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Free, But Not Without Risk: Open Source Licensing in the Wake of *Jacobsen v. Katzer*

Introduction

Sam is the chief technology officer of a small software vendor. At the request of his customers, he kicks off a new project to redesign and upgrade his company's flagship product. During the design phase, one of his engineers suggests that several person-years of effort can be saved by incorporating a large software module from a popular "open source" program. After crunching numbers and finding that the savings add up to nearly half a million dollars, Sam green-lights use of the module. What Sam does not realize, however, is that although his decision saves time and improves his bottom line, it may also put his company at risk of a lawsuit for copyright infringement or breach of contract.

Closed and Open Source Software

Computers execute programs that are compilations of instructions and data in binary format.[1] In the early days of computing, software developers would write programs either directly in binary format or in assembly language, which can then be converted into binary format. However, due to its intricate nature, developing software in assembly language or binary format is time consuming and error prone. Over time, software developers found it more efficient to write programs in high-level languages, and then translate, or compile, their high-level language programs to binary format. High-level languages express programs in source code that, in some cases, resembles English, though in a rigid and logical fashion. Thus, a high-level language is typically easier to write and read than assembly language or binary format, and nearly all modern computer programming is carried out in high-level languages.

Most computer users are familiar with closed software. These programs are distributed only in binary format. Examples include Microsoft Windows®, Oracle's® databases, Adobe's® Portable Document Format (PDF) Reader, and so on. By using a closed source model, software providers protect their source code, thereby making it more difficult for other individuals and organizations to misappropriate the intellectual property associated with the source code.

However, alternative business models have grown around the concept of releasing software in an open source format—essentially making a program's high level language source code available for free. These business models typically do not focus on the sale of the software per se. Instead, open source software vendors derive revenue from support and maintenance contracts, customization, and optional closed source modules. Nevertheless, some open source software is released to build a reputation or just for fun.

Over the course of the last twenty years, the user base of open source software has evolved from computer professionals, academics, and hobbyists to the general public. Today, open source software can be found on Internet servers, desktop PCs, household appliances, and cell phones. The scope of this software varies from simple applications, to web browsers, to entire operating systems. Examples of popular open source software include the Firefox® web browser and the Linux® operating system.

While the vast majority of open source software is freely available for individuals to download and use, some is licensed under strict and rather counterintuitive terms. In particular, a popular form of free software license is the "copyleft" license. A play off of the word "copyright," a copyleft license requires that reproductions, adaptations, and redistributions of the software be licensed under the same terms as the original license to the open source software.[2] Thus, even though this open source software is distributed for free, the terms of its license could prevent a party from charging for any reproductions, adaptations, and redistributions, or making these reproductions, adaptations, or redistributions proprietary and non-free.[3] Nonetheless, given the wealth of stable, useful open source software that is readily available, software vendors often package, incorporate, adapt, or sell open source software with their own products.[4]

Enforcement of Open Source Licenses

The owner of the copyright to open source software may choose to enforce any applicable open source license, and penalties range from copyright infringement to breach of contract damages. To date, the Federal Circuit has rendered just one opinion on the enforceability of open source software licenses. Two years ago, in *Jacobsen v. Katzer*, the Federal Circuit found that open source licenses with terms or conditions that limit the scope of the copyright granted to the public can be enforced in copyright actions.[5] The Federal Circuit also held that if the limitations are instead covenants between the licensor and licensee, they can be enforced with contract law.[6] This decision potentially places downstream users of open source software at risk for violating a copyright license and subject to associated damages, or, at best, liable for breach of contract unless these users conform to the terms of the software's license. If the software is supposed to be "free" to use and is explicitly licensed for public use, how can one be guilty of copyright infringement? The facts from *Jacobsen* provide insight.

Robert Jacobsen managed the collaborative open source project DecoderPro, which allows model railroad hobbyists to program chips that control model trains.[7] Jacobsen's group placed copies of the DecoderPro software on a public open source repository for free downloading.[8] Along with the software, Jacobsen also distributed its copyleft license.[9] This license granted any user of DecoderPro the right to copy, modify, and distribute the software "provided that [the user] insert a prominent notice in each changed file stating how and when [the user] changed that file, and provided that [the user] do at least ONE of the following:" (1) place the user's modifications in the public domain or make them freely available, (2) use the modified files only within the user's organization, (3) rename any non-standard executables derived from the modified source code to not conflict with the standard executables, document the changes between the standard and non-standard executables, and refer to where one can find the standard versions, or (4) make other arrangements with the copyright holder.[10]

Essentially, this license required anyone modifying or distributing DecoderPro source code to publish their modifications or make these modifications available to the public. In this way, a user of the modified source code would be able to determine what parts were created by the copyright holder and what parts were contributed by other parties.[11] Matthew Katzer, chief

executive officer of Kamind Associates, Inc. (hereinafter "Katzer"), developed a competing commercial software product that performed essentially the same functions as DecoderPro.[12] Katzer admitted that he or individuals in his employ used portions of DecoderPro in this competing product without complying with the terms of the DecoderPro license.[13] Jacobsen sued Katzer for copyright infringement and moved for a preliminary injunction to prevent Katzer from continuing the alleged infringement.[14] Katzer contended that the software's nonexclusive, public license prevented Jacobsen from suing for copyright infringement.[15]

