FENWICK & WEST LLP

Intellectual Property Bulletin

Fenwick & West LLP — Winter 2002

FENWICK & WEST LLP

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Open Source Code: A Trap for The Unwary

Mary Heuett and Eryn Starun

Imagine that in-house counsel for a software company receives a letter from an outside engineer saying that the company modified and incorporated the engineer's open source code into its proprietary product. The letter contends that the company must share the modified proprietary code with the world. An SEC filing is pending that may require the company to disclose the letter.

Alternatively, imagine that the company is being acquired. The acquirer's counsel asks about open source code, and the engineers acknowledge that they used modified open source code in the company's flagship product. The company had no plans to make that code public and did not realize it was subject to a license. You may ask yourself: What is "open source"? How did this happen? What does this mean for the company?

"Open source" is frequently used to encompass a range of licensing models under which source code is made available to the public under generous terms and without an obligation of confidentiality. "Public source," however, is a more descriptive term for these licensing models. Open source is a subset of public source that meets the following criteria established by the Open Source Initiative ("OSI"): it (1) permits unrestricted further distribution of the work; (2) makes the source code available; (3) permits creation and distribution of derivatives; (4) does not discriminate against users or uses; (5) does not require additional negotiation of terms; (6) is not product specific; and (7) does not overreach to "contaminate" separate software.

Many public source licenses are more restrictive than OSI-defined open source licenses. Because of the lack of standardized usage of "open source," it is not safe to assume that a license is actually OSI-defined open source until you have reviewed the terms. Unless indicated otherwise, this article uses "public source" from here forward to mean public source and OSI-defined open source.

There is a common misperception among engineers that if code is on the Internet (*i.e.*, "freely available"), it may be used without obligation—that it is "public domain." Engineers like freely available code because it provides ready solutions. Indeed, it is true that a public domain work has no owner and may be exploited by any person in any fashion. However, it is not true that posting code on the Internet makes it public domain.

"Public domain" has a specific meaning in copyright—works that are no longer protected. Works become public domain when the term of protection expires (mostly works created before 1923); when, for works first published before 1989, a work is published without notice; or when the owner deliberately abandons the copyright to the public. The posting of code on the Internet is not sufficient alone to abandon code to the public domain. Abandonment requires intent by the copyright owner to surrender rights in the work and an overt act evidencing such intent.

In the two examples given above, the company may be a copyright infringer, or if not, subject to terms and conditions it finds unsavory because public-source code is protected by copyright. Copyright law begins with the premise that any copying or modifying of a copyrighted work is an infringement. It is then the responsibility of the alleged infringer to establish a privilege to use the code, such as either permission or a defense. A fair use defense is rarely available where the direct infringer's use is commercial.

The consequences of a successful copyright claim can be significant. An injunction can halt distribution of a company's product. Although actual damages may be difficult to prove for an open source licensor, given the generosity of the terms of such licenses, damages may be less difficult for a public source licensor to prove. If the licensor registered the copyright before the licensee began infringing the work, the licensor can seek statutory damages of $750 to $30,000 per infringement, up to $150,000 for willful conduct, including attorney's fees.

Proof of permission to use the work, such as a license, will defeat a copyright infringement claim. However, be aware that not all source code on the Internet is "prelicensed" under a public source license. Some code is made available for inspection, but a license must be separately obtained to use the code, especially for commercial uses. Ensuring that a license exists is an important early step in the analysis.

Even if a public source license exists, it is not safe to assume it immunizes the company from copyright claims. Nor is it safe to assume that the company is in compliance with the terms of the particular public source license that governs the code it used. A public source licensor can reserve the right to sue its licensees for copyright relief by limiting the license and by conditioning the terms and conditions of the license.

A public source licensor can sue a licensee who commits an act beyond the scope of the license. This is a greater risk for public source that limits the rights depending on the nature of the licensee than it is for OSI-defined open source. More important, an act within the scope of the license can give rise to a claim of copyright infringement if the license is conditioned upon another act, and the licensee does not perform the required act. *Sun Microsystems Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1119, 1122 (9th Cir. 1999).

Thus, steering a company clear of infringement claims requires careful attention to the terms of the license that granted permission to use the code. Although in many cases those terms may be acceptable, some licenses, notably the GNU General Public License (“GPL”), may require the company to license its code under the GPL as the price for using that code. This means opening that code's source for inspection by the world at large, including competitors.

