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Intellectual Property Bulletin

Fenwick & West LLP — Summer 2002



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Table of Contents

Has the Second Circuit Done Away with Copyright Ownership by Independent Contractors?	1
An Up-Close Look at the Duty of Disclosure	4
Quick Updates	7
Ninth Circuit Looks to Analogous State Statute of Limitations in Applying Laches Doctrine in Lanham Act Cases	7
U.S. Supreme Court Clarifies Interplay of the Doctrine of Equivalents and Rule of Prosecution History Estoppel	8
An Exclusive Copyright Licensee Must Obtain Permission to Transfer the License	9
Editorial Staff	11

Has the Second Circuit Done Away with Copyright Ownership by Independent Contractors?

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In 1989, the U.S. Supreme Court issued a landmark opinion that clarified a very important point in copyright law, *i.e.*, who owns the copyright in a work commissioned by one party and implemented by another. *Community for Creative Non-Violence v. Reid*, 490 U.S. 730. In most works created by employees on behalf of an employer, the law considers the employer to be the author and the employee merely an instrument of the employer, much like a pencil would be an author's writing instrument. In the case of independent contractors, however, the law provides that the contractor is the author and initial owner of the work, and that only by a written assignment does the commissioning party get ownership of the work. A recent Second Circuit decision arguably turns this concept on its head, treating the party describing the work to be done as the author and denying authorship to the person who actually wrote the work. The way that future courts interpret the Second Circuit's decision will profoundly impact who will be able to claim authorship of a work. This decision only serves to highlight the need to address, by definitive agreement, ownership of intellectual property rights whenever companies use independent contractors to create a work.

The case at issue, *Medforms, Inc. v. Healthcare Management Solutions, Inc.*, 290 F.3d 98 (2002), held that "an author can be a person who translates an original idea into a fixed expression or a person who authorizes another to do so." The Second Circuit found that a computer programmer named Igor Modlin, who created certain source code, was not an author under the copyright law based in large measure on evidence that another programmer, Yosef Gold, "told Modlin 'specifically what to do and how to do it' in writing the source code."

In and of itself, there is nothing groundbreaking in the determination that a person who puts pencil to paper, or finger to keyboard, may not be an author. For example, those who take dictation from a novelist, or printers who assemble materials pursuant to specific instructions, often are not considered authors of the works they help to create. The copyright statute expressly states that a copyrightable work exists when original expression is fixed in a tangible medium, and such "fixation" can be done either by or under the authority of the author. 17 U.S.C. § 101.

The Second Circuit opinion in *Medforms* suggests that in some circumstances one can become an author merely by giving someone specifications concerning source code to be written, and that the person actually writing source code from such specifications may not become an author by doing so. If future courts were to interpret *Medforms* as stating this

rule broadly, rather than on the specific facts of this case, they would drastically depart from prior law and call into question not only previously settled authorship doctrines, but also previously settled issues concerning the copyrightability of source code.

Prior courts, including the Second Circuit, have dealt with many situations where contributors to a work claim that they deserve to be considered authors of the work. For example, in *Childress v. Taylor*, 945 F.2d 500 (2d Cir. 1991), the Second Circuit analyzed a claim by someone who contributed to a play about the comedian “Moms” Mabley and held that for two people to be considered “joint authors” of a work, they must have both contributed copyrightable material to the work and they must have intended at the time to be regarded as joint authors. The Second Circuit observed that to hold otherwise would be to suggest that editors of a manuscript, or a writer’s research assistants, become joint authors by virtue of their contributions. Likewise, the Ninth Circuit held that “authorship” requires more than just making a valuable contribution to a work and denied an authorship claim by a consultant who wrote script material and provided other input to the Spike Lee movie *Malcolm X*. *Aalmuhammed v. Lee*, 202 F.3d 1227 (9th Cir. 2000). The Ninth Circuit considered the number of people involved in making movies, from producers to directors to screenwriters to cinematographers and even to the stars themselves. Looking to 19th century Supreme Court precedent as to who would be considered the “author” of a photograph, the Ninth Circuit was drawn to focus on who was the “mastermind” of the work that was created. *Burrow-Giles Lithography Co. v. Sarony*, 111 U.S. 53 (1884). Addressing similar issues, the Third Circuit in *Andrien v. Southern Ocean County Chamber of Commerce*, 927 F.2d 132, 135 (3d Cir. 1991) noted that even a mastermind’s contribution must be of a copyrightable (as opposed to merely conceptual) nature for that person to be considered an author. The Third Circuit cited *Community for Creative Non-Violence* and other precedent addressing the nature of authorship to come up with the requirement that “when one authorizes embodiment, that process must be rote or mechanical transcription that does not require intellectual modification or highly technical enhancement.”

