



FENWICK & WEST LLP



Intellectual Property Bulletin

Fenwick & West LLP — Summer 2000



FENWICK & WEST LLP

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Table of Contents

New Cases Address the Scope of the Fair-Use Doctrine on the Internet	1
Tips, Tricks and Strategies for Getting Your Patent Rights Right Away	4
Quick Updates	8
Offer to Sell Parts to Assemble Patented Device Abroad does not Infringe Patent	8
2nd Circuit Clarifies Requirement of Novelty for Misappropriation Claim Founded in Contract	8
Courts not Bound by ICANN Decisions	9
“Famous Names” Finding Protection Under ICANN	10
Editorial Staff	11

New Cases Address the Scope of the Fair-Use Doctrine on the Internet

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The Internet has given rise to myriad novel copyright issues, to which the courts have as yet provided few answers. In the past six months, however, three federal district courts have addressed the scope of the fair-use doctrine on the Internet. *UMG Recordings v. MP3.com Inc.*, 92 F. Supp. 2d 349 (S.D.N.Y. May 4, 2000); *Los Angeles Times v. Free Republic*, 54 U.S.P.Q. 2d 1453 (C.D. Cal. 2000); and *Kelly v. Arriba Soft Corp.*, 77 F. Supp. 2d 1116 (C.D. Cal. 1999).

The Copyright Act provides that certain unauthorized activities that would otherwise constitute infringement are permitted as “fair uses.” Section 107 of the Copyright Act sets forth four nonexclusive factors that must be considered in determining whether the fair-use doctrine applies: “(1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.”

“Purpose and character” also includes consideration of whether “the new work merely supersedes the objects of the original creation, or instead adds something new, with a further purpose or different character, altering the first [work] with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is transformative.” *Campbell v. Acuff-Rose Music*, 510 U.S. 569 (1994).

In the three recent Internet fair-use cases, consideration of “transformativeness” was emphasized. In *MP3.com*, the defendant had purchased tens of thousands of CDs and copied them onto its servers in MP3 format. Once a subscriber “proved” that he or she owned a copy of a recording by inserting a commercial CD into the drive of the computer, the defendant’s service allowed the subscriber to access and play the music from anywhere. *MP3.com* asserted that such wholesale acts of unauthorized copying and distribution were fair uses, on the theory that they were the “functional equivalent” of storing its subscribers’ CDs for them for “space shifting” purposes.

The court summarily denied *MP3.com*’s defense. The court found nothing remotely transformative. The defendant added no “new aesthetics, new insights or understandings” to the original music but “simply repackage[d] those recordings to facilitate their transmission through another medium.” The court concluded: “While such services may be innovative, they are not transformative.”

Arriba Soft and Free Republic posed more difficult issues. Arriba operated a visual search engine that permitted Internet users to search the Web for images. Arriba's automated "crawler" collected two million such images for display in response to search queries. Results were displayed in the form of "thumbnail"-size copies of pictures, and a link to the original site was provided. Transformative? The Arriba court held yes.

Free Republic ran an online "bulletin board." Its members posted the entire text of news articles in which they were interested, and they and other visitors added their comments on political and social issues. Transformative? The Free Republic court held no.

In Arriba Soft, it might have been reasonable to wonder whether, once the images had been located and displayed, most users really used the site in order to go to the linked site that was the source of the located photos—that is, whether the site really functioned as a search engine, as opposed to an enormous collection of images on all subjects. But the court had no doubt about the character of Arriba's use: "Plaintiff's photographs are artistic works used for illustrative purposes. Defendant's visual search engine is designed to catalog and improve access to images on the Internet. The character of the thumbnail index is not esthetic, but functional; its purpose is not to be artistic, but to be comprehensive."

In Free Republic, on the other hand, the court summarily ruled that the use was neither transformative nor a fair use—notwithstanding that the articles were reproduced for purposes of "comment," one of the explicit examples of fair use mentioned in the Copyright Act. Critical to that determination was evidence showing that the comments on the site focused on the underlying news, not on the articles themselves, and the fact that the articles were copied in their entirety. The court stated that such complete, verbatim copying was not "necessary" for the purpose of commentary and that the Free Republic postings could simply have provided links to the actual news articles.

Actual Internet users might well, however, find tiresome the need to jump from site to site in order to read first an article and then the commentary, and such a requirement could present a significant impediment to the interactive, public discussion of the news that Free Republic was trying to promote. But the Free Republic court provided little "breathing room" for the broader purpose underlying the bulletin board—namely, facilitating the transformation of passive consumers of news into active participants.