Ideally, the risk of such terms should prompt the company to consider the ramifications of using public-source code before deploying it in a proprietary product. There is code for which open source licensing makes sense; however, there is other code for which it is not the appropriate business strategy. Even if the company complies with all the conditions and adheres to all the limitations, a public source licensor could nevertheless proceed against it on a breach-of-contract claim for any violation of a covenant.

Given that code may not be used without consent and the trend toward finding nonnegotiated licenses enforceable where there is notice of the terms and conduct manifesting assent, it is unlikely that any such claim would be dismissed for failure to form an enforceable contract. See, *e.g., ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452 (7th Cir. 1996); *Register.com v. Verio, Inc.*, 126 F. Supp.2d 238, 248 (S.D.N.Y. 2000). Nevertheless, the scope of the threat posed by such a claim depends on whether there is any basis on which the open source licensor can prove damages. Specific performance and injunctions are rarely granted in contract cases.

There is yet another source of liability. Copyright owners have a separate cause of action for the falsification, removal or distribution of falsified or removed copyright management information (“CMI”). CMI includes any information about the copyright, including the copyright notice, author names, owner names and terms and conditions of use. A violator may be enjoined, or sued for actual damages or statutory damages ($2,500 to $25,000 per violation), including attorneys’ fees. To avoid liability, a distributor must retain a third party’s copyright notices and licenses unless permission is granted to remove or modify them. Because many public source works embody the contributions of numerous authors and contain large quantities of CMI, or irregular CMI, meeting this burden requires diligence.

Thus far no open source licensee has been brought before a court. Alleged violators of these licenses, including the GPL, have been publicly exposed and the alleged violation quickly resolved by removal of the public source from the proprietary code or by release of the proprietary code. While the threat of litigation may be low, it remains extant and may trigger other obligations, such as SEC disclosures.

Antispam Laws Coming of Age

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In 1998, the California legislature amended Business and Professions Code Section 17538.4 to regulate the sending of unsolicited e-mail advertisements (also known as “spam”). Section 17538.4 had previously regulated the transmission of unsolicited facsimile documents only. The statute, as amended, defines “unsolicited electronic mail advertisements” as including any advertising that is addressed to recipients with whom the sender does not have an existing business or personal relationship or that was not requested by the recipient.

This statute requires any entity sending such spam to: (1) include in the subject line of each e-mail “ADV:” as the first four characters to identify the message as advertising, or “ADV:ADLT” if the advertising pertains to adult materials; (2) not send any further Spam to recipients who choose to opt-out; (3) establish a toll-free telephone number or valid sender-operated return e-mail address that recipients may use to opt-out of future emailings; and (4) include the toll-free telephone number or valid return address as the first text in the e-mail.

On behalf of other recipients of unsolicited e-mail allegedly from the defendants, California resident Mark Ferguson sued Friendfinders, Inc., Conru Interactive, Inc., Andrew B. Conru and 50 “John Doe” defendants in a class action lawsuit. Originally filed in October 1999 and amended in January 2000, Ferguson’s complaint alleged negligence, trespass, unfair business practices and unlawful advertising practices.

In March 2000, however, the defendants demurred, essentially arguing that even if all the factual allegations the plaintiff asserted were true, the facts would still not violate the law. Among other reasons, the defendants argued in their demurrer that the relief sought by Ferguson would, in part, constitute an unconstitutional interference with interstate commerce. Generally speaking, states cannot pass laws that restrain or unduly burden interstate commerce. The defendants argued that Section 17538.4 violated this “Dormant Commerce Clause” of the United States Constitution because it would affect behavior both in-state and out-of-state, as well as subject senders of e-mail advertising to multiple and conflicting state standards.

In June 2000, a state court in San Francisco agreed with the defendants and held that Section 17538.4 was unconstitutional under the United States Constitution. However, this ruling was challenged, and on January 2, 2002, a California Court of Appeal overturned the lower court ruling. In so doing, the court determined that the antispam law did not violate the U.S. Constitution and found that the lower court should not have dismissed plaintiff's claims for trespass, unfair business practices and false or deceptive advertising. The Court of Appeal therefore allowed plaintiff to proceed to trial seeking damages on these grounds.

