similar information relating to a business are not covered by the FCRA. Another basic exclusion is that companies that do not receive from or furnish to others information about consumers will not be affected by the Act.

The definition of “consumer report” has two branches, relating first to the information collected and second to the reasons for which it is furnished. The information collection part of the definition is extremely broad, and reads:

> The term “consumer report” means any written, oral or other communication of any information by a consumer reporting agency bearing on a consumer’s credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living . . .

Given the breadth of the types of information described, this part of the definition is not very informative. It excludes little information that could be collected. On the other hand, a company that obtains and reports only basic information about consumers such as name, address, telephone number or email address will not be considered to be supplying a “consumer report.”

This test can be tricky to apply. For example, if an information user obtained a list of people subscribing to *Business Week* magazine, the list is not a consumer report because it does not bear on credit worthiness. However, if the requestor asks that those who have no major credit cards be excluded from the list, then the list bears on credit worthiness, and it is a series of consumer reports on each name in the list.

The second part of the definition is more significant. To be a “consumer report,” the expected use of the information, or the reason for collecting it, must be that it will serve as a factor in: (1) establishing the consumer’s eligibility for credit or insurance to be used principally for personal, family or household purposes; (2) the individual’s employment; (3) a credit transaction with the consumer who is the subject of the report, or review or collection of his or her account; (4) a business transaction initiated by the consumer for which the user has a “legitimate business need”; or (5) certain other transactions, such as a request by the consumer or a court order.

Note that if the transaction is a business transaction, even with a small business owner engaged in business as a sole proprietor, the Act does not apply. Similarly, if the report by a consumer reporting agency is marketing information only, then the report is not a “consumer report” because it will not be used for one of the specified purposes, and the FCRA does not apply. Finally, if a report on a consumer will be used to evaluate a credit transaction with a business of which the consumer is an officer or principal, the report is not a “consumer report.” It will not be subject to the FCRA because the relevant credit transaction is not the consumer’s.

A series of exclusions narrows the definition of a “consumer report.” Most importantly, a report “containing information solely as to transactions or experiences between the consumer and the person making the report” is not a consumer report. Therefore, if a person

making a report includes only his or her own interactions with the consumer, the Act does not apply. This means that stores, banks and others who report payment data for their account holders are not consumer reporting agencies as a result of their reports. However, if a report of business dealings with a consumer includes the fact that the account was closed because of the consumer's bankruptcy, then the report can be a consumer report covered by the Act. The information about bankruptcy is not the reporting organization's own experience with the consumer.

Before any report is subject to the FCRA it must come from a "consumer reporting agency"; however, this term is not significant. A consumer reporting agency is an entity that regularly assembles or evaluates consumer information for the purpose of making consumer reports. Only if the agency is paid for this, or works on a "cooperative nonprofit basis," is it a consumer reporting agency under the FCRA.

Intercompany exchange of consumer reports among affiliates is covered by the FCRA, with certain exclusions. Of course, if the information supplied by a corporate affiliate concerns only the experiences of the particular affiliate making the report, then there is no consumer report. Additionally, if the consumer is initially advised that information will be shared among affiliates and the consumer has an opportunity to opt out of the sharing, then the interaffiliate sharing is not covered by the Act. However, if a corporate parent or another affiliate collects information for the entire corporate family, reporting it as needed to each affiliate, then the FCRA will apply in the absence of the consumer disclosure and opt-out process. In reporting experiences of various other companies within the corporate family, the parent or reporting company has become a consumer reporting agency.

What Does the FCRA Require?

The most significant constraints in the FCRA concern the conditions under which a consumer report can be furnished; the types of information permitted in a consumer report; a consumer's ability to review and correct the information in the agency's files; and notices the agency must give to users of its reports and others.

A consumer report can only be furnished for a "permissible purpose." The list of "permissible purposes" roughly parallels the list of reasons for collecting and reporting information, as mentioned above, which qualifies a report as a "consumer report." It includes a catch-all that allows reports to those with a legitimate business need for the information in a business transaction initiated by the consumer.

Consumer reports cannot contain reports of bankruptcy over 10 years old. They cannot contain arrest records, civil lawsuits, paid tax liens, defaulted accounts or other adverse information (except for criminal convictions) more than 7 years old. There are certain exceptions for high-value transactions.

A consumer reporting agency must disclose to a consumer, upon request and for a nominal fee, all information in the consumer's file with that agency. If the consumer objects that some of the information is inaccurate, the agency must investigate and correct the item, if it is wrong, within 30 days. The agency cannot simply confirm that the information was correctly reported from its files, but must instead contact the source of the information in an attempt to verify it. The information must be deleted if it cannot be verified. The Act has requirements that help guard against the agency's simply reinserting disputed information into the file, since in most cases reporting entities (stores, banks and other creditors) report by automated means, and a disputed item could reappear if the reporting entity did not correct its own files. If the consumer is not satisfied with the results of an investigation, the consumer can require that the agency include in its files a short statement about the item. The statement or a summary or code concerning the statement must appear in future consumer reports that contain the disputed item.

