



FENWICK & WEST LLP



Intellectual Property Bulletin

Fenwick & West LLP — Fall 2002



FENWICK & WEST LLP

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Court Evaluates Meaning of “Derivative Work” in an Open Source License

by [Laura Majerus \(lmajerus@fenwick.com\)](mailto:lmajerus@fenwick.com)

The first court case involving the Gnu Public License (GPL) has been filed in Federal Court in Massachusetts, and all lawyers who counsel clients on open source matters should be aware of its existence, even though the case itself has so far provided little substantive help with open source interpretation issues. The case, *Progress Software Corp. v. MySQL AB*, Civil Action No. 01-11031 PBS, was filed on June 15, 2001. The plaintiff, Progress, is a U.S. software company that signed an interim agreement with a small Swedish software company, MySQL, to nonexclusively market the MySQL software product. The MySQL software had been originally released by MySQL years earlier under the GPL.

Progress alleged breach of contract, tortious interference with third-party contracts and relationships, unfair competition and several similar business-related torts. Progress also sought declaratory judgment as to its trademark rights and other rights relating to its sale and distribution of the MySQL software. MySQL filed a counterclaim alleging, among other causes of action, trademark infringement, breach of the interim agreement between the parties and breach of the GPL. The interim agreement provided, among other things, that the MySQL software would be released under the GPL. This provision conforms to the language of the GPL itself, which specifies that anyone receiving software under the GPL who then releases it must release it under the GPL.

In an early release, Progress distributed the MySQL software with additional proprietary software (Gemini) but did not include the source code for the Gemini software on its distribution medium. However, Progress did include the Gemini source code in a later release. MySQL alleged that the proprietary Gemini software was derivative of the MySQL software because it linked to the MySQL software. This is a key point because the author of the GPL has stated that linking to GPL'd software turns the linked software into a derivative work and that all derivative works of GPL'd software must also be released under the GPL. Thus, GPL'd software “infects” proprietary software with which it is linked. The result is that the GPL either bars inclusion of GPL'd code in programs that are to be kept as proprietary or forces new programs linking to GPL'd software to be released under the GPL.

On February 28, 2002, the court granted a preliminary injunction enjoining Progress from, among other things, sublicensing or distributing the MySQL program and from using the MySQL trademark. *Progress Software Corp. v. MySQL AB*, 195 F. Supp. 2d 328, 329 (D. Mass.). The court declined to rule on a request for summary judgment of the breach of contract under the GPL, stating:

MySQL has not demonstrated a substantial likelihood of success on the merits or irreparable harm. Affidavits submitted by the parties' experts raise a factual dispute concerning whether the Gemini program is a derivative or an independent and separate work under GPL, [paragraph] 2. After hearing, MySQL seems to have the better argument here, but the matter is one of fair dispute. Moreover, I am not persuaded that the release of the Gemini source code in July 2001 didn't cure the breach.

Thus, the court recognized the important issue that will need to be resolved in a case interpreting the GPL: whether a program linked to GPL'd software can be considered a derivative work of that software. The court also raised the question of whether subsequent shipping of source code can cure a breach of the GPL without permission to continue shipment from either the author or subsequent distributor of the software.

An interesting side note is an affidavit submitted by MySQL of Professor Eben Moglen of Columbia University Law School, who is the lawyer for the Free Software Foundation, the group that originated the GPL license. This affidavit contains some insights into the author's intent in drafting the GPL. In particular, Professor Moglen lists "three primary conditions" of the GPL, stating that if a company receives software under the GPL and then distributes it:

- 1) Redistribution must itself occur under GPL and only GPL, with no additional license conditions.
- 2) Redistribution must include "source code," the human-readable form of computer programs that allows programmers to understand and modify computer programs for themselves, as opposed to "object code," which is the "machine language" version of computer programs that is very difficult for programmers to understand or modify.
- 3) Redistribution must include a copy of the GPL, so that users are aware of their rights to use, copy, modify and distribute, and so that anyone engaged in redistribution is also aware of the conditions under which redistribution is permitted.

These statements will be useful in future cases where GPL interpretation is at issue.

Professor Moglen further stated that the Free Software Foundation's position is that failure to comply with the GPL terminates distribution rights of the person failing to comply until the copyright holder takes affirmative action to reinstate the rights. Note that this position requires an affirmative act by the copyright holder to reinstate the right to distribute, not an

act of the person who distributed the software to the breaching party. In her order granting partial summary judgment, the judge in the *Progress Software* litigation seemed to imply that a breach of the GPL by failure to include source code possibly could be “cured” by shipping source code in later versions. This view contradicts that of Professor Moglen.

