

## **Jacobsen v. Katzer: Open Source License Validation — How Far Does It Go?**

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On August 13, 2008, the U.S. Court of Appeals for the Federal Circuit issued its opinion in *Jacobsen v. Katzer and Kamind Associates, Inc. (d/b/a KAM Industries)*<sup>3</sup> (“*Jacobsen*”). By this decision, the Federal Circuit has validated the legal position intended by the creators of some of the most important open source licenses: covenants in an open source license may be enforced under copyright law rather than on contractual grounds. This article will examine the ruling and reasoning in this important case, ask some questions unanswered by this ruling, and discuss some additional implications of this case outside of the open source context.

### **Facts and Procedural History<sup>4</sup>**

Jacobsen and Katzer/Kamind were the developers of competing software applications used to program the decoder chips that control model trains. Jacobsen and others, through an open source group known as JMRI, developed software called DecoderPro. DecoderPro was licensed under an open source license: the Artistic License.<sup>5</sup> Katzer/Kamind’s software, Decoder Commander, was presumably developed and licensed under a proprietary license. Katzer obtained patents on certain inventions and then asserted that DecoderPro infringed. In response, Jacobsen filed suit, seeking a declaratory judgment that the patents are unenforceable or not applicable to DecoderPro.<sup>6</sup>

Earlier, a predecessor or employee of Katzer/Kamind had downloaded DecoderPro and incorporated portions of it into Decoder Commander. Despite using some of the DecoderPro code in its product, Katzer/Kamind did not follow the requirements of the Artistic License. Among other things, Jacobsen alleged that Katzer/Kamind did not include (a) the authors’ names, (b) copyright notices for JMRI, (c) references to the file that contains the text of the Artistic License, (d) an identification of JMRI or SourceForge (a web site on which much open source software is managed and made available) as the source of the code, and (e) a description of how the files had been changed by the user.

As a result of these failures, Jacobsen also brought a claim for copyright infringement against Katzer/Kamind. Jacobsen sought an injunction against Katzer/Kamind, seeking to prevent Katzer/Kamind

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<sup>3</sup> 535 F.3d 1373 (Fed. Cir. 2008).

<sup>4</sup> Unless otherwise indicated, the facts are from the Federal Circuit opinion.

<sup>5</sup> The text of the Artistic License can be found at <http://www.opensource.org/licenses/artistic-license-1.0.php>.

<sup>6</sup> It is the patent aspects of this case that gave rise to the Federal Circuit’s jurisdiction, even though the ruling did not address patent issues.

from using any part of DecoderPro. The propriety of granting an injunction was the issue presented on appeal.

Irreparable harm may be presumed in a copyright infringement,<sup>7</sup> while no such presumption exists in a breach of contract context. The question presented was whether the unmet conditions of the Artistic License were (1) conditions of the license grant itself, i.e., if the conditions were violated Katzer/Kamind's use of DecoderPro would be unlicensed and therefore a copyright violation, or (2) contractual covenants for which normal breach of contract principles would apply.

### **Decision, Appeal, Decision**

The District Court denied Jacobsen's motion for preliminary injunction, holding that the violated covenants of the Artistic License were not limitations on the grant of the license itself, but instead may be a breach of contract.<sup>8</sup> This decision was appealed to the Federal Circuit. The Federal Circuit reversed, holding that the violated provisions were conditions to the authorized use of DecoderPro, the violation of which resulting in a copyright infringement.

### **Why This Decision is Important**

#### ***The Reach of Copyright Law***

The U.S. Copyright Act gives a copyright holder certain exclusive rights, and often it is the license of these rights that allows the holder to make money from her work. These rights are to make copies, create derivative works, distribute copies, and in some situations, publicly perform and display the copyrighted work.<sup>9</sup> These exclusive rights are just that: rights to exclude. At face value, the rights to limit copying, distribution, and derivative works do not seem to require someone to affirmatively do something — just not do something. Not surprisingly, in the business world proprietary license grants tend to be based on limiting copying, distribution, and the creation of derivative works.<sup>10</sup> They usually have an exclusionary tone — you can do this, but you can't do these other things, and the only rights you get are expressly set forth.

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<sup>7</sup> On remand, the District Court noted that the standard for injunctive relief had recently changed in the 9<sup>th</sup> Circuit as a result of *Winter*. *Natural Resources Defense Council*, 129 S.Ct. 635 (2008). “In this recent case, the Supreme Court found that the Ninth Circuit's standard of the likelihood of irreparable injury was too lenient and held that a plaintiff must demonstrate that irreparable injury is ‘likely in the absence of an injunction.’ [citation omitted] ‘Issuing a preliminary injunction based only [sic] a possibility of irreparable harm is inconsistent with our characterization of injunctive relief as an extraordinary remedy that may only be awarded upon a clear showing that the plaintiff is entitled to such relief.’” The District Court found that harm to Jacobsen was not “real, imminent and significant” and accordingly denied Jacobsen's request for a preliminary injunction. Jacobsen, 90 USPQ2d 1441, 1449.