Contrast the Free Republic court's grudging view with the words of encouragement from Arriba Soft: "Where . . . a new use and new technology are evolving, the broad transformative purpose of the use weighs more heavily than the inevitable flaws in its early states of development."

Whether a court perceives a use as “new” may heavily influence the outcome. The Free Republic court probably concluded that nothing really all that new was going on. The Arriba Soft court, on the other hand, was clear that it was addressing a case of first impression; and the court did not liken a visual search engine to a catalog, collection of photos or anything else.

The Arriba Soft court’s determination that the visual search engine was a new use influenced the rest of the analysis. One could argue, for example, that the third factor, “the amount and substantiality of the portion [of the copyrighted work] used,” should weigh against Arriba, since the thumbnail photos appear to be perfect (if small) reproductions of the originals. Not so, the court concluded, because the thumbnails are inferior in quality and because thumbnails should be seen as a taking of only as much as was needed for the transformative purpose.

A court can choose a wide angle or a telephoto lens when it focuses on the use at issue. In Arriba Soft, the wide-angle approach puts the plaintiff’s images in the context of the two million other images that the defendant had copied and of its Internet use–facilitating purpose. In Free Republic, the court zooms in on the articles themselves, emphasizing that the original postings were often accompanied by little commentary.

Treatment of the final statutory fair-use factor (the effect of the use on the copied work’s market or value) was illuminating. In each case, the defendant argued that its actions actually redounded to the plaintiff’s benefit. However, the copyright holders’ response has been, “Don’t do me any favors,” and these courts either did not believe the defendant’s argument or else were unwilling to view that as legally sufficient in the context of the facts of the case.

In MP3.com, for example, the defendant asserted that its activities could only enhance the plaintiffs’ CD sales. The court concluded that this kind of supposed “help” was not cognizable even if true: “Any allegedly positive impact of defendant’s activities on plaintiff’s prior market in no way frees defendant to usurp a further market that directly derives from reproduction of the plaintiffs’ copyrighted works.”

Similarly, Free Republic tried to prove that the plaintiffs were not deprived of advertising-derived revenue based on site traffic because Free Republic referrals generated tens or hundreds of thousands of additional hits per month. The court scrutinized the evidence closely, however, and found it wanting. More important, the point was held irrelevant, because the plaintiffs were themselves attempting to exploit online markets, and the Free Republic site “has the potential to interfere with these markets.”

In *Arriba Soft*, too, the defendant asserted that its search engine helped the plaintiff by directing traffic to the plaintiff's site. The plaintiff responded that he was harmed notwithstanding because the search engine provided Web surfers with "deep links" to the interior pages of his site. This meant, first, that advertising on the plaintiff's home page would be bypassed, and second, that users would be less likely to view the site's overall promotional message. The court dismissed these points, stating: "Plaintiff has shown no evidence of any harm or adverse impact."

The court probably had in mind the plaintiff's failure to quantify the dollar impact of the harm. The court states: "The defendant has met its burden by offering evidence tending to show a lack of market harm, and Plaintiff has not refuted that evidence."

These first cases on copyright fair use on the Internet are not a seamless web, so to speak. They suggest that the assessment of transformativeness will be very important, and this factor will often shape the remaining fair-use factors when a court decides what is fair use on the Web.

Tips, Tricks and Strategies for Getting Your Patent Rights Right Away

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The competitive value of Internet, business method, or software patents is often in their functional features that are exposed when the invention is made commercially available. A patent on these types of inventions provides both a lengthy term of protection, approximating 17 years, and broad exclusionary rights against those who may copy the inventive functionality. However, this protection is only after the patent issues, which often takes more than three years.

In the world of "Internet time," three years may be more than the lifetime of a company. A patent procured after three or more years may be of little value to a young company whose inventions are directly copied by a competitor. Quick issuance of patents may be a key component of an aggressive patent strategy, particularly where there is an intent to license or litigate the patent. This article provides various practice tips and strategies for expediting the issuance of patents.

Early issuance of patents can only occur with early filing of patent applications. For this reason, many companies wisely have procedures in place to identify inventions early on in product development. By themselves, patent programs that depend on inventors to volunteer disclosures, even with significant incentives, are prone to catch inventions at the

tail end of development, if at all. Since time-to-market is often critical to the success of a company, tight schedules give inventors very little time to identify their inventions, let alone provide the details for a patent application, even after a product release.

