



FENWICK & WEST LLP



Intellectual Property Bulletin

Fenwick & West LLP — Winter 2001



FENWICK & WEST LLP

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Table of Contents

Summary of the Key Provisions of the Uniform Computer Information Transactions Act	1
Federal Circuit Narrows Application of the Doctrine of Equivalents	3
Quick Updates	7
Withholding Board Decision is Inequitable Conduct	7
Copyright Term Extension Passes Test How Long is Too Long?	8
7th Circuit Weighs in on the “Actual Injury” Dispute Regarding the Federal Trademark Dilution Act	10
Editorial Staff	11

Summary of the Key Provisions of the Uniform Computer Information Transactions Act

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In September 2000, the National Conference of Commissioners of Uniform State Laws (“NCCUSL”) approved a set of proposed regulations designed to establish uniformity in the treatment of information technology transactions and to foster the continued growth of electronic and other forms of digital commerce. These transactions are currently governed by complex and often inconsistent state regulations with varying interpretations and practices throughout the 50 states. This article addresses the scope of these proposed regulations and provides a brief overview of key terms applicable to electronic commerce transactions.

If enacted by the individual state legislatures, the Uniform Computer Information Transactions Act (UCITA) would apply to transactions that involve the creation, use or distribution of computer information. A computer information transaction is defined as “an agreement a primary purpose of which is to require a party to create, modify, transfer, or license computer information or informational rights in computer information.” Examples of computer information transactions include:

- Contracts for the development or creation of software and computer databases;
- Transactions involving the distribution, or grant of a right to use, a computer program; and
- Transactions involving access to or information from a computer system, such as access to the Internet or online information distribution.

A transaction would not fall within UCITA merely because information related to a transaction is communicated as computer information. The UCITA drafters use the example of a commercial contract for airline transportation, or an “e-ticket,” to clarify this point. While the transaction may be conducted electronically or occur entirely over the Internet, the underlying subject matter of the transaction is for a service-air transportation-and not for computer information. Therefore, UCITA would not apply.

UCITA also excludes transactions within industries whose commercial practices differ from those in the computer software, online and data industries. These industries primarily fall within two sectors-financial services and the entertainment/broadcast industries. UCITA does not apply to core banking, payment or financial services functions such as fund transfers or money deposits. These core services are already regulated under various federal and state banking statutes. UCITA would apply to banks engaged in offering noncore

services, such as online shopping or database access-services that banks have not traditionally offered but are beginning to undertake. Finally, UCITA does not apply to a compulsory license or a contract of employment of an individual other than as an independent contractor. While these forms of transactions are currently excluded from UCITA, the lines that have been drawn to exclude them are becoming less clear. As information technologies continue to converge, electronic commerce applications will blur these lines even further.

One of the major drivers in the enactment of UCITA is the desire to promote the continued growth and development of electronic commerce by establishing uniform guidelines for electronic contracting. When conducting transactions electronically, three threshold issues must be addressed: authorization, attribution and acceptance. Authorization-whether a transaction has been properly authorized by a party-is a procedural issue. Many state legislatures have already adopted legislation recognizing digital signatures as a form of authorization, and UCITA incorporates these principles. Attribution is the ability to identify a party responsible for the electronic signature. UCITA provides that the attribution procedures must be commercially reasonable, with the party relying on the attribution having the burden of proving the reasonableness of the procedures.

Acceptance is the issue of whether a party has agreed to the terms of an electronic agreement or computer information transaction. UCITA provides an objective standard for determining assent. The standard is whether a reasonable person would know that particular conduct will indicate agreement with the posted terms and conditions. A party has accepted the terms of a transaction if:

- the party had knowledge of the terms and the opportunity to review them prior to assent;
- the party indicated assent through authentication, express assent, or implied conduct with reason to know under the circumstances that these actions indicated assent; and
- the conduct or authentication is attributed to the party.