<sup>8</sup> *Jacobsen v. Katzer*, No. C 06-01905; 2006 U.S. Dist. LEXIS 79030 (N.D. Cal.).

<sup>9</sup> 17 U.S.C §106.

<sup>10</sup> Patent rights, which are frequently also licensed, address the exclusive right to make, use and sell the applicable invention. Most licenses for software (at least that this author has read) also has language related to “use.” Rights in trade secrets and confidential information, which are also a part of many licenses, normally refer to “use” as well.

There may be other obligations of a party, but most of the time they are not framed as license limitations. For example, if there are non-disclosure provisions in a license agreement, a breach of them does not normally create a copyright infringement unless the license limits are also exceeded. If there is a limitation of damages clause, the remedy for “breach” is not usually perceived to be a copyright infringement action, but the enforcement of a contractual covenant.

Some of the most important open source licenses are different. Originally spurred by the actions of Richard Stallman and the Free Software Foundation, these licenses claim to be licenses only and not agreements.<sup>11</sup> Therefore, a user’s violation of any of the conditions of the license means the user is not licensed and therefore a copyright infringer. The concept of a license as opposed to an agreement is nicely set forth in Section 5 of the GNU General Public License (version 2) (or GPL):

You are not required to accept this License, since you have not signed it. However, nothing else grants you permission to modify or distribute the Program or its derivative works. These actions are prohibited by law if you do not accept this License.

Using a traditional real property metaphor, rights in copyright can be treated as a bundle of sticks. The holder of a copyrighted work, for example, can grant the right to make copies of a work to a licensee only on vinyl records. All other sticks can be retained. If the licensee burns a copy on a CD, she exercises a right she never had. To enforce the restriction, the licensee isn’t required to enter into an agreement; that is simply a right that was never licensed to her. No agreement is required, but nevertheless the prohibition is enforceable under copyright law.

This is a very important distinction for the open source movement, especially for the GPL and its companion, the GNU Lesser General Public License (or LGPL).<sup>12</sup> Relying on almost universal principles of copyright law, the Berne Convention,<sup>13</sup> arguably eliminates the difficulties in creating a single agreement that is enforceable everywhere in the world no matter the local requirements of contract law. Quoting Eben Moglen again:

[G]iven that we are all now existing in a Berne universe, the right way of internationalising is to come as close to Berne Convention mechanisms as possible. In order to do that the one step really needed is to get out of the licence dependence on any single legal system's vocabulary or unique conceptions.<sup>14</sup>

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<sup>11</sup> Eben Moglen, the General Counsel of the Free Software Foundation (the developers of the General Public License or GPL) and a law professor at Columbia, states that “the GPL does not require any promises in return from licensees, it does not need contract enforcement in order to work.” The GPL is a License, Not a Contract, Which is Why the Sky Isn’t Falling, [www.groklaw.net/article.php?story=20031214210634851](http://www.groklaw.net/article.php?story=20031214210634851), December 14, 2003.

<sup>12</sup> As of this writing, a quick check of [www.sourceforge.net](http://www.sourceforge.net), a popular Web site for open source projects, shows that of the over 134,000 open source projects listed, over 100,000 of them are licensed under the GPL or LGPL.

<sup>13</sup> The Berne Convention has been adopted by 164 countries. Berne Convention for the Protection of Literary and Artistic Works, [http://en.wikipedia.org/wiki/Berne\\_Convention\\_for\\_the\\_Protection\\_of\\_Literary\\_and\\_Artistic\\_Works](http://en.wikipedia.org/wiki/Berne_Convention_for_the_Protection_of_Literary_and_Artistic_Works), September 10, 2008. It protects the exclusive rights of copyright holders to reproduce their works (Article 9) and to make alterations to their works (Article 12).

<sup>14</sup> Transcript of Eben Moglen at the Third International GPLv3 Conference; June 22, 2006; transcript available at <http://www.fsfeurope.org/projects/gplv3/barcelona-moglen-transcript.en.html>.

The legal distinction between a copyright infringement and a breach of contract is neither new nor remarkable. No agreement is necessary to prevent someone from making copies or creating derivative works of a book purchased at a bookstore; normally the person purchasing the book has neither met nor entered into any agreement with the book's author.