The District Court for the Northern District of California held that Jacobsen's copyright on the DecoderPro software was "intentionally broad" and permitted the incorporation of the software into commercial products.[16] Further, the District Court found that Katzer's doing so without including a prominent notice of attribution (in violation of the software's license) did not give rise to a copyright claim because the terms of the license did not limit its scope.[17] Instead, the District Court viewed the terms as independent covenants between the parties.[18] As such, violation of these terms could only be adjudicated under contract law.[19] On these grounds, the District Court denied Jacobsen's motion,[20] and Jacobsen appealed to the Federal Circuit.[21]

Applying Ninth Circuit law, the Federal Circuit agreed with the District Court that the case turned on whether the terms of the Decoder-Pro license were conditions of that license or covenants independent from the scope of the license.[22] The Federal Circuit looked to previous cases where the Ninth Circuit had ruled that when a copyright holder grants a nonexclusive license to copyrighted material, the copyright holder waives his right to sue the licensee for copyright infringement, but can sue the licensee for breach of contract.[23] However, if the non-exclusive license is limited in scope and the licensee acts outside the scope, the copyright holder can sue for copyright infringement.[24] The Federal Circuit also considered whether the free availability of Jacobsen's source code removed it from the purview of copyright law.[25] In other words, the Federal Circuit determined the issue to be whether Jacobsen could give away his software to the public for free, yet still bring a copyright claim if a member of the public used the software in a way that failed to conform to the terms of the license.

The parties did not dispute that Jacobsen was the holder of a copyright over DecoderPro.[26] Katzer also admitted that portions of DecoderPro were copied, modified, and distributed as part of the competing product, the Decoder Commander software.[27] Thus, Jacobsen had established a *prima facie* case of copyright infringement.[28] To prevail on the preliminary injunction for copyright infringement, Jacobsen had to successfully argue that the DecoderPro license terms acted as conditions to limit the scope of the license, and that the use by Katzer was outside the scope of the license.[29]

Addressing this issue, the Federal Circuit found that the language of the DecoderPro license explicitly created conditions rather than contractual covenants.[30] For example, the terms of the license granted rights to copy, modify, and distribute DecoderPro *provided that* the license's conditions were met, and, under California contract law, the phrase "provided that" typically

indicates a condition.[31] Further, the Federal Circuit concluded that these conditions enabled Jacobsen to control the distribution of the software so that he could obtain an economic benefit from its use, and that a preliminary injunction was a proper way of enforcing Jacobsen's rights, even if Jacobsen could not prove any specific monetary damages.[32,33] Accordingly, By allowing programmers to maintain some degree of downstream control over their programs, the programmers' potential economic gains are protected.

Thus, the Federal Circuit found that the conditions of an open source license can be enforced via actions for copyright infringement even though the software is given away for free. While Katzer conceded that his organization did not comply with the conditions of the DecoderPro license, there were no factual findings on the likelihood of success on the merits in proving that Katzer violated the conditions, and thus, the case was remanded to do so.[34]

Conclusion

Jacobsen v. Katzer granted copyright holders of open source software the right to control modification and distribution of such software. In light of this case, what could Sam do to protect his organization from the risk of a lawsuit? First, Sam has to determine what license (if any) applies to the open source software that he has used. Then, Sam, or his attorney, should carefully read the license to understand its terms. Finally, Sam should find ways to conform to these terms.

If Sam's company is incorporating a large module of an open source project, he should make sure that his programmers document all of the changes they make to this module so that his company will be able to comply with terms of commonly used open source licensing terms. It may be prudent for Sam's programmers to only make minimal changes to incorporated open source modules, and instead place the more substantial changes in other modules that can remain closed in order to limit the modifications that could potentially be described or disclosed to the public.