In addition to acceptance by “people,” UCITA recognizes the growing importance of electronic agents in the development of electronic commerce and provides that a party (or both parties) can be bound through the actions of its electronic agents under similar circumstances as acceptance by a person. An electronic agent is a computer program, or other electronic or automated means, used independently to initiate an action or respond to electronic messages or performances without intervention by an individual at the time of the action, response or performance.

UCITA also applies to mass-market licenses of computer information. A mass-market license is a standard form that is prepared and used in a consumer contract or transactions with an end-user licensee directed to the general public or within a retail market. An example of a mass-market license is a “shrink-wrap” license typically contained in a commercial software package. The drafters of UCITA took a different approach for acceptance of the terms of these mass-market licenses. If the terms of the license are available prior to a party’s paying for the license, and the party has had the opportunity to review the terms, then standard contract rules of acceptance apply. However, if the terms are only available after assent (*i.e.*, after purchase and delivery) and a party has not had an opportunity to review the terms, the party may return the product and receive full reimbursement if he or she does not wish to accept the terms of the license. This “right of return” provides for greater protection for the party obligated to pay for the license without having the opportunity to review its terms. This right of return provides strong incentives for licensors to make these terms available to consumers prior to distribution or licensing.

The next step in the enactment of UCITA will be for the individual state legislatures to review the Act and vote on whether to adopt it as state law. Certain states may decide to modify particular areas of UCITA prior to enactment. Both Maryland and Virginia have enacted versions of UCITA. Maryland’s law has an effective date of October 1, 2000, and Virginia’s law goes into effect in July 2001. In addition, Delaware, the District of Columbia, Hawaii, New Jersey and Oklahoma have begun the process of introducing the Act into their state legislatures.

Other states are taking a wait-and-see approach in order to determine what other states are doing. Key states in this process are New York, California, Texas, Massachusetts and Illinois. If these states take the lead in enacting this Act, the rest of the country should follow suit. Using this process, it may take a number of years to develop a uniform body of law governing computer information transactions. However, UCITA does provide a “snapshot” of current legislative interpretations of computer transactions and can be used as a guide for structuring electronic contracts prior to the introduction of a uniform national law.

Federal Circuit Narrows Application of the Doctrine of Equivalents

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On November 29, 2000, the Federal Circuit limited a patentee’s ability to apply the doctrine of equivalents to a patent’s claims. In *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558 (Fed. Cir. 2000) (en banc), an eight to four majority of the court held that the doctrine of prosecution history estoppel bars application of the doctrine of equivalents to claims narrowed for reasons substantially related to patentability during prosecution.

Because most patent claims are amended during prosecution, this wide-ranging rule is likely to significantly impact both the prosecution and litigation of patents.

The Doctrine of Equivalents

The doctrine of equivalents is a well-established part of patent law that expands the scope of a patent's claim beyond its literal language. In general, the doctrine is intended to give the patentee protection against those who would make minor changes to a patented invention that would be enough to take the copied matter outside the literal scope of the claims. *Graver Tank & Mfg. v. Linde Air Prods. Co.*, 339 U.S. 605 (1950).

In *Graver Tank*, the Supreme Court stated the well-known “triple-identity” test for determining whether an accused device infringes a claim under the doctrine: an accused device infringes if it performs substantially the same function in substantially the same way to obtain the same result. 339 U.S. at 608. Later, the Federal Circuit revised the test slightly to ask whether there are “insubstantial differences” between the claimed invention and the accused product or process. *Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1521-1522 (Fed. Cir. 1995), rev'd, 520 U.S. 17 (1997). Upon review of this decision, the Supreme Court restated the test for equivalence as simply: “Does the accused product or process contain elements equivalent to each claimed element of the patented invention?” *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 40 (1997).

Equivalence is determined on an element-by-element basis. *Id.* As a result, one element in a claim may be entitled to a broad range of equivalents while other elements may be limited to only the literal claim language.

Prosecution History Estoppel

A claim element's range of equivalents is limited by the doctrine of prosecution history estoppel. See *Hughes Aircraft Co. v. United States*, 717 F.2d 1351 (Fed. Cir. 1983), *overruled by Festo*, 234 F.3d at 574-75. Essentially, this doctrine states that a patentee cannot use the doctrine of equivalents to recapture subject matter given up during prosecution.