To combat this problem, a patent program should incorporate the technology strategy of the company, considering the product or market segments it competes in and which of the company's technologies support these segments. A patent attorney can then actively investigate what inventions are being made in each of these areas, and task inventors to provide the necessary documentation.

Once inventions have been identified, early filing is the next step. Provisional applications have become a very popular tool to accomplish this step. Provisional applications provide inventors with a filing date on the inventions disclosed and enabled in the provisional patent application. While this filing date is useful to close off later prior art from being cited against the patent application, in and of itself it does not help speed up issuance of the patent. This is because the provisional application is not examined by the Patent and Trademark Office ("PTO"). Instead, the provisional application must first be converted to a utility patent application that is examined according to its own actual filing date, not the provisional filing date. Accordingly, it's best to start the conversion process immediately after the provisional application is filed.

Early issuance of a patent mainly depends on early examination by a patent examiner. Normally, the PTO examines applications in the order of their filing date. However, certain procedures are available that can accelerate examination. The most common of these is the Petition to Make Special, as provided in 37 C.F.R. §1.102. This process places an application in a separate examination queue that gets priority treatment. There are several different grounds upon which an application may be made special, but two of the most commonly used are (i) actual infringement of the prospective claims of the patent, and (ii) completion and analysis of a prior art search.

For actual infringement, the applicant must state on the record that (a) there is an infringing device or product actually on the market or method in use; (b) a rigid comparison has been made between the alleged infringing device, product or method and the claims of the application, and some of the claims are unquestionably infringed; and (c) a careful and thorough search of the prior art has been made or the applicant has good knowledge of the prior art. Copies of prior art references from such a search must be provided to the patent examiner. This approach was used by Amazon.com for its One Click patent and helped get the patent issued in time to obtain an injunction against BarnesandNoble.com for patent infringement right before the 1999 holiday season.

Alternatively, the applicant can provide the results of a prior art search, along with a detailed discussion of how the claims are patentable over the prior art references.

The PTO's Manual of Patent Examining Procedure describes the requirements for this type of petition but omits some of the finer points. First, timing of the Petition to Make Special is crucial. Experience suggests that filing the Petition to Make Special at the same time as the patent application is not desirable. Because the application is not assigned a serial number yet, the petition papers cannot be easily matched to the application file, and this delays handling of the petition and routing it to the appropriate examiner for consideration. Thus, the petition should be filed after the serial number has been assigned.

Second, these petitions are decided by the Special Program Examiner in the examination group that handles the particular technology of the invention. A telephone call should be placed to the Special Program Examiner ahead of time informing him to expect the petition, and offering to be available by telephone to answer any questions regarding the petition. This call should be followed up by filing the petition by facsimile if at all possible to ensure immediate consideration. These petitions should normally be decided within 45 days. Thus, a follow-up telephone call to the Examiner 30 days after the filing keeps the decision process on track. This avoids the unfortunate circumstance of the petition's languishing for many months and vitiating the entire purpose of the procedure.

Once the petition is granted, an official action reviewing the claims is typically issued within three months. Again, a telephone call to the examiner to confirm this expectation and provide further background or discussion of the invention may be beneficial, since the references are already available for discussion.

The Petition to Make Special process may also be combined with international patent procedures to further accelerate examination of the application. The Patent Cooperation Treaty ("PCT") is a mechanism by which patent applicants can file an international patent application, designating various countries in which direct national patent applications may be later filed. The applicant designates a patent office, typically either the PTO or the European Patent Office, to be the International Search Authority that prepares the International Search Report that identifies pertinent prior art to the invention.

Many companies wait the full year allowed by the PCT and U.S. law in which to file the PCT application. However, a PCT application can be filed at the same time as the U.S. application. If so filed, then the International Search Report must be prepared within 9 months (PCT Rule 42.1), well ahead of the typical time the PTO issues a first official action, which is typically 18 to 24 months.

The key here is to designate the PTO as the International Search Authority, so that a U.S. patent examiner prepares the International Search Report. After the Search Report is received, a telephone call to the examiner informs him that there is a corresponding U.S. patent application and politely suggests that he consider issuing the first official action in that application. The examiner is inclined to do this because it helps reduce his caseload, effectively applying the single search to two patent applications.