Professor Moglen’s affidavit also reiterates that the GPL is based on copyright law but reminds us that the GPL requires the author of software to unilaterally give up certain copyright rights. He suggests that the GPL actually *subtracts* from the usual exclusive rights of the author under copyright law, through the granting of unilateral permissions. Under the GPL, all persons observing its terms are unilaterally permitted all rights to use, copy and modify the software. Users who only use the software themselves or who modify the software only for their own use have no obligations under the GPL. Only persons who distribute have reciprocal obligations under the GPL. These include the obligation to release under the GPL, to include a copy of the GPL and to preserve notices relating to the GPL. Thus, the author of the software gives up his rights to control the actions of people who receive the software and do not distribute it, and these people have a unilateral right to use, copy and modify the software. Once software is released under the GPL, the releasing party cannot get it back or halt its use or modification without distribution.

The *Progress Software v. MySQL* litigation is not over yet. Although the court refused to grant summary judgment on the issues involving the GPL, it is still possible that the GPL breach of contract issue may play a part in the final decision. If this occurs, practitioners may finally have guidance as to the validity of the GPL under contract law and whether linking software results in a derivative work.

A Patent Portfolio Strategy for Start-Ups

by [Rajiv P. Patel \(rpatel@fenwick.com\)](mailto:rpatel@fenwick.com)

Successful high-technology companies recognize that a comprehensive intellectual property portfolio can be of substantial value. A well-crafted patent portfolio can be used to achieve a variety of business objectives, such as bolstering market position, protecting R&D efforts, generating revenue and encouraging favorable cross-licensing or settlement agreements. Thus, many start-up companies that have developed pioneering technologies are eager to obtain patent protection. However, to develop an effective patent portfolio, a start-up company should first devise a strategy that is aligned with the company's business objectives.

Identify Goals

Patent portfolio strategies vary from company to company. Large companies often pursue a strategy of procuring and maintaining a large quantity of patents. These companies often use their patent portfolios for offensive purposes, *e.g.*, generating large licensing revenues.

In contrast, for most start-up companies, developing and building a comprehensive patent portfolio can be prohibitively expensive. However, with an understanding of some basic principles of patent strategy and early planning, a start-up company can develop a cost-effective yet valuable patent portfolio.

A good patent strategy begins with identifying the key business goals of the company. Clear business goals provide a long-term blueprint to guide the development of the patent portfolio. The company's executives, with the assistance of its board of directors, patent counsel and other advisors, should define specific objectives for the company's patenting efforts. They should also develop a budget and ensure that technical personnel and other resources are available for executing the patent strategy.

Identify Assets

Once the company identifies its goals, it should identify all of its intellectual assets, such as its products, services, technologies, processes and business practices. The company should gather key company documents for review. Such documents include business plans, company procedures and policies, investor presentations, marketing presentations and publications, product specifications, technical schematics and software programs. As part of this process, the company should identify and interview all individuals who are involved with creating or managing the company's intellectual assets. These interviews may uncover undocumented intellectual assets and additional information about those assets described in the documents.

Some assets might not be suitable for patent protection. An asset is a good candidate for patent protection if it will be of value when the patent issues, typically at least 18 to 36 months after it is filed, and patent infringement is easy to detect. The company should use these considerations to generate a list of assets that may be worthy of patent protection and rank their importance in relation to the company's business objectives.

Build the Portfolio

A valuable patent portfolio protects core technologies, processes and business practices. Typically, a company builds its patent portfolio with a combination of crown-jewel patents, fence patents and design-around patents. A crown-jewel patent covers a core technological asset. Crown-jewel patents are often referred to as "blocking patents" because such patents can block competitors from entering the space covered by the patents. Fence patents, in contrast, are used to fence in, or surround, core patents with improvements so that the competitor must license the patents in order to enter the space. Design-around patents are based on innovations created to avoid infringement of a third-party patent.

For most start-ups, costs for pursuing patent protection are a concern because financial resources are limited. Hence, most start-up companies begin the procurement phase by focusing on one or more crown-jewel patents. To do this, the companies work with patent attorneys to review the key innovations of the companies' products or services.

In some instances, a company may wish to conduct a prior art search before filing patent applications in order to determine the breadth of available claim coverage. However, a company considering such prior art searches should first consult with the patent attorney to understand the risks of willful infringement that are raised by some searches.