In this appeal, Ferguson argued that Section 17538.4 was not unconstitutional, and that his claims were viable without Section 17538.4. The Attorney General of California filed a separate brief also arguing for the constitutionality of Section 17538.4. In response, the defendants argued that the statute would require senders of e-mail to determine where recipients resided—an impossible task, they contended, given the nature of the Internet. The Court of Appeal disagreed, noting that the statute, by its very terms, applies only when spam is sent via equipment located in California. The Court of Appeal noted that both Ferguson and the Attorney General argued that lists of e-mail addresses sorted by geographic residence already exist or can be readily created by senders of e-mail advertising based upon demographic and personal information that often includes both e-mail and physical addresses in the same user profile, while the defendants offered no evidence to the contrary. The Court of Appeal added that merely because the defendants may "consider section 17538.4's requirements inconvenient and even impractical does not mean that the statute violates the Commerce Clause." See *Ferguson v. Friendfinders, Inc.*, No. A092653, (CA 1st Dist.) (Jan. 2, 2002) at 10.

The Court of Appeal stated that Section 17538.4 applies to both in-state and out-of-state actors who "(a) do business in California and (b) transmit unsolicited commercial e-mail (UCE) to a California resident, (c) via equipment located in California." *Id.* at 7. The Court of Appeal found that the State of California had an interest in protecting its residents from the costs associated with spam, which it found included the costs to Internet service providers of accommodating bulk e-mail advertising, and higher access fees to users due to the time required to sort, read, discard and prevent future sending of spam, as well as the difficulty in handling and eliminating the sheer volume of spam that recipients typically receive on a daily basis. The Court of Appeal also found that California had an interest in protecting residents from spammers who use deceptive tactics to hide the origin of messages. In the end, the court identified the only burden on interstate commerce to be the requirements that senders identify messages as advertising in the subject line and honor opt-out requests, which the court found to be a minimal imposition on spammers given the benefits provided to the public at large.

This opinion is a significant development for any company that uses e-mail as a marketing tool or operates server or routing equipment in California, such as ISPs. Failure to comply with the requirements of Section 17538.4 outlined above could subject companies to liability. This most recent ruling opens the door to more private lawsuits, on grounds similar to those raised by the plaintiff in *Friendfinder*, against senders of unsolicited commercial e-mail.

Numerous other states also have statutes that directly or indirectly regulate spam, and the *FriendFinder* decision merely underscores the growing sentiment of state legislatures that want to protect their constituents from spam, regardless of other states' laws. The Washington Supreme Court, for example, recently upheld the constitutionality of a Washington statute regulating spam, which was challenged on grounds similar to those argued in the California case.

Similar to California's antispam law, Pennsylvania requires unsolicited adult advertising to contain a warning, beginning the subject line with "ADV-ADULT," and including an accurate return address to facilitate opt-out requests. Conversely, the State of Delaware makes it flatly illegal to, without authorization, intentionally or recklessly distribute any commercial e-mail to any receiving address or account under the control of any authorized user of a computer system, except where an organization is merely contacting its members or there is a pre-existing business relationship. Companies that use e-mail as a marketing tool and have mailing lists that may contain residents in other states may wish to investigate whether relevant state laws require specific header information or particular opt-out procedures. Fenwick & West regularly monitors the status of antispam legislation nationwide and can provide you with the status of antispam legislation at the federal or state level.

Quick Updates

***Playboy Enterprises, Inc. v. Terri Welles*, 279 F.3d 796 (9th Cir. 2002): The Ninth Circuit Affirms Nominative Fair Use Defense to Trademark Infringement**

On February 1, 2002, the United States Court of Appeals for the Ninth Circuit affirmed the right of Terri Welles, Playboy Magazine Playmate of the Year in 1981, to use Playboy Enterprises, Inc.'s ("PEI") trademarks on her website under the doctrine of "nominative fair use."

Welles's website offered information about photos of Welles, advertised memberships in her photo club, and promoted her services as a spokesperson. The website contained a biographical section describing Welles's selection as Playmate of the Year in 1981 and her years modeling for PEI. After the lawsuit began, her website also included discussions of the suit and criticisms of PEI.