With these authorities in mind, the Second Circuit’s *Medforms* decision is very interesting. The court found Gold, who provided specifications from which Modlin wrote source code, to be the author, while the actual writing of the source code was found insufficient to confer authorship status to Modlin. Does this suggest that the Second Circuit considers the drafting of computer source code to be mere rote or mechanical transcription of a functional outline? This might fly in the face of decades of case law establishing that the creation of computer source code involves significant originality of expression and that source code accordingly qualifies for copyright protection. Does the Second Circuit decision suggest that the functional direction provided by Gold is itself a copyrightable contribution? If so, this might be argued to conflict with a basic tenet of copyright law, that copyright protects the expression of ideas but not the ideas themselves. 17 U.S.C. 102 (b) (“In no case does copyright protection . . . extend to any idea, procedure, process, system, method of

operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated or embodied . . .”).

Perhaps the Second Circuit did not intend to make these suggestions at all, but they arise if one only reads the opinion without the context of the record below. Indeed, the opinion describes with broad language and little specificity the respective contributions made by Gold and Modlin. The district court opinion, which is not published, gives more detail about the evidence presented, including the paucity of evidence Modlin could provide about his contributions as well as evidence that Modlin’s contributions may in fact have been largely rote or mechanical in nature. Thus, one might argue that the Second Circuit is neither making a general finding that the creation of source code from functional specifications is simply clerical work, nor asserting that functional specifications for computer programs form the core of the copyrightable expression in the resulting programs. The ultimate impact of the Medforms decision will not be known until future courts interpret its breadth and validity.

One far-more-certain and very practical ramification of the Medforms decision is that those who use contractors rather than employees in creating copyrightable works such as computer programs subject themselves to a number of risks; those risks only get compounded when no definitive written agreement between the parties exists that would show their agreed intent. In this case, had the contributions of Gold and Modlin fit the requirements of works made for hire, the employer would have been considered the sole author regardless of the details of those contributions. Even absent application of the work made for hire doctrine, if Modlin had been a contractor with a specific agreement outlining what rights were assigned to whom, there likely would never have been litigation over this authorship issue. Accordingly, the Medforms decision only reinforces the time-proven advice that companies should use employees rather than contractors whenever possible to create software, and that they should have appropriate agreements and assignments in place with any contractors who might otherwise assert a colorable claim of authorship.

An Up-Close Look at the Duty of Disclosure

Neil Maloney

Longstanding “Rule 56” (37 C.F.R. § 1.56) imposes on each individual associated with the filing and prosecution of a patent application a general “duty of candor and good faith” in dealing with the United States Patent and Trademark Office. This duty includes a specific “duty to disclose” to the Patent Office all information known to be material to patentability. At first blush, Rule 56 may seem easy to satisfy. However, other duties that the federal courts have read into Rule 56 require a greater degree of effort on the part of counsel. As such, it is possible that seemingly reasonable conduct by counsel at the time disclosure decisions are being made may later be found deceitful. Diligent counsel will therefore want to be well versed in the idiosyncrasies of Rule 56.

For example, the courts have held that Rule 56 imposes a duty to investigate on counsel. More specifically, where counsel knows of information and may readily determine the materiality of that information, he cannot intentionally avoid learning of its materiality. *FMC Corp. v. Hennessy Industries, Inc.*, 5 U.S.P.Q.2d 1272, 1275 (Fed. Cir. 1987). Indeed, a court may infer deceptive intent from such cultivated ignorance. However, a duty to investigate does not arise where there is no notice of the existence of possibly material information. Rather, counsel must have *sufficient* information that suggests the existence of *specific* information, the materiality of which may be ascertained with a reasonable investigation.

Rule 56 has also been held to impose on counsel a duty to resolve “close cases” of materiality by disclosure and not by a unilateral decision of nondisclosure. *LaBounty Mfg., Inc. v. United States Int’l Trade Comm’n*, 22 U.S.P.Q.2d 1025, 1033 (Fed. Cir. 1992). Significantly, materiality is not limited to “prior art,” but instead includes any information that a reasonable patent examiner would likely consider “important” in deciding whether to allow an application to issue as a patent.

A breach of Rule 56 duties typically comes to light only during a patent litigation, when an accused infringer raises an affirmative defense of inequitable conduct. If the court finds inequitable conduct, then the patent becomes unenforceable. A finding of inequitable conduct can also provide a basis for awarding attorney fees. Thus, given the proper set of facts, inequitable conduct can be a powerful defense.