Next, the company and its attorney make a strategic business decision as to whether to file a provisional patent application or a full utility patent application for the identified subject matter. A provisional patent application is ideally a robust description of the innovation but, because it lacks the formalities of a utility patent application, can usually be filed more quickly.

Provisional applications provide a number of attractive benefits. First, one or more utility applications may claim the benefit of the provisional application filing date. Second, the provisional application provides an earlier effective prior art date against others who may be filing patent applications on similar inventions. Third, inventors often draft the core of a provisional application, thereby reducing the attorneys' fees involved in preparing the application. Fourth, the provisional patent application precludes loss of patent rights resulting from use or public disclosure of the subject invention.

In order to preserve the rights conferred by a provisional application, the company must file one or more utility applications that claim the benefit of the provisional application. The

utility application must be filed within 12 months of the provisional application's filing date. A utility application costs more than a provisional application to prepare and file, and the company must adequately budget and plan for this expense. As time passes, the time available for patent matters may become more difficult in view of product cycles, marketing launches and sales events. Therefore, personnel need to make filing utility applications a priority in order to meet the 12-month deadline.

Products and technologies continually evolve and change, often soon after the filing of a provisional application. Therefore, a company must continually revisit its patent portfolio and strategy to reassess whether the provisional application provides sufficient protection in view of further development. Similarly, as resources become available and features included in the original provisional and utility applications evolve, the company may wish to divide out or supplement specific features in additional utility applications.

Use the Portfolio

Over time, companies that value their intellectual assets set aside time, money and resources to further enhance their portfolios and deploy the patent assets they have secured. A company begins this process by studying industry trends and technology directions, especially those of present and potential competitors. This competitive analysis may include review of current and past products, R&D capabilities and direction and patent portfolios. This knowledge directs future development efforts and guides licensing and enforcement activities.

The company may choose to license or acquire patents from others. In addition, the company may choose to license its patent portfolio to third parties in order to create additional revenue streams, build strategic relationships and improve its industry position and prestige. Of course, the company can also assert patents in lawsuits against third-party infringers.

A strong patent portfolio can also assist in securing financing and realizing exit strategies. A strong portfolio may reassure investors with regard to the company's competitive position, the strength of its core technology and the prowess of its technical personnel. Mergers, acquisitions and asset purchases may be fueled by a third party's desire for access to a company's patented technology.

Electronic Records: A Reason for Concern

by [William A. Fenwick](mailto:bfenwick@fenwick.com) (bfenwick@fenwick.com)

A couple of faculty and some students at the School of Information Management and Systems at the University of California at Berkeley performed a study, titled “How Much Information” (Peter Lyman and Hal R. Varian, “How Much Information” (2000), available at <http://www.sims.berkeley.edu/research/projects/how-much-info/>). The study attempted to measure how much information is produced in the world each year. The authors of the study state:

The world produces between 1 and 2 exabytes of unique information per year, which is roughly 250 megabytes for every man, woman, and child on earth. An exabyte is a billion gigabytes, or 10^{18} bytes. Printed documents of all kinds comprise only .003% of the total. Magnetic storage is by far the largest medium for storing information and is the most rapidly growing, with shipped hard drive capacity doubling every year. Magnetic storage is rapidly becoming the universal medium for information storage.

While the volume of information being created is a bit staggering, the fact that only .003 percent is stored in hardcopy documents is most shocking when one is considering the legal implications of electronic business records. Locating, retrieving and reviewing relevant printed documents, whether as part of due diligence for a transaction, response to a government request or production in a judicial or administrative process can comprise 40 to 80 percent of the legal fees associated with the matter.

The closest most companies get to rationalizing the storage and retrieval of electronic records is their policies regarding email. While email has the highest public profile and is producing the most publicized surprises, it is only a minuscule part of the electronic records businesses are creating. Similarly, many businesses do not have an expressed, consistent policy for making and retaining electronic records that are submitted to various government agencies when company personnel are taking actions online or submitting online reports.

Businesses are required to keep some electronic records for various periods of time. Other records, such as those reflecting the source, cost and use of intellectual property, should be maintained in an intuitively organized system providing convenient, rapid retrieval. Without such records, strategic management of a company’s intellectual property portfolio is not possible, and any transfers, depreciation or write-offs may be subject to a successful challenge by the various state, federal and international taxing authorities.