If the examiner is not inclined to issue the first official action, then the International Search Report can be used as the basis of the search-based Petition to Make Special described above. The search carries the imprimatur of completeness and accuracy, having been conducted by a U.S. patent examiner. Following the guidelines above, the petition should be readily granted, and the first official action issued by the examiner.

Getting an early first official action is good, but getting a first action allowance of the claims of the patent is better. Many attorneys typically file with one or two independent claims and many dependent claims, both to reduce filing fees and to have the option later to choose which dependent claims to incorporate into the independent claims to obtain allowance. This works, but not for early issuance. To succeed here, file the application with, for example, five to ten independent claims of varying scope, detail and form (*e.g.*, system, method, Web site, computer program product, means for, apparatus, etc.). This gives the examiner a broad array of different possible claims to identify as being allowable, even if others are not. The attorney can then cancel the rejected claims and proceed to issuance of the patent on the allowed claims.

Getting claims allowed quickly is great, but getting the patent issued is the goal. Two primary roadblocks can slow down issuance once the case is allowed: matching the issue fee payment with the file, and getting formal drawings approved. Many practitioners used to wait until allowance of the claims before formalizing patent drawings, in order to delay the expense. However, this can seriously delay issuance of the patent, sometimes for over six months. Accordingly, file formal drawings early, preferably before the first official action. If you do have to file late, call the examiner and arrange to have the drawings personally delivered (or overnight mailed) to him, and ask him to hand carry them to the draftsman for immediate review and approval.

Finally, to avoid the delay of matching the issue fee payment, prepay this amount or authorize the Patent and Trademark Office to charge the attorney's deposit account upon mailing of the notice of allowance. These steps can result in the patent's issuing in as little as three weeks following the notice of allowance (if the issue fee is prepaid).

Quick Updates

Offer to Sell Parts to Assemble Patented Device Abroad does not Infringe Patent

In *Rotec Industries v. Mitsubishi Corp.*, No. 99-1275, 2000 U.S. App. LEXIS 13563 (Fed. Cir. June 13, 2000), the Federal Circuit ruled that an offer to sell components of an infringing device for assembly outside of the United States does not infringe a patent under 35 U.S.C. §§ 271(a) or 271(f)(2). The plaintiff, Rotec, holds a patent (4,170,291 or the “’291 patent”) for a tower crane–supported conveyer belt system used on large construction projects. Four defendants, three from outside the United States and one from the United States, joined together to bid on a construction project in China. The bid included supplying components for a conveyer system to be partially designed by the United States–based defendant.

Rotec argued that, under Sections 271(a) and 271(f)(2), the defendants “offered to sell” the invention claimed in the ’291 patent. The defendants countered that they did not offer to sell the entire invention and, therefore, did not infringe under Section 271(a). Moreover, because the defendants did not supply or cause to be supplied any component of the ’291 patent from or in the United States, they did not infringe under Section 271(f)(2). The district court agreed and granted the defendants summary judgment on both grounds.

Rotec appealed, but the Federal Circuit affirmed. With regard to Section 271(a), the Federal Circuit reasoned that neither Congress nor the legislative history defined an “offer for sale.” Hence, the Federal Circuit used the ordinary contract law meaning of that term. Under that standard, the Court ruled that there was no admissible evidence that the defendants communicated with a third party to sell the infringing components to the detriment of Rotec. Thus, the defendants did not infringe under Section 271(a). With regard to Section 271(f)(2), the Federal Circuit reasoned that this section only applies to those who “supply” or “cause to supply” any component of a patented invention in or from the United States. Here, because the components were manufactured in either China or Japan, the defendants did not infringe under Section 271(f)(2).

2nd Circuit Clarifies Requirement of Novelty for Misappropriation Claim Founded in Contract

In *Nadel v. Play-By-Play Toys & Novelties*, 208 F.3d 368 (2d Cir. 2000), the 2nd Circuit addressed the requirement of novelty in the misappropriation context as it applies to claims founded in contract law. In 1996, Nadel developed an idea for a new toy. He placed an “eccentric” mechanism into a plush toy monkey, which sat upright. The monkey would emit sounds and spin when placed on a flat surface. In October 1996, Nadel met with an executive at Play-By-Play Toys and Novelties and revealed his idea. Although Play-By-Play indicated an interest in Nadel’s idea, the two parties never entered into any formal contract. Shortly thereafter, Play-By-Play started manufacturing a similar toy.