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Endnotes

1. Binary format consists only of zeros and ones.
2. *See, e.g.*, *What is Copyleft?*, FREE SOFTWARE FOUND., http://www.gnu.org/copyleft/copyleft.html (last visited August 25, 2010). One of the most popular forms of copyleft is the GNU Public License (GPL).
3. The concept of open source extends to creative work beyond just software. For example, MIT has placed over 1900 of its courses online for free under an open source style of license. *See Privacy and Terms of Use*, Mit oPen CoUrSeware, http://ocw.mit.edu/terms (last visited August 25, 2010). Additionally, most of the content in the free online encyclopedia Wikipedia also is available under a similar open source license. *See Trademarks and Copyrights*, wikiPedia, http://en.wikipedia.org/wiki/Wikipedia:About#Trademarks_and_copyrights (last visited August 25, 2010).
4. A well-known example of open source software being used commercially is the use of Linux® by Cisco® in their Linksys® brand of wireless routers. In order to comply with the copyleft terms of the Linux® license, Cisco® makes their modifications to this source code available to the public. *See GPL Code Center*, CiSCo, http://homesupport.cisco. com/en-us/gplcodecenter (last visited August 25, 2010).
5. 535 F.3d 1373, 1380 (Fed. Cir. 2008).
6. *Id.*
7. *Id.* at 1376.
8. *Id.*
9. *Id.*
10. *Id.* at 1380.
11. *Id.* at 1379.
12. *Id.* at 1376; *see also Jacobsen v. Katzer*, No. C 06-01905 JSW, 2007 U.S. Dist. LEXIS 63568, at *2 (N.D. Cal. Aug. 17, 2007).
13. *Jacobsen*, 535 F.3d at 1379.
14. *Id.* at 1376. Until recently in the Ninth Circuit, a party moving for a preliminary injunction needed to establish "either '(1) a combination of probable success on the merits and the possibility of irreparable harm; or (2) that serious questions are raised and the balance of hardships tips in its favor.'" *Faith Ctr. Church Evangelistic Ministries v. Glover,* 480 F.3d 891, 906 (9th Cir. 2007). In previous copyright cases, the Ninth Circuit had found that establishing a "reasonable likelihood of success on the merits raises a presumption of irreparable harm." *See, e.g.*, *LGS Architects, Inc. v. Concordia Homes of Nev.*, 434 F.3d 1150, 1155-56 (9th Cir. 2006). Thus, Jacobsen may have brought a copyright claim rather than a contract claim because of the Ninth Circuit's (formerly) low bar for granting a preliminary injunction in copyright cases. However, in a recent non-copyright case, the Supreme Court held that the Ninth Circuit's *possibility* of irreparable harm standard was too lenient and should be replaced with a *probability* of irreparable harm standard. *Winter v. Natural Res. Def. Council, Inc*., 129 S. Ct. 365, 375 (2008) ("Our frequently reiterated standard requires plaintiffs seeking preliminary relief to demonstrate that irreparable injury is *likely* in the absence of an injunction."). Some courts, including the district court conducting further proceedings in *Jacobsen v. Katzer*, have interpreted this holding to mean that the Supreme Court has overruled the Ninth Circuit's presumption of irreparable harm in copyright cases. *Jacobsen v. Katzer*, No. C 06-01905 JSW, 2009 U.S. Dist. LEXIS 1615, at *22-23 (N.D. Cal. Jan. 5, 2009). However, the Ninth Circuit has continued to apply the presumption of irreparable harm in at least some cases. *See, e.g.*, *Marlyn Nutraceuticals, Inc. v. Mucos Pharma, GmbH & Co*., 571 F.3d 873, 877 (9th Cir. 2009).
15. *Jacobsen*, 535 F.3d at 1379.
16. *Id.* at 1376.
17. *Id.*
18. *Id.*
19. *Id.*
20. *Id.*
21. *Id.* at 1373. Jacobsen was able to appeal to the Federal Circuit, instead of the Ninth Circuit, because Jacobsen's claims against Katzer included a request for a declaratory judgment that Jacobsen did not infringe on a patent issued to Katzer, and that the patent was invalid. *Id.* at 1377. Thus, the Federal Circuit had jurisdiction under 28 U.S.C. § 1295.
22. *Jacobsen*, 535 F.3d at 1380.
23. *Sun Microsys., Inc. v. Microsoft Corp*., 188 F.3d 1115, 1121 (9th Cir. 1999).
24. *S.O.S., Inc. v. Payday, Inc*., 886 F.2d 1081, 1087 (9th Cir. 1989).
25. *Jacobsen*, 535 F.3d at 1380-81.
26. *Id*. at 1379.
27. *Id.*
28. *Id.*
29. *Id.*
30. *Id.* at 1381.
31. *Id.* The Federal Circuit looked to California contract law because the case originated in California.
32. *Id.* at 1381-82.
33. The Federal Circuit found that open source licensing can lead to substantial economic benefits. *Id.* at 1379. In particular, programmers can increase the market share of their closed source programs by giving away parts of these programs as free, open source components. *Id*. Source code contributions from the public may serve to improve the quality of the closed source

programs. *Id.* Additionally, the programmers may be able to increase their reputations while doing so. *Id*. Thus, in the Federal Circuit's view, the distribution of the open source software was based on economic motives, even if the associated economic gain was not immediate. *Id. See also Gilliam v. American Broadcasting Companies, Inc.*, 538 F.2d 14, 24 (2d Cir. 1976) ("American copyright law, as presently written, does not recognize moral rights or provide a cause of action for their violation, since the law seeks to vindicate the economic, rather than the personal, rights of authors."). However, authors of copyrighted works may find relief in unfair competition or contract law when their works are mutilated or misrepresented. *Id.*

34. *Jacobsen,* 535 F. 3d at 1382-83.