

September 23, 2003

How the Pending SCO Open Source Software Litigation May Affect Your Organization

Litigation currently pending in Utah relating to open source software has the potential to drastically affect your organization, both financially and legally. In March 2003, SCO, a small Utah software development company, sued IBM, the information technology leader, for trade secret misappropriation and breach of contract. SCO alleged that IBM misappropriated SCO's UNIX operating system and released it for incorporation into Linux, the freeware operating system currently running on many corporate computer systems. While only IBM has been named in the current litigation, the outcome may directly affect any organization that utilizes Linux or other open source software. Most organizations use some type of open source software, such as the Linux operating system, SendMail for e-mail message delivery, BIND for domain name services, OpenSSL for secure Internet communication, or Apache Internet server software. If SCO is successful, there may be a large number of cases to follow involving numerous organizations and demands for large retroactive licensing fees, not just relating to Linux, but possibly other open source software as well.

In furtherance of its Linux assault, SCO sent letters notifying 1,500 U.S. corporations of SCO's alleged intellectual property in the UNIX code and of its theory that portions of the Linux operating system may be an "unauthorized derivative" of UNIX. To bolster its position, SCO has acquired copyright registrations for certain UNIX code and will presumably add claims of copyright infringement to its pending IBM lawsuit. Its next tactic will likely include more notification letters granting corporations a limited "grace period" to license SCO's software to avoid litigation.

In an attempt to protect Linux users from SCO's assertions, Red Hat, the world's leading provider of Linux and other open source software, announced on August 4 that it has filed its own defensive suit against SCO requesting a declaration from the court that SCO does not have any intellectual property rights that it can assert against Linux users. SCO responded by filing a motion to dismiss and stating that it will assert counterclaims against Red Hat, including claims of copyright infringement and conspiracy, but SCO has not yet done so, or even identified which aspects of Linux it claims are derived from its UNIX code. Red Hat has also contributed \$1 million to a legal defense fund for the purpose of protecting innocent Linux users who might be sued by SCO.

Since the outcomes of the pending IBM and Red Hat lawsuits are uncertain, it is unclear how companies should respond to SCO's

demands at this time. That is not to say, however, that SCO's notification letters should be disregarded, because there are many factors to be considered, including, for example, weighing the risks associated with any potential legal liabilities against the economic benefits that a company may derive from using Linux instead of a proprietary system such as UNIX or Windows.

Linux and the Open Source Background

In the 1970s, AT&T developed an operating system called UNIX to run its telecommunications switching network. Since UNIX's introduction, AT&T and many other companies developed many versions of UNIX and each contended to have intellectual property rights in their own version. AT&T and these other companies subsequently separately licensed their versions of UNIX software to end users and developers, including IBM. Accordingly, IBM was granted a license to disassemble the UNIX code and to incorporate it into its systems. Today, some version of UNIX runs a majority of Internet servers and mainframes, essentially the backbone of the Internet.

In the early 1990s, a programmer named Linus Torvalds wanted to break the universal software exclusive rights mentality, and therefore created an operating system called "Linux" (Linus + UNIX), which is similar to, but created independently of, UNIX. Linux was dedicated open and free, with the requirement that any user who thereafter improved the code could not charge others to use it. Linux has since grown exponentially and is arguably one of the most powerful operating systems available due to its open source architecture.

Linux, like other open source software, is based solely on the premise that end users are encouraged to improve the software and release enhancements without charge and without asserting intellectual property rights. The core of this notion is the General Public License ("GPL"), which stipulates that an upstream user can improve and build upon the code of Linux, only if the upstream user does not assert any intellectual properties rights against future downstream users using that improved code. In essence, the GPL encourages continual improvements in a pyramidal fashion - every downstream user is encouraged to become an upstream user by improving the code and passing it on.

This newsletter is one of a number of publications produced by the firm. For a wide selection of other such publications, please visit us online at www.seyfarth.com.

Copyright © 2003 Seyfarth Shaw LLP

All rights reserved.

In 2000, IBM decided to jump on the Linux bandwagon and installed Linux on many of the personal computers it sold, as well as many of its large internal mainframe systems. In accordance with the GPL, IBM made improvements and subsequently released the improvements to the public in an open source format. In the meantime, SCO was acquiring many of the versions of the older UNIX code that were being licensed to others.