For the most part, courts have followed a “flexible bar” approach when limiting the range of equivalents. Under this approach, the range of equivalents for a claim element amended to overcome a prior art rejection is limited only with respect to the given amendment. The claim element is still entitled to equivalents unrelated to the amendment.

For example, assume a claim element initially recites “a buffer held in a memory” but is narrowed during prosecution to “a buffer held in a *display* memory” to avoid a reference showing a buffer in a *main* memory. Prosecution history estoppel precludes the range of equivalents for the claim element from encompassing buffers in main memory. However, under the flexible bar approach, the claim might still be entitled to a range of equivalents covering buffers stored in other memories.

The Festo Opinion

In *Festo*, the Federal Circuit explicitly overruled *Hughes* and rejected the flexible bar approach to prosecution history estoppel. *Id.* Under *Festo*, “prosecution history estoppel acts as a complete bar to the application of the doctrine of equivalents when an amendment has narrowed the scope of a claim for a reason related to patentability.” *Id.* at 574 (emphasis added). As a result, most claims having elements amended during prosecution are no longer entitled to a range of equivalents for those elements.

The reasons for this decision are primarily rooted in the public notice function and need for certainty in interpreting claim scope. The court explained that the flexible bar approach was unworkable because it was impossible to determine the scope of a claim prior to an appellate decision. *Id.* at 575. As a result, the marketplace could not look to patent claims for guidance in conducting its affairs. *Id.* Therefore, the court reasoned, a complete bar “best serves the notice and definitional function of patent claims.” *Id.* at 576. The public can examine the prosecution history of a claim and, if a claim element was amended in a manner that creates prosecution history estoppel, know that the element’s scope of protection is defined by its literal terms.

Festo requires a two-part analysis to determine whether a claim amendment gives rise to prosecution history estoppel and therefore completely bars application of the doctrine of equivalents:

- (1) does the amendment narrow the literal scope of the claim? and
- (2) is the amendment being made for reasons substantially related to patentability?

Id. at 586. If the answers to both questions are “yes,” then the complete bar applies to the amended claim element.

The *Festo* opinion does not provide explicit guidance for determining whether an amendment narrows a claim element. From the facts of the case, voluntarily amending an independent claim to include a dependent claim is a narrowing amendment. *Id.* at 589. It is unclear, however, whether amending a dependent claim into an independent claim is a narrowing amendment. The opinion also points out that a narrowing amendment made to an independent claim also narrows all dependent claims that recite the narrowed element. *Id.* at 590 n.9. The opinion also notes that an amendment replacing means-plus-function language with corresponding structure narrows the scope of the claim. *Id.* at 589.

Under *Festo*, virtually any claim amendment made to comply with a statute is “made for reasons substantially related to patentability.” Obviously, amendments made in response to anticipation or obviousness rejections under §§ 102-3 are substantially related to patentability. In addition, amendments made under § 101 to limit the claim scope to

patentable subject matter or under § 112 to clarify the meaning of terms in the claim are also so related. *Id.* at 567. Voluntary amendments, amendments made in response to improper rejections and amendments for which no reasons are established are also substantially related to patentability. *Id.* at 568, 576, 578.

Festo's Dissents

Several judges filed dissenting-in-part opinions disagreeing with the majority's "complete bar" rule. Judges Michel and Newman argued that the Supreme Court supported the flexible bar in Warner-Jenkinson and numerous older opinions. *Festo*, 234 F.3d at 608-09, 631. Judge Michel also reasoned that the complete bar will lead to inequitable results, especially in the biotechnology area, because copyists can now "readily avoid liability despite practicing the substantial equivalent of the claimed invention." *Id.* at 616-17.

Multiple judges also argued that the complete bar rule is ill-suited to the standard practice of prosecuting a patent. Judge Linn noted that "it is quite difficult for claim drafters to draft initial claims that adequately and accurately cover the 'invention' on the day the patent application is filed" and, consequently, claims are commonly amended during prosecution. *Id.* at 622. Judge Michel likewise stated that the majority's holding will "subvert the various balances' inherent in the process of patent prosecution." *Id.* at 618 (citing *Warner-Jenkinson*, 520 U.S. at 32 n.6).