PEI complained of several different uses of its trademarked terms on Welles's website: (1) the terms "Playboy" and "Playmate" in the "metatags"—hidden code used by some search engines to determine the content of websites in order to direct users to relevant sites; (2) the phrase "Playboy Playmate of the Year 1981" and "Playmate of the Year 1981" on various banner ads, which may be transferred to other websites; and (3) the repeated use of the abbreviation "PMOY '81" as the "wallpaper" on pages of her website. PEI claimed that these uses constituted trademark infringement, dilution, false designation or origin and unfair competition.

Citing its decision in *New Kids on the Block v. New America Publishing, Inc.* 471 F.2d 302, 306 (9th Cir. 1992), the court concluded that all uses, except Welles's use of "PMOY '81" as "wallpaper" on Welles's website constituted permissible, nominative fair uses and therefore did not infringe PEI's trademark rights uses. Specifically, the court found that Welles's use of headlines, banner advertisements and metatags was nominative, observing that no descriptive substitute existed for PEI's trademarks in this context and that Welles could not identify herself as a former Playmate of the Year without using certain PEI marks. As the district court had observed, "[t]o describe herself as 'the nude model selected by Mr. Hefner's magazine as its number-one prototypical woman for the year 1981' would be impractical as well as ineffectual in identifying Terri Welles to the public."

Further, the court observed that Welles had used no more PEI marks than necessary in the banner adds, titles and metatags, noting that they use only the trademarked words, not the font or symbols associated with the trademarks. However, the Court found that Welles's use of "PMOY '81" as "wallpaper" exceeded the limits of fair use, as it was unnecessary to identify Welles as a former playmate. The court remanded to the district court for a determination of the extent to which PMOY is protectable as a trademark of PEI.

A Sale by Any Other Name . . .

In *SoftMan Prods. Co., LLC v. Adobe Sys. Inc.*, No. CV 00-04161 (C. D. Cal. September 10, 2001), the court denied a motion for preliminary injunction, holding that pursuant to copyright law's "first sale" doctrine, a software distributor does not infringe the copyright of a software manufacturer by unbundling software collections and reselling the individual copies, reasoning that the software distributor is not a party to the End User License Agreement ("EULA") and that the transaction between the manufacturer and the distributor is a sale, not a license, of the copyrighted software.

Adobe Systems Inc., "Adobe" a software development and publishing company, sued SoftMan Products Company ("SoftMan"), which distributes software products primarily online, for copyright infringement and breach of contract. Adobe maintained that it does not sell and does not authorize the sale of its software, but rather distributes its software through licensing agreements with distributors and dealers which require the distributors and dealers to acknowledge that Adobe's software is to be licensed to end users in "accordance with the terms and conditions of the current EULA." *Id.* at 6, n. 5. The EULA, which end users are asked to assent to when they install the software, requires the end user to transfer all the rights in the EULA to any subsequent person to which the end user transfers the software.

Adobe alleged that SoftMan, with which it did not have a direct, contractual relationship, was bound by the EULA that governs all its software products. Thus, Adobe claimed that by reselling individual pieces of Adobe's software, SoftMan breached the terms of the EULA and violated Adobe's copyright in the software, specifically Adobe's exclusive right to control the distribution of copies of the software. SoftMan asserted that, pursuant to the first sale doctrine, it was entitled to resell the pieces of the software.

Copyright law's first sale doctrine expressly limits a copyright owner's distribution right by providing that "the owner of a particular copy . . . lawfully made under this title . . . is entitled, without authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." Thus, once the owner of the copyright sells the tangible property to which that copyright pertains, the copyright owner can no longer control the distribution or sale of the tangible property.

The court rejected Adobe's argument that because the transaction between itself and SoftMan is a license, the first sale doctrine is inapplicable. First, the court determined that SoftMan did not assent to the terms of the EULA, remarking that mere notice of the EULA on packaging is "not equivalent to the degree of assent that occurs when the software is loaded onto the computer and the consumer is asked to agree to the terms of the license." SoftMan at 17. Moreover, the court found that the transaction between Adobe and SoftMan amounted to a sale, not a license, of the copy of software, as it entailed "a single payment for a perpetual transfer of possession." *Id.* at 14. Accordingly, the first sale doctrine allowed SoftMan's conduct.