A consumer reporting agency must provide periodic notices, as prescribed by the Federal Trade Commission, to regular users of consumer reports and to those who regularly furnish information to the agency. The notices summarize FCRA requirements relating to those who furnish information and those who use the reports.

Quick Updates

Supreme Court Overturns the Federal Circuit: Findings of Fact by the USPTO Are to Be Reviewed under the Substantial Evidence Standard

In *Dickinson v. Zurko*, 1999 U.S. LEXIS 4004 (1999), the United States Supreme Court ruled 6-3 that the Court of Appeals for the Federal Circuit ("Federal Circuit") must apply a "substantial evidence" standard in reviewing findings of fact made by the United States Patent and Trademark Office ("PTO"). The Supreme Court's decision overturns an *en banc* ruling by the Federal Circuit that findings of fact by the PTO should be reviewed under the "clearly erroneous" standard.

The Supreme Court's decision in *Zurko* lays to rest a long-running battle between the PTO and the Federal Circuit regarding the standard of review for PTO decisions. The PTO argued that, because it is a government agency, decisions by the PTO should be reviewed under a "substantial evidence" standard as required by the Administrative Procedure Act of 1946 ("Act"). The "substantial evidence" standard of review permits a court to set aside agency findings of fact that are determined to be arbitrary, capricious or unsupported by substantial evidence.

The Federal Circuit argued that because the "clearly erroneous" standard was the prevailing standard of review prior to the enactment of the Act, judicial review of fact-finding by the PTO under this standard was an "additional requirement . . . recognized by law" and thus falls within an exception to the Act. The "clearly erroneous" standard has been considered

somewhat stricter than the “substantial evidence” standard and allows a closer judicial review of the facts in question.

The *Zurko* case arose when Mary Zurko and other inventors applied for a patent in 1989 for a method of securing information over the Internet. The PTO denied the application. The PTO’s review board, the Board of Patent Appeals and Interferences, upheld the Examiner’s decision. This decision was then appealed to the Federal Circuit, which reversed the board’s decision in 1997. At the PTO’s request, the Federal Circuit reheard the appeal *en banc* to consider the PTO’s argument that the Federal Circuit should review findings of fact under the “substantial evidence” standard. The Federal Circuit unanimously upheld the use of the “clearly erroneous” standard.

In reversing the Federal Circuit’s decision, the Supreme Court reviewed 89 cases that were decided by the Court of Customs and Patent Appeals (CCPA) prior to enactment of the Act in 1946. The Court concluded that various words such as “manifest error” or “clearly wrong” were used to explain “why [the CCPA gave] so much, not so little, deference to agency fact finding.” The Court also pointed out that in nearly half of those cases, the CCPA explained that “the PTO is an expert body, or that the PTO can better deal with the technically complex subject matter, and that the PTO consequently deserves deference.” Thus, given the CCPA’s decisions, the Court determined that the CCPA did not recognize the use of a stricter review standard for PTO decisions, but rather adopted a more deferential standard for reviewing such decisions.

Supreme Court Rules That States Cannot Be Sued in Federal Court for Patent Infringement or Unfair Competition

In *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 1999 U.S. LEXIS 4376 (1999), the United States Supreme Court held that the Patent and Plant Variety Protection Remedy Clarification Act (the “Act”), which grants individuals recourse to sue states for patent infringement in federal court, is invalid. The Court reasoned that the Act cannot be sustained as legislation enacted to enforce the guarantees of the Fourteenth Amendment’s Due Process Clause.

Florida Prepaid arose when College Savings Bank sued Florida Prepaid, a state agency, for infringing its patent on a method for financing the costs of college tuition. In response to the suit, Florida Prepaid sought dismissal of the case on the grounds of “sovereign immunity.” Florida Prepaid argued that the Act was an unconstitutional attempt by Congress to use its powers to abrogate state sovereign immunity. College Savings responded that Congress had properly exercised its power pursuant to §5 of the Fourteenth Amendment to enforce the guarantees of the Due Process Clause.

Agreeing with College Savings, the district court denied the motion to dismiss. The Court of Appeals for the Federal Circuit (“Federal Circuit”) affirmed, reasoning that Congress had

authority to enact such legislation pursuant to the Fourteenth Amendment because patents are property subject to the protections of the Due Process Clause and that the Act sought to prevent states from depriving patent owners of this property without due process.