In Judge Rader's opinion, the doctrine of equivalents protects patentees against equivalent technologies that arise after invention. He found it illogical to hold that an applicant can surrender claim coverage over something that did not yet exist through a minor narrowing amendment. *Id.* at 619.

Prosecution Practice Tips in View of Festo

Because patent practitioners often find it necessary to narrow claims in response to rejections, practitioners will sometimes have no option but to subject a claim element to the complete bar. Nevertheless, there are certain steps that a practitioner can take to minimize the negative implications of *Festo*.

Perhaps the most obvious step is to include independent claims of varying scope in an application as filed. A narrow claim that is allowed without amendment may have broader scope than a broad claim amended to recite the same narrow limitations. Practitioners should also consider filing an appeal rather than making minor claim amendments to satisfy an obstinate examiner. The appeals process may be lengthy, but the resulting claims may provide broader protection against would-be infringers.

Means-plus-function claims may also have new value in the post-*Festo* world. The majority opinion acknowledged that means-plus-function claims are still entitled to § 112 ¶ 6

equivalence, even when amended. *Festo*, 234 F.3d at 589. Although the range of equivalents under § 112 ¶ 6 is less than under the doctrine of equivalents, the range is still broader than the literal claim language. Therefore, practitioners should consider adding a set of means-plus-function claims to new and pending patent applications.

If possible, practitioners should include remarks explaining why amendments did not narrow the scope of the claims or explaining that the amendments were made for reasons not substantially related to patentability. If there are no remarks in the record stating the reason for an amendment, a court may construe the amendments against the patentee. Practitioners may also wish to avoid making minor amendments, such as amendments fixing insignificant § 112 problems, if such an amendment might be found to narrow the scope of the claim.

In sum, any narrowing amendment made to a claim in order to comply with statutory requirements is likely to completely bar application of the doctrine of equivalents to the amended claim element. This bar applies to all issued patents and pending applications. Because the majority of claims are amended during prosecution, the scope of many patents will be reduced under *Festo*.

Quick Updates

Withholding Board Decision is Inequitable Conduct

In *Li Second Family Limited Partnership v. Toshiba Corp.*, 56 U.S.P.Q.2d 1681, Li Second Family Partnership (“Li”) owned U.S. Patent 4,946,800 (“the ‘800 patent”) on a method for making a semiconductor device and U.S. Patent 4,916,513 (“the ‘513 patent”) on a structure made using the process claimed by the ‘800 patent. Both the ‘800 patent and the ‘513 patent were continuation-in-parts of another patent application that itself was a continuation-in-part of a patent application issued in 1969.

During the prosecution of both patents, the ‘800 patent prosecution was suspended for approximately seven years pending resolution of an interference. During the prosecution of the ‘513 patent, Li attempted to claim priority to the two prior patent applications to overcome some references. The examiner, and subsequently the Board, rejected this attempt by Li and the ‘513 issued with narrower claims. When prosecution of the ‘800 patent resumed, Li attempted to include the rejected claim elements from the ‘513 patent. Li did not disclose the decision of the Board to the examiner of the ‘800 patent. Rather, Li submitted a genealogy chart of applications related to the ‘800 patent and orally briefed the examiner about the Board decision. The examiner subsequently allowed the ‘800 patent and Li asserted the patent against Toshiba. Toshiba claimed that Li’s lack of disclosure of the Board’s decision amounted to inequitable conduct. The district court agreed with Toshiba and Li appealed.