Nadel sued Play-By-Play for breach of implied contract, unfair competition and misappropriation. The District Court granted Play-By-Play's motion for summary judgment and dismissed Nadel's claims. The District Court stated that a party is not entitled to recover for a theft of an idea unless the idea is novel or original. Applying this principle to Nadel's claims, the District Court concluded that even if the spinning toy concept were novel to Play-By-Play at the time that Nadel made his disclosure, Nadel's claims should nonetheless fail for lack of novelty or originality because numerous toys containing the same or similar characteristics were in existence at the time.

The 2nd Circuit reversed and stated that a finding of novelty as to Play-By-Play at the time of the disclosure would be sufficient to support a claim for misappropriation based upon contract, even if the parties had never formed a contract. The 2nd Circuit went on to differentiate the novelty requirement for a misappropriation claim founded in property. In its analysis, the 2nd Circuit explained that, in a misappropriation case founded in contract, a "novelty to the buyer" standard was appropriate because while the idea may be unoriginal or non-novel in a general sense, it may have substantial value to a particular buyer who is unaware of the idea and willing to enter into a contract to exploit it. Accordingly, the misappropriation of an idea in that sense has value to the buyer. In contrast to claims founded in contract, misappropriation claims founded in property arise from the taking of an idea that is original or novel in absolute terms. The 2nd Circuit reiterated that "the law of property does not protect against the misappropriation or theft of that which is free to all." 208 F.3d at 378 (citing *Murray v. National Broad. Co.*, 844 F.2d 988, 993 (2nd Cir. 1988)).

Courts not Bound by ICANN Decisions

In a case of first impression, the court in *Weber-Stephen Prods. Co. v. Armitage Hardware and Building Supply*, 54 USPQ 2d (BNA) 1766 (N.D. Ill. 2000) held that courts are not bound by the decision of an administrative proceeding before the Internet Corporation for Assigned Names and Numbers ("ICANN") concerning the right to use a particular domain name. The plaintiff in *Weber-Stephen* filed a complaint with ICANN under the Uniform Dispute Resolution Policy ("UDRP") requesting transfer of several domains from the defendant and simultaneously brought an action in federal court claiming "cyberpiracy" and trademark infringement. The defendant asked the court to declare the ICANN administrative proceeding nonbinding on the court and to stay the federal court action pending the outcome of the administrative proceeding or, in the alternative, to stay the ICANN proceeding pending the court's decision. In holding that the courts are not bound by the outcome of ICANN administrative proceedings, the court noted that the language of the ICANN policy suggests that the administrative panel's decisions are not intended to be binding on federal courts. The court further noted that the ICANN policy and its accompanying rules contemplate the possibility of parallel proceedings in federal court and grant the reviewing administrative

panel the discretion to decide whether to suspend or terminate the administrative proceeding, or whether to decide the issues before it. The court in *Weber-Stephen*, therefore, refused to stay the pending ICANN administrative action, reasoning that both parties in the present case had adequate avenues of recourse if they were unhappy with the administrative panel's decision. Consequently, the court stayed the federal action pending the outcome of the ICANN proceedings.

“Famous Names” Finding Protection Under ICANN

Two recent decisions by administrative panels before the Internet Corporation for Assigned Names and Numbers (“ICANN”) have awarded domains incorporating celebrities’ names to the plaintiff-celebrity.

In the first decision of its kind, an administrative panel ordered transfer of the domains *jeanettewinterson.com*, *jeanettewinterson.org* and *jeanettewinterson.net* from the defendant to Jeanette Winterson, a well-known British author. *Jeanette Winterson v. Mark Hogarth*, WIPO Case No. D2000-0235, May 22, 2000. In finding that the defendant had violated the Uniform Dispute Resolution Policy (“UDRP”), the administrative panel, citing English law, recognized that common law trademark rights exist in an individual's name for purposes of proceeding under the UDRP. Similarly, in *Julia Fiona Roberts v. Russel Boyd*, WIPO Case No. D2000-0210, May 29, 2000, another administrative panel found that the defendant had violated the UDRP by registering domain names incorporating celebrities’ names, including the name of plaintiff-actress Julia Roberts in the form *www.juliaroberts.com*. The courts in both proceedings found that the defendants had shown the requisite “bad faith” required by the UDRP, in part, as a result of the defendants’ registration of numerous domains incorporating celebrities’ names.

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