To prevail on this defense, the defendant must prove by clear and convincing evidence that the patentee withheld or misrepresented material information with intent to deceive the Patent Office. As direct “smoking gun” evidence of deceitful conduct is seldom found, the intent element is typically proven by inferences drawn from facts, thereby permitting a confident judgment that deceit has occurred. When examining deceitful intent, a court must

weigh all evidence, including evidence of good faith. This is one reason why counsel should ensure that good-faith efforts in complying with Rule 56 are evident, or at least provable.

Consider, for instance, the typical case where a client seeks patent protection for an invention that was on-sale or publicly disclosed (*e.g.*, via a website, marketing literature, a standards body proposal, or a trade show demonstration) approximately one year prior to seeking patent protection. Such a sale or public disclosure is material because the U.S. Patent Code prohibits patenting an invention that was on-sale or publicly disclosed more than one year before the filing of an application claiming that invention. If the client clearly reports the dates such activities occurred, the counsel's task is fairly straightforward: file before the one-year grace period ends.

However, if the client reports unclear information, further probing by counsel is necessary. Even if the discovered information is inconclusive, having conducted a meaningful investigation will generally be perceived as a good-faith effort in attempting to satisfy the Rule 56 duty to investigate. Such good-faith efforts generally weigh against a finding of deceitful intent.

Further, investigations into the materiality of information often conclude with a finding that the information would not affect patentability. But in these cases, an examiner may still perceive the information as "important" and, therefore, material. Thus, once patent counsel investigates, the Rule 56 duty to resolve "close cases" of materiality by disclosure may still be triggered, despite the counsel's studied conclusion that the information does not affect the invention's patentability.

For example, counsel should disclose known information that establishes by itself a *prima facie* case of unpatentability even when the *prima facie* case can be successfully rebutted. In this sense, counsel should make disclosure decisions based on the information's *prima facie* materiality and not its *studied* materiality. This will avoid the mistake discussed in *GFI, Inc. v. Franklin Corp.*, 60 U.S.P.Q.2d 1141 (Fed. Cir. 2001), where GFI did not disclose information about potential prior inventorship by another because counsel was satisfied that GFI invented first. As a result, GFI's patent was found unenforceable. Thus, it is better to give the examiner an opportunity to evaluate the information and, if necessary, to require additional facts or material so that he can render an informed decision. Although the courts afford an examiner's conclusion some deference, they afford counsel's unilateral conclusions none.

After conducting investigations and making disclosure decisions, there still remains the issue of how best to sufficiently communicate material information to the Patent Office. Information in the form of a publication, such as patents, books, articles, marketing material, online content and other readily printable information, can be easily disclosed in an information disclosure statement (IDS). Counsel need only provide copies of such material to the examiner without comment.

However, other material information, such as information on possible sales, offers to sell, public uses or disclosures, derived knowledge (*e.g.*, learned from negotiations or discussions), prior invention by another and inventorship conflicts, must also be disclosed. This type of intangible information must be reduced to writing so that it too can be submitted in an IDS. Such a writing, however, can be difficult to properly research and draft.

For instance, while patent counsel prefer there to be no offers to sell and no public disclosures of the invention until a patent application is filed, businessmen are eager to make binding offers to sell, enter into joint development agreements and generate revenue. Given this direct tension between the imperatives of a robust patent program and the act of conducting successful business, a fertile field of material information is often left for harvest. In addition, realities of insufficient record keeping and the failing memories of those charged with informing counsel make the harvest that much more difficult.

Submitting such material information therefore presents an interesting dilemma for patent counsel. On one hand, providing too much information may unnecessarily disclose otherwise privileged and confidential information. On the other hand, counsel must provide the Patent Office with sufficient information for a reasonable examiner to intelligently consider the information in context.

By affirmatively selecting certain facts for disclosure while omitting other facts, patent counsel “runs the risk that, years later, a fact-finder might conclude that they intended to deceive.” *Molins PLC v. Textron, Inc.*, 33 U.S.P.Q.2d 1823, 1830 (Fed. Cir. 1995). If the natural consequence of counsel’s acts leave the examiner with the impression that no further information is needed, then the submitted information best be sufficiently complete. In particular, counsel should provide the Patent Office with sufficient information for a reasonable examiner to consider the submitted information in context, not with a selective and misleading disclosure. *Refac Int’l, Ltd. v. Lotus Dev. Corp.*, 38 U.S.P.Q.2d 1665, 1671-72 (Fed. Cir. 1996) (applicants submitted an affidavit devoid of a material fact to overcome a rejection). Omissions of material fact can support an inference of deceit.