Challenges to the origin and ownership of any intellectual property misappropriated by competitors or other miscreants have a significant probability of succeeding if the owner has not carefully retained appropriate records. In this age of technology, the records necessary to establish creation and ownership are often electronic.

- A few other issues for company counsel that arise with electronic records are:
- Rationalizing the company's backup and archiving practices so counsel can quickly and inexpensively determine what electronic records exist and how they can be accessed;
- Avoiding accumulation of duplicative or unnecessary electronic records, especially legacy electronic records; and
- Preserving the ability, hardware and software to access legacy electronic records.

Between the information needs of a business and the legal requirements for reporting, preservation and retrieval of various types of information there lies an extraordinary opportunity for increased efficiency. Profitable survival of many businesses may be directly linked to their ability to store and retrieve electronic records. Yet, very few businesses are organizing and storing electronic information in such a manner that they can quickly determine what information they have and where it is located. Even fewer businesses insure that counsel is involved in the decisions related to the creation, organization and retention of electronic records; most treat the area as the preserve of IT and accounting personnel.

If a business develops a systematic method of labeling and storing electronic records, the costs and timesaving related to providing information for internal purposes, government reporting, due diligence or responding to compulsory discovery (See http://www.fenwick.com/pub/lit_pubs/electronic/eDiscovery.htm for a recent paper on the status of discovery of electronic records) will be greatly reduced.

Quick Updates

When the Ship Goes Down: Wrestling over the Unregistered Copyrights

In *Aerocon Engineering Inc. v. Silicon Valley Bank*, 2002 U.S. App. LEXIS 18642, (9th Cir. Sept. 11, 2002), the Ninth Circuit Court of Appeals addressed the question of how one perfects an interest in an unregistered copyright. There, Aerocon, the purchaser of unregistered copyrights from a bankruptcy estate, sued to enforce its ownership of those copyrights against Silicon Valley Bank, which had provided financing to the debtor company in exchange for an interest in the unregistered copyrights. Silicon Valley had recorded its interest in the copyrights by a filing with California's Secretary of State pursuant to the state's Uniform Commercial Code ("U.C.C."). It then foreclosed upon its interest when the company went bankrupt. Aerocon argued that it owned the unregistered copyrights because Silicon Valley did not perfect its interest in the copyrights by recording the interest with the Copyright Office, pursuant to the federal Copyright Act. The Ninth Circuit thus faced the question of whether state or federal law governs the perfection of security interests in unregistered copyrights.

Under the U.C.C., the perfection of a security interest in property by filing with the Secretary of State is exempted when that property is "subject to . . . a statute . . . of the United States which provides for a national . . . registration . . . or which specifies a place of filing different from that specified in this division for filing of the security interest." 2002 U.S. App. LEXIS 18642 at 17 citing Cal. Comm. Code § 9302(3) (a). The Code further provides that compliance with that federal statute is the only manner in which a security interest in the property can be perfected. *Id.* citing Cal. Comm. Code § 9302(4). Aerocon argued that it owned the copyrights because the Copyright Act establishes such a recordation scheme, and therefore, Silicon Valley could have perfected its interest in the copyrights only by recording with the Copyright Office.

The Ninth Circuit disagreed. Because the Copyright Act's recordation scheme requires that the copyright be registered, the Ninth Circuit reasoned, "There just isn't any way for a secured creditor to preserve a priority in an unregistered copyright by recording anything in the Copyright Office. And the secured party can't get around this problem by registering the copyright because the secured party isn't the owner of the copyright, and the Copyright Act states that only "the owner of copyright . . . may obtain registration of the copyright claim." 2002 U.S. App. LEXIS 18642 at 14-15, citing 17 U.S.C. § 408(a).

The Ninth Circuit held that because there is no federal scheme for the recordation of unregistered copyrights, state law, not federal law, governs the perfection of security interests in unregistered copyrights. Such perfection is accomplished through a filing pursuant to the U.C.C. Accordingly, the Ninth Circuit found Silicon Valley to be the owner of the unregistered copyrights.

The Value of Stolen Trade Secrets: Criminal Sentencing Under California's Economic Crime Act of 1997

In *People v. Farell*, 28 Cal. 4th 381, 121 Cal. Rptr. 2d 603 (2002), the defendant challenged the application of the Economic Crime Act of 1992. This Act conditions the grant of probation upon the imposition of a minimum county jail sentence of at least 90 days if “a defendant [is] convicted of a felony for theft of an amount exceeding fifty thousand dollars (\$50,000) in a single transaction or occurrence.” Cal. Penal Code § 1203.044(a) & (e). The defendant argued that this section applies only to thefts of money and “cash equivalents.”