When an agreement is actually entered into, there are times when a violation of the agreement can be treated as exceeding the scope of the license — and therefore a copyright violation — and when the violation must be treated as a breach of contract.<sup>15</sup>

*Jacobsen* may be a little different from the vinyl and book examples above. The conditions of the Artistic License in question take us a little further than exclusionary concepts in copyright law. They require certain affirmative actions on the part of the user, as opposed to requiring the user not to do certain things. Among other things, as a condition of distribution, the user is required to describe how the files have been changed and identify JMRI or SourceForge as the author of the code. Is the requiring of an affirmative action one of the sticks that is owned by a copyright holder?<sup>16</sup>

The Federal Circuit held that these requirements are conditions to the grant of the copyright license. Therefore, any use of DecoderPro while not complying with these affirmative conditions is a copyright infringement. Assuming that the other requirements for an injunction are met,<sup>17</sup> an injunction is an appropriate remedy in a copyright infringement case. This decision makes clear that some affirmative acts can be required as a condition of the right to use a copyrighted work. Whether this decision will allow more extensive affirmative acts to be license conditions will be discussed below.

### ***Adoption of Open Source by the Court***

This case is a major win for the open source movement. For the first time, a court has recognized and validated that affirmative covenants can be enforced in an open source license. One cannot read this case without realizing how deeply the Federal Circuit bought into open source as an important, valuable, strong model for the development of computer software. If this decision is any harbinger of court treatment of open source licenses in the future, the risks of a court refusing to enforce all or parts of open source licenses have just gotten much lower. If the lower court's decision had been affirmed, the underlying premise behind the enforcement of the GPL and LGPL worldwide would have taken a serious hit.

### ***Special Words***

*Jacobsen* gives those of us who draft and interpret software licenses some important language lessons. If you want to have a provision of a license agreement interpreted as a condition of the license rather than a contractual covenant, *Jacobsen* provides a guide. The court placed heavy reliance on the use

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<sup>15</sup> See generally 3 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 10.15[A].

<sup>16</sup> The author recognizes that at times there is little difference between affirmative and exclusionary requirements. For example, there is little difference between a license to use software only when standing on one's left foot and a license requiring one to raise one's right leg. Nevertheless, the presence of a blurred edge to this dichotomy may not be helpful in more clear cut situations. For example, limiting one's liability as a condition of a license may not be a stick in the bundle of rights of a copyright holder.

<sup>17</sup> But see note 7.

in the Artistic License of the word “condition” as opposed to “covenant”. The court also found that the use of “provided that” as a part of the sentences that governed copying, distribution, and creating derivative works is evidence that the intent was to create a license limitation rather than a contractual covenant.

It may be useful to compare *Jacobsen* to another decision: *Fantastic Fakes, Inc. v. Pickwick Int’l, Inc.*<sup>18</sup> In *Fantastic Fakes*, the plaintiff argued that the defendant’s failure to affix proper copyright notices on copies of the copyrighted works was unauthorized and therefore a copyright infringement rather than just a breach of contract. The license granted the right to use the works “*subject to and in accordance with* the following: ... ‘LICENSEE’ shall cause to appear on all sound recordings ... a copyright notice...” (emphasis supplied). The Fifth Circuit held that “subject to” and “in accordance with” was ambiguous. Applying three contract construction principles under Georgia law<sup>19</sup>— a bias towards construing provisions as covenants rather than conditions, a bias towards avoiding a forfeiture, and a bias interpreting the agreement against the drafter — the court held that the provision was a contractual covenant rather than a condition of the license.

*Jacobsen* and *Fantastic Fakes*, both involving the failure to comply with a requirement to place copyright notices on copies, came to opposite results. In *Jacobsen*, the license used “provided that” and “condition” while in *Fantastic Fakes* the license used “subject to” and “in accordance with.” If a lawyer wants to draft a provision that allows the force of copyright law to be available for its breach, the use of “covenant” and “provided that” is supported by *Jacobsen*.

Given the importance of the differences between contract and copyright causes of action and the lack of certainty related to which words will result in which judicial treatment, this would seem to be an area that will be explored by the courts in the future. As of this writing, however, this author could find no published opinion that uses *Jacobsen* in making such an analysis.

### ***Importance of the “Little Provisions” of Open Source Licenses***

There is another very important practice pointer coming out of *Jacobsen*. Many companies and their lawyers view the use of “academic licenses” as being fair game for use in their software development efforts. While the use of software licensed under the BSD license, for example, does not carry the potential risk of unintended consequences of software licensed under a strong “copyleft” license (like the GPL), there are still actions that you must take. For example, the BSD license provides as follows:

Redistribution and use in source and binary forms, with or without modification, are permitted *provided that* the following conditions are met: ...

Redistributions in binary form must reproduce the above copyright notice, this list of conditions and the following disclaimer in the documentation and/or other materials provided with the distribution. [emphasis supplied]

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<sup>18</sup> 661 F.2d 479 (5<sup>th</sup> Cir. 1981).