Thus, complying with Rule 56 requires counsel to look beyond the low-hanging fruit of printed publications. It is a certainty that the complete defense to infringement afforded by a finding of inequitable conduct provides substantial motivation for opposing counsel to reach to the highest vine or the lowest tuber in search of omitted material information. Patent counsel must make good-faith efforts to harvest and disclose that information first, or face the risk of an inference of deceitful intent.

Quick Updates

Ninth Circuit Looks to Analogous State Statute of Limitations in Applying Laches Doctrine in Lanham Act Cases

The Ninth Circuit Court of Appeals recently held that the doctrine of laches barred a false advertising claim under the Lanham Act when the analogous state statute of limitations period had expired. *Jarrow Formulas, Inc. v. Nutrition Now, Inc.*, 63 U.S.P.Q. 2D 1076 (2002).

Plaintiff Jarrow Formulas and defendant Nutrition Now offered competing nutritional supplements designed to aid digestion. Beginning in 1993, Jarrow complained to Nutrition Now, claiming that Nutrition Now's advertising for its "PB8" nutritional supplement was false and misleading. Despite making a threat of litigation in 1993, Jarrow waited until 2000 to file suit for false and misleading advertising in violation of Section 43(a)(1)(B) of the Lanham Act. The district court granted summary judgment for Nutrition Now and dismissed the suit, holding that, because of its extensive delay, Jarrow's claims were barred by laches.

On appeal, the Ninth Circuit noted that laches is a valid and well-established defense to Lanham Act claims, including those for false advertising. Although the Lanham Act has no statute of limitations, the court held that the analogous state limitations period nonetheless plays a significant role in determining the applicability of laches. Consistent with the views of other circuits, the court held that if a Section 43(a) claim is filed outside of the analogous state limitations period, it is presumed that laches is a bar to the suit.

Jarrow argued that even if laches is otherwise applicable, it should not bar its claim for prospective injunctive relief. Jarrow pointed out that laches is generally not a bar to prospective injunctive relief, noting that laches stems from prejudice to the defendant caused by past delay, but that past dilatoriness is unrelated to a defendant's ongoing behavior that threatens future harm. The court rejected this argument, finding that Nutrition Now would be prejudiced if forced to abandon its long-term investment in its presentation of the PB8 product to the public.

Jarrow also argued that the public's interest should defeat application of laches. Because laches is an equitable remedy, laches will not apply if the public has a strong interest in having the suit proceed. Jarrow argued that Nutrition Now was duping the public into buying worthless products, and that the public therefore had a strong interest in allowing the suit to proceed. The court acknowledged that the public has a strong interest in an accurate description of health and medical products. Nevertheless, the court held that, in order to ensure that laches remains a viable defense to Lanham Act claims, the public interest will trump laches only when the suit concerns allegations that the product is harmful or otherwise a threat to public safety and well-being. Thus, the critical question was whether consumer health would be materially affected as a consequence of taking PB8. The court concluded that Jarrow had not made such a showing.

U.S. Supreme Court Clarifies Interplay of the Doctrine of Equivalents and Rule of Prosecution History Estoppel

In *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, a unanimous U.S. Supreme Court addressed the relationship between two important areas of patent law, the doctrine of equivalents and the rule of prosecution history estoppel. 122 S. Ct. 1831 (2002). The doctrine of equivalents holds that a patent protects its owner against those who would evade infringement liability by making only insubstantial changes to a patented invention. Prosecution history estoppel, on the other hand, operates as an important limitation on the doctrine. Specifically, prosecution history estoppel holds that the patentee is not allowed to recapture otherwise infringing equivalents, when those equivalents were surrendered during prosecution in order to obtain the patent.

For example, assume an original claim in a patent application recited a range of 10 to 15 units. Further assume that the claim was amended during prosecution to distinguish over a prior art reference that disclosed a similar range of 14 to 19 units. Specifically, the claim was amended to recite a range of 10 to 13, and was then subsequently allowed to issue as a patent. Here, prosecution history estoppel would operate to prevent the patent owner from later asserting that a value of 14 is an infringing equivalent.