The Supreme Court reversed the Federal Circuit's decision and concluded that Congress lacked sufficient grounds for passing the Act. The Supreme Court reasoned that Congress' power to enact legislation pursuant to §5 of the Fourteenth Amendment is remedial in nature and must identify conduct transgressing the Fourteenth Amendment's substantive provisions. Because Congress failed to identify any pattern of willful patent infringement by the states, the provisions of the Act are "so out of proportion to a supposed remedial or preventive object that [they] cannot be understood as responsive to, or designed to prevent, unconstitutional behavior."

In a related case involving the same two parties, the Court also found invalid an attempt by Congress to allow states to be held accountable under the Lanham Act for unfair competition.

Ninth Circuit Rules in Favor of Maker of MP3 Device

In the only published appellate decision interpreting the Audio Home Recording Act of 1992, 17 U.S.C. §1001 *et seq*. ("AHRA" or "Act"), the Ninth Circuit upheld the denial of a preliminary injunction in *Recording Industry Association of America v. Diamond Multimedia Systems, Inc.*, 1999 U.S. App. LEXIS 13131 (9th Cir. June 15, 1999).

In October 1998, the Recording Industry Association of America (RIAA) filed suit against Diamond, seeking an injunction against the release of the "Rio," a new digital audio playback device capable of storing and playing MP3 audio files downloaded from the Internet. The RIAA asserted that the sale of the Rio would violate the terms of the AHRA. The AHRA requires makers of certain devices capable of producing digital copies of musical works to register the devices with the U.S. Copyright Office, incorporate serial copy limitations into the devices and pay royalties from sales of the devices to groups affected by the illegal copying of musical works.

After initially entering a temporary restraining order in favor of the RIAA, the district court denied the RIAA motion for a preliminary injunction, describing the RIAA's probability of success on the merits as "mixed." The ruling was based at least in part on the court's conclusion that, had Diamond included in the Rio a system for limiting serial copying, as the plaintiffs claim the AHRA requires, the resulting device would have been "functionally equivalent" to the Rio without such a system.

The Ninth Circuit upheld the district court's ruling, although it did so based upon reasoning different from that of the lower court. Interpreting the AHRA literally, the court found that the Rio is not a Digital Audio Recording Device, as defined in the statute, because the Rio

downloads audio data files from the memory of a computer. The language of the AHRA reflects an intent to exempt computers and computer programs from the Act, and the court held that the operation of the Rio fell into this exception. Because the Rio downloads music recorded on a computer hard drive, and computer hard drives are excluded from the definition of Digital Music Recordings, the copy contained within the Rio is not a reproduction of a Digital Music Recording under the Act.

Damages Award under California Trade Secret Law Precludes Award of Additional Royalty Payments

In *Robert L. Cloud & Assoc., Inc. v. Mikesell*, 69 Cal. App. 4th 1141 (1999), cross-defendant Mikesell appealed a trial court judgment of damages and ten-year royalty payment for Robert L. Cloud & Associates, Inc. ("RLCA"). The Court of Appeal of California, First Appellate Division, Division 5 upheld the judgment award but reversed the trial court order of payment of royalties. Mikesell argued that RLCA erroneously received a double recovery because the award of royalty payments were in error since part of RLCA's damage award included lost future business. The Appellate Court agreed, reasoning that because RLCA's damages included lost future business, adequate relief was already provided.

The Use of Confusingly Similar Terms in Metatags Is Barred by Lanham Act because of "Initial Interest" Confusion

A federal circuit court enjoined a defendant from using a plaintiff's trademark as a metatag for defendant's Web site. *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999). *Brookfield* is noteworthy because it provides an affirmative answer to the question of whether the initial confusion created by appropriating another's trademark as a Web site address or metatag is the type of confusion that the trademark laws are designed to remedy; several contemporaneous cases have ruled differently. In *Brookfield*, the court reversed denial of a preliminary injunction, finding in favor of the plaintiff. The plaintiff had attempted to register the domain name moviebuff.com, incorporating its trademark "MOVIEBUFF," but learned that defendant had already obtained the domain name registration and was using moviebuff as a metatag to lure Internet traffic to defendant's Web site. In awarding injunctive relief, the Ninth Circuit concluded that defendant's use of the domain name and metatag moviebuff.com would result in "initial interest" confusion because a sizable number of Web surfers looking for plaintiff's product would simply use defendant's similar offerings when taken by a search engine to defendant's site. While the court acknowledged that customers would not be confused "in the narrow sense" and mistakenly believe that they were purchasing goods from defendant or that defendant and plaintiff were related, the court nonetheless concluded that defendant's actions would misappropriate plaintiff's acquired goodwill. For this reason, the court concluded that the Lanham Act barred defendant from using in its metatags any term confusingly similar to plaintiff's mark.

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Summer 1999

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