<sup>19</sup> *Jacobsen* and *Fantastic Fakes* are consistent in their application of state law to the interpretation of the language of the license. In that regard, open source licenses may still be limited to the vagaries of local law.

Other “academic licenses” have similar requirements. The absence of compliance with these kinds of provisions is just the kind of non-compliance that gave rise to a copyright infringement in *Jacobsen*. Counsel to developers of software should seriously consider stressing the need to comply with these provisions. This may also require some redrafting of existing corporate open source use policies.

### ***Playing Out the String: Other Ramifications and Unanswered Questions***

While the court in *Jacobsen* held that affirmative requirements could be conditions of a license, how far will courts take this in the future? The applicable covenants in *Jacobsen* were at least “copyright-like,” in that they related to attribution, identifying derivative works, and preserving rights in copyright by using copyright symbols on copies. Would a court treat a clause the same way if the subject matter was further removed from the exclusive rights granted to copyright holders?

It is also important as a drafter of a license to ask yourself whether you want a provision to be enforced as a contractual covenant or as a copyright infringement. There are potential consequences of either approach.

For example, most open source licenses have broad limitation of liability clauses. Let’s suppose that a developer licenses his software to third parties under an open source license containing a “condition” that purports to exonerate the licensor from all liability whatsoever. A user obtains the software and suffers a data loss as a result of a problem with the software. The user then sues the developer for damages related to the data loss, seeking to avoid the absolute limitation of liability in the open source license. What rights do the parties have in this situation? Here are a few options for how a court might treat this case.

- By seeking damages, the user has not lived up to the *conditions* of the license grant, so the user is an infringer and therefore liable for copyright damages associated with the unlicensed use of the software. However, because there is no *agreement* to limit liability, only a license, the limitation of liability clause is a condition of the license but not a limitation on the user’s right to pursue a damages claim. In essence, this formulation gives the developer a counterclaim, but the user’s claim is not blocked by the license.
- Same result as in the first option, except that the measure of damages for the copyright infringement includes the amount of damages that would be paid by the developer to the user as a result of the user’s claim. This kind of ruling would enforce the limitation of liability clause indirectly through a copyright cause of action.<sup>20</sup>
- The limitation of liability clause is interpreted as a contractual covenant and not a license condition.

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<sup>20</sup> It would be interesting to see if a court would interpret 17 U.S.C. § 504(b) as extending to these kinds of damages. The statute provides that “[t]he copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.”

- While the limitation of liability only gives a copyright remedy, principles of equity will cause it to be enforced as if it was agreed by the user.
- The limitation of liability clause is actually enforceable as a limitation under some theory that while the license terms were not contractually agreed, they were somehow "accepted" through the use of the software. This in essence enforces a license term as a contractual term even if it isn't agreed by contract. There are portions of the GNU General Public License that seem to contemplate the distinction between "acceptance," on the one hand, and "agreement," on the other.<sup>21</sup>

While the reader may prefer one option over others, or can think of other options, one can see that the ramifications of *Jacobsen* for other clauses that are common in open source licenses are not clear at this point. Only time will tell how far the reasoning in this case will be taken.

### *Web Site Terms of Use*

If open source licenses can have affirmative conditions that are copyright-based limitations, what about terms of use set forth on web sites? Could the concepts in *Jacobsen* also be used to create additional remedies if terms of use are violated? There would seem to be no logical reason not to expand the court's reasoning to other forms of licenses.

In addition, there are a line of cases about when terms of use can be enforceable, based on what kind of notice is given on the web site.<sup>22</sup> These cases focus on the issue of reasonable notice to the user, such as font size, placement of the hypertext link to the terms, etc. Would this analysis be any different for a license instead of an agreement? After all, no assent is needed for a license. The licensor is just giving away sticks.

Even though the standards of notice under contract formation and license grant scenarios may be different, the drafter of web site terms and conditions may want to avoid using a covenant for those requirements that are not closely related to the exclusive rights in copyright. A drafter may decide to avoid the possibility of an unintended result by making those kinds of clauses covenants and not conditions.

## **Conclusion**

*Jacobsen* clearly endorses the open source movement. However, important issues regarding the enforceability of other clauses in open source licenses, and how they are enforced, may not have been answered in this case. *Jacobsen* highlights the need to be sensitive to the differences between conditions and covenants in license drafting, as well as placing renewed attention on the requirements of academic and other open source licenses that do not contain strong copyleft attributes.

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<sup>21</sup> A quick word search of the GPL v.3 shows that the word "agree" does not appear in the context of a licensee agreeing to anything; however "accept" does.

<sup>22</sup> See, e.g., *Specht v. Netscape Communications Corp.*, 150 F.Supp.2d 585 (S.D.N.Y. 2001).