SCO's Claims

While the GPL grants anyone privy to the license agreement the right to use the open source software without threat of intellectual property infringement from an upstream user, the problem arises when a third party not privy to the GPL has its intellectual property unwillingly incorporated into the open source software. That is the sum of SCO's claim against IBM.

SCO, relying on its status as a successor-in-interest to the licensors and owners of various versions of UNIX, claims that IBM disassembled the UNIX code under a license, gained valuable trade secret information, and misappropriated that information by releasing portions of the UNIX code for incorporation into the Linux code. Accordingly, SCO has included counts of breach of contract and misappropriation of trade secrets.

SCO may also assert a copyright infringement claim, based on its recent copyright registrations of the UNIX code it acquired and the allegation that IBM copied, line-by-line, that UNIX code into Linux. To support this claim, SCO will need to prove that either Linux has exact UNIX code or that Linux is an unauthorized derivative work of UNIX, a claim which may be difficult due to the passage of time and the countless enhancements to Linux in that period.

Legal Obstacles SCO Must Overcome

While SCO's claims may be arguably plausible, and a court may ultimately hold in its favor, the cards appear to be currently stacked against it.

The first problem SCO faces is that it must prove it has the right to bring this action. More specifically, even if SCO acquired the UNIX intellectual property rights from other organizations, such granted rights may be void if the organizations previously granted the same rights to others, or if the organizations had otherwise relinquished such rights prior to SCO acquiring the UNIX code, the applicable principle here being that you can't sell what you don't own.

Second, until the filing of its lawsuit, SCO embraced Linux by releasing its own improved Linux code. As a result, even if any of UNIX's code is found within Linux, SCO may lose on an equitable theory of waiver, because when SCO improved the Linux code, it necessarily gave up its intellectual property rights, possibly including those of its allegedly embedded trade secrets, pursuant to the GPL.

Third, since IBM's version of Linux was released in 2000, the question remains as to why SCO took three years to file its present lawsuit. Due to Linux's known popularity, the court may equitably hold that laches, waiver or estoppel applies, thus negating SCO's claims.

Fourth, if SCO attempts to utilize its alleged successor-in-interest role to enforce the IBM license agreement, SCO will also be bound to any limitations contained in the terms and conditions of those agreements.

Finally, even assuming that SCO proves it has intellectual property rights in the UNIX code, it must also prove that IBM violated those rights by incorporating protectable trade secret information from UNIX into Linux, and not simply the knowledge and wisdom that IBM gained by virtue of its skill in computer programming. Because IBM is known for its information technology research and development capabilities, this may be a difficult proposition to prove.

If you have any questions or concerns regarding the present SCO litigation, have received a notification letter from SCO or would like more information or counseling to minimize your organization's exposure to any potential intellectual property claims stemming from the use of open source software, please contact Alan Unikel at (312)346-8000 or e-mail aunikel@seyfarth.com.

ATLANTA

One Peachtree Pointe
1545 Peachtree Street, N.E., Suite 700
Atlanta, Georgia 30309-2401
404-885-1500
404-892-7056 fax

BOSTON

Two Seaport Lane, Suite 300
Boston, Massachusetts 02210
617-946-4800
617-946-4801 fax

CHICAGO

55 East Monroe Street, Suite 4200
Chicago, Illinois 60603-5803
312-346-8000
312-269-8869 fax

HOUSTON

700 Louisiana Street, Suite 3850
Houston, Texas 77002-2731
713-225-2300
713-225-2340 fax

LOS ANGELES

One Century Plaza
2029 Century Park East, Suite 3300
Los Angeles, California 90067-3063
310-277-7200
310-201-5219 fax

NEW YORK

1270 Avenue of the Americas, Suite 2500
New York, New York 10020-1801
212-218-5500
212-218-5526 fax

SACRAMENTO

400 Capitol Mall, Suite 2350
Sacramento, California 95814-4428
916-448-0159
916-558-4839 fax

SAN FRANCISCO

101 California Street, Suite 2900
San Francisco, California 94111-5858
415-397-2823
415-397-8549 fax

WASHINGTON, D.C.

815 Connecticut Avenue, N.W., Suite 500
Washington, D.C. 20006-4004
202-463-2400
202-828-5393 fax

BRUSSELS

Boulevard du Souverain 280
1160 Brussels, Belgium
011-32-2-647-60-25