Although these areas of law have been around for a long time, a recent decision by the Federal Circuit (the appellate court having exclusive jurisdiction over patent cases) significantly expanded the scope of prosecution history estoppel. In particular, the court held that: (1) prosecution history estoppel may apply to *any* amendment that narrows the scope of a patent claim as a condition for obtaining a patent; and (2) prosecution history estoppel *completely* bars application of the doctrine of equivalents to the narrowed claim element. The impact of the first part of the holding was minimal. The impact of the second part, however, was far greater because many patents have claim elements that were narrowed during prosecution. Under the Federal Circuit's ruling, such narrowed claim elements would not be afforded any range of equivalents, and therefore be limited to their literal meanings. As a result, an insubstantial change to a corresponding element of a competitor's product might allow that competitor to avoid infringement liability under the patent.

The Supreme Court agreed with the Federal Circuit on issue (1) and held that prosecution history estoppel may apply to any claim amendment made to satisfy the Patent Act's requirements, not just to amendments made to avoid the prior art. On issue (2), however, the Court overruled the Federal Circuit's *complete bar* rule and restored a revised *flexible bar* rule, holding that prosecution history estoppel does not bar the patentee from asserting infringement against every equivalent to a narrowed element. However, the patentee bears the burden of showing that the amendment did not surrender the particular equivalent in question. The Court further held that a patentee's decision to narrow claims through

amendment is presumed to be a general disclaimer of the territory between the original claim and the amended claim, and then noted that there are some cases where the amendment cannot reasonably be viewed as surrendering a particular equivalent.

One such case is where the equivalent was unforeseeable at the time of the application, such as the case of a later invented equivalent. Another case is where the rationale underlying the amendment bears no more than a tangential relation to the equivalent in question. For example, assume the upper end of a claimed range is amended from 15 to 13, but the lower end of the range, 5, is not amended. Here, 13 to 15 were probably surrendered, but 4.5 may still be an infringing equivalent. Additionally, the Court noted that there may be some other reason suggesting that the patentee could not reasonably be expected to have described the insubstantial substitute in question.

In each of these cases, the patent owner can overcome the presumption that prosecution history estoppel bars a finding of equivalence. To do so, the patent owner must show that, at the time of the amendment, “one skilled in the art could not reasonably be expected to have drafted a claim that would have literally encompassed the alleged equivalent.” How this refined approach to the flexible bar will play out in the lower courts is not yet known.

An Exclusive Copyright Licensee Must Obtain Permission to Transfer the License

In a case of first impression, the Ninth Circuit ruled that, under the 1976 Copyright Act, an exclusive copyright licensee must obtain the licensor’s permission to transfer the license to another party unless explicit contractual language provides otherwise. *Gardner v. Nike, Inc.*, 279 F.3d 774 (9th Cir. 2002). Gardner concerned a 1992 agreement between Sony Music Entertainment Corporation (“Sony”) and Nike, Inc. (“Nike”) in which Sony received the exclusive, perpetual, worldwide right to use the MC Teach cartoon character for music packaging and associated media in exchange for paying Nike 15% of the sales profits from specified MC Teach goods. Nike not only retained copyright ownership in MC Teach, but also owned the copyright in the MC Teach material Sony produced. The license did not expressly prohibit transfers but was silent as to whether Sony could assign its rights. Both parties agreed they contemplated an exclusive license.

When Sony assigned all its rights to Michael Gardner, Nike threatened to sue Sony and Gardner for Gardner’s use of MC Teach. Gardner sued for declaratory relief. At issue before the court was the language at §§ 101 and 201(d) of the 1976 Copyright Act. Section 101 defines the transfer of copyright as “an assignment . . . exclusive license . . . or any other conveyance . . . of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.”

section 201 (d) provides

(1) The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law . . .

(2) Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause

(1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right to all of the protection and remedies accorded to the copyright owner by this title.

Sony argued that an exclusive licensee has the same rights as an owner or assignee. Pursuant to § 201(d)(1), ownership could be transferred “in whole or part by any means of conveyance or operation of law” and, therefore, Sony did not need Nike’s permission to transfer the license.

Agreeing with the district court, the Ninth Circuit rejected Sony’s argument. It ruled that under the 1976 Act, Sony received only the protections and remedies, but not the rights, of an owner. Sony therefore needed Nike’s permission to transfer the license. The *Gardner* court also characterized the “protection and remedies” language at § 201(d)(2) as limiting and maintained that, under the rules of statutory construction, § 201(d)(2)’s more specific language takes precedence over the more general language of §§ 101 and 201(d)(1). The *Gardner* court also pointed out that requiring a licensee to obtain the licensor’s permission for a transfer meets an important policy objective of “preserv[ing] the rights and control of the owners and creators.”

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