***In Re Sang Su Lee*, 00-1158 (Fed. Cir., January 18, 2002): When Patent Examiners Rely on What They Assert to Be General Knowledge to Negate Patentability, that Knowledge Must be Articulated and Placed on The Record**

Sang-Su Lee filed a patent application in the U.S. Patent Office disclosing a method of automatically displaying the functions of a display device, and demonstrating how to select and adjust the functions in order to facilitate response by the user. The examiner rejected Lee's claims on the ground of obviousness, citing the combination of two references: a patent and a video game handbook. The patent describes a television having a menu display by which the user can adjust picture and audio functions. The disclosed display, however, does not include a demonstration of how to adjust the functions as recited in Lee's claims. To overcome this deficiency, the examiner cited the handbook, which describes a video game's display as having a "demonstration mode" showing how to play the game. The handbook, however, makes no mention of adjustable functions as recited in Lee's claims. Thus, neither the patent nor the handbook individually disclosed Lee's claimed invention. Nonetheless, the examiner held that it would have been obvious to a person of ordinary skill to combine the reference teachings to produce Lee's claimed invention.

Lee appealed to the Patent Office Board of Appeals. He argued that the handbook simply explained how to play a game, and that there was no motivation or suggestion to combine this reference with the patent, or that such a combination would produce his claimed invention. In affirming the rejection, the Board held that it was not necessary to present a source of a teaching, suggestion or motivation to combine these references or their teachings. After being rejected again by the Board on reconsideration, Lee appealed to the Federal Circuit.

In vacating the Board's decision and remanding, the Federal Circuit held that "a showing of a suggestion, teaching, or motivation to combine the prior art references is an essential component of an obviousness holding." Thus, the Board must articulate the reasons that one of ordinary skill in the art would have not only been motivated to select the references, but also to combine them to render the claimed invention obvious. The court further noted that reasoned findings are critical to the performance of agency functions and judicial reliance on the agency competence and specialized expertise. The "common knowledge and common sense" on which the Board relied in rejecting Lee's claims are merely conclusory statements that "do not fulfill the agency's obligation." The court then stated that the "Board's findings must extend to all material facts and must be documented on the record, lest the 'haze of so-called expertise' acquire insulation from accountability."

Kelly v. Arriba Soft Corp., No. 00-55521 (9th Cir. Feb. 6, 2002): The Ninth Circuit Finds Copyright Infringement for Certain Kinds of Hyperlinking

Kelly v. Arriba Soft Corp. involved the functionalities of a visual search engine offered by Arriba Soft, now known as Ditto.com. The United States Court of Appeals for the Ninth Circuit examined two types of potential copyright infringement arising from this engine: (1) Arriba's copying of full-size images from other websites and using them to create smaller versions known as thumbnails, which would then be displayed by its search engine as visual search results, and (2) Arriba's importing into its website the corresponding full-size image directly from the originating website, a process known as "inline linking," and alternatively, displaying the image from the originating website within a frame pulled into Arriba's website, a practice known as "framing." The display of the corresponding full-size image through inline linking or framing occurred after an Arriba user clicked on a given thumbnail displayed by the search engine.

The Ninth Circuit held that Arriba's copying of images and creation of thumbnails from them for its search engine database constituted fair use. Arriba's use of images from other websites, although commercial in nature, was not highly exploitative. Significantly, the use was transformative; Arriba took the full-size images and created smaller versions with lower resolution that served an altogether different purpose from that of the originals. Given their limited use as visual search results, these thumbnails did not harm the market for or the value of the original full-size images.

By contrast, the Ninth Circuit held that Arriba's inline linking to and framing of the full-size images constituted infringement of the copyright owner's exclusive right to display the images publicly. In short, the process of inline linking or framing enabled an Arriba user to display and view a full-size image residing on another website on Arriba's website. The court rejected the applicability of the fair use defense to this type of use of a copyrighted image. Here, the purpose and character of the use had not changed at all as a practical matter; a user likely would access the full-size image from Arriba's website for the same reasons that he or she would have accessed it from the originating website. By providing the full-size images directly on its website through inline linking or framing, Arriba reduced the Internet traffic going to the originating website where the full-size images resided, thereby arguably harming the commercial market for the original images.

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