The defendant lost this argument in the Superior Court. He had pleaded no contest to the charge of theft of a trade secret in violation of section 499c of the California Penal Code. Furthermore, he had admitted for sentencing purposes that the loss to his former employer exceeded \$1 million and that the theft was of an amount exceeding \$100,000. Given these admissions, the Superior Court concluded that the defendant had to serve the 90-day minimum county jail sentence required for probation because section 1203.044 applies to thefts of all property exceeding the specified value, including trade secrets.

The Court of Appeal reversed, however. It construed the operative statutory language “an amount exceeding fifty thousand dollars” as reasonably referring only to “monetary property.” If the Legislature had wanted to make clear that the statute applies to thefts of other property, the Court of Appeal reasoned, it could have used the language “property taken is of a value exceeding” or “property worth more than.”

The California Supreme Court disagreed. Relying in part on the legislative history, it concluded that in using the phrase “convicted of a felony for theft,” the Legislature was referring to the crime of theft generally, which may involve all forms of property, including trade secrets. The Supreme Court considered the significance of the phrase “an amount exceeding fifty thousand dollars” and concluded that it means only that the property stolen must have a specified minimum value. The fact that trade secrets do not have an easily ascertainable face value—unlike a check or promissory note—is of no moment. If face value were dispositive, it would produce an anomalous result in the case of stolen rare coins whose face value may be very small but whose market value may be very large, albeit subject to appraisal.

The Federal Circuit Torpedos “Submarine Patents”

In *In re Bogese*, 303 F.3d 1362 (Fed. Cir. 2002), the United States Court of Appeals for the Federal Circuit fired a second torpedo at so-called submarine patents.

Before a statutory change in the mid-1990s, patent applicants could sometimes keep applications alive in the United States Patent and Trademark Office (“PTO”) for decades before drafting and filing new claims for an old application, to cover later-developed

technologies that had become widespread. These nonpublic applications would then “surface” as issued patents, allowing the owner to sue potential infringers who had previously been unaware of any potential threat. For example, inventor Jerome Lemelson (and later, the foundation that bears his name) obtained a number of patents as late as the 1990s that claimed priority to an application originally filed in the 1950s. These patents purportedly covered technology used in bar code scanners, and the Lemelson Foundation sued or threatened to sue hundreds of companies that use such scanners.

A change to the Patent Act in the mid-1990s effectively prevented the prosecution of new submarine patent applications, but the danger remained from applications filed before the statute went into effect.

Earlier this year, the Federal Circuit took its first step to address that danger. In *Symbol Technologies v. Lemelson Medial*, a declaratory judgment suit was brought against the Lemelson Foundation by the makers of bar code scanning technology. There, the Federal Circuit held that in litigation, the equitable doctrine of “prosecution history laches” could bar enforcement of a patent that issued after “unreasonable and unexplained delay” in prosecution, even though the applicant complied with all pertinent statutes and rules. In *Bogese*, the Federal Circuit further extended the applicability of prosecution history laches, allowing the PTO to reject applications for patents that would be unenforceable in litigation under the court’s holding in the *Symbol* case.

In *Bogese*, the applicant originally filed his patent application in 1978. In 1987, after the PTO rejected a continuation of the original application and the Federal Circuit affirmed, Bogese began filing a series of “file wrapper continuation applications” claiming priority to the original 1978 application, successively abandoning each earlier application upon rejection but making no attempt to amend the claims or make any argument against the earlier rejection. In 1994, after 11 such unchanged continuation applications were rejected, abandoned and refiled, the PTO warned Bogese that any further attempt to keep the unchanged application alive would be rejected under the doctrine of laches. Bogese filed another unchanged continuation, and the PTO kept its word, rejecting the application for laches. An attempt by Bogese to revive his application failed, and the matter was ultimately appealed to the Federal Circuit.

The Federal Circuit affirmed the PTO’s action. In light of the court’s endorsement of prosecution history laches as a litigation defense in *Symbol*, the court reasoned that it “necessarily follows that the PTO has authority to reject patent applications for patents that would be unenforceable” under the holding of *Symbol*. The court further stated that the PTO has even greater authority than a district court to sanction undue delay in prosecution, because like other administrative agencies, “the PTO may impose reasonable deadlines and requirements on the parties that appear before it.”

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