In affirming, the Federal Circuit stated that to determine whether inequitable conduct occurred, the trial court must determine that “the alleged nondisclosure or misrepresentation has occurred, that the nondisclosure or misrepresentation was material, and that the patent applicant acted with the intent to deceive the PTO.” Here, with regard to nondisclosure and mis-representation, Li’s genealogy chart with a reference to the ‘513 patent cited art did not sufficiently disclose the Board’s decision. Moreover, there was no written record of the oral briefing between the examiner and Li. It was “the responsibility of the applicant to ensure that the substance of any interview with the examiner is included in the written record of the patent application, unless the examiner indicates that he will do so.” As for materiality, the information regarding an effective filing date is of importance to an examiner and a misrepresentation by an applicant that he is entitled to the benefit of an earlier filing date is highly material.

Li was granted the ‘800 patent only after the examiner was convinced that Li was entitled to the earlier filing date. However, by having only the genealogy chart the examiner was deprived of the Board’s ruling that similar claims in the ‘513 patent were not entitled to the earlier filing date. Moreover, Li’s position that the claims at issue were patentable over the references cited even without the benefit of the earlier filing date was unavailing because “[t]he simple fact is that a patent may be valid and yet be rendered un-enforceable for misuse or inequitable conduct.” As for intent, direct evidence was not needed, and intent could be inferred from the evidence of the surrounding circumstances. Li’s affirmative misrepresentation that it deliberately concealed the Board’s decision from the examiner allowed inference of the intent element. Thus, the Federal Circuit affirmed because there was no clear error in the district court’s decision.

Copyright Term Extension Passes Test How Long is Too Long?

In *Eldred v. Reno*, 2001 U.S. App. LEXIS 2335 (D.C. Cir. Feb. 16, 2001), the Appellate Court for the District of Columbia upheld the constitutionality of the Sonny Bono Copyright Term Extension Act (“CTEA”), as a proper exercise of Congressional power under the Commerce Clause.

CTEA extends the duration of the term of copyright by 20 years for those works created on or after January 1, 1978. Specifically, CTEA provides that copyright in a work created on or after January 1, 1978, subsists from its creation and endures for a term consisting of the life of the author plus 70 years after the author’s death. With respect to joint works that are not works for hire, the copyright subsists from the time of creation and endures for the life of the last surviving author plus 70 years after that last surviving author’s death. In the case of an anonymous work, pseudonymous work and work made for hire, the term of the copyright extends from 95 years from the year of its first publication or a term of 125 years from the year of its creation, whichever expires first. 17 U.S.C. §101 *et seq.*

The plaintiffs represented those who profit from works in the public domain. They included a company that preserves and restores old films in the public domain and a choir director who sells and purchases music in the public domain. Plaintiffs challenged CTEA on three grounds.

First, they argued that CTEA fails the intermediate scrutiny test of the First Amendment. The court, however, affirmed precedent holding that the Copyright Act is not inconsistent with the First Amendment, reiterating that “copyrights are categorically immune from challenges under the First Amendment.” 2001 U.S. App. LEXIS 2335 at 6, noting *United Video, Inc. v. FCC*, 281 U.S. App. D.C. 368, 890 F.2d 1173 (D.C. Cir. 1989). In short, the court held there is no First Amendment right to make commercial use of the copyrighted works of others.

Second, the plaintiffs argued that “CTEA cannot extend an extant copyright because the copyrighted work already exists and therefore lacks originality.” The court rejected that argument and noted that the plaintiffs failed to provide any legal authority for their position that “there is a distinction between a new grant of copyright-as to which originality is an issue-and the extension of an existing grant.” 2001 U.S. App. LEXIS 2335 at 10.

Third, the plaintiffs argued that CTEA violates the constitutional requirement that a copyright exist for a *limited* time, and that by enacting CTEA, Congress had exceeded its authority under the Copyright Clause “to promote the Progress of Science and the Useful Arts.” Specifically, plaintiffs argued that so long as the current law provides for a copyright term of sufficient duration “to promote the Progress of Science and the Useful Arts,” any extension of that term was unconstitutional. If Congress can extend the Copyright Term by 20 years today, why could it not extend it by 120 years tomorrow? Noting that “there is no apparent substantive distinction between permanent protection and permanently available authority to extend originally limited protection,” the dissent, while agreeing that 20 years was a reasonable period by which to extend the copyright term, disagreed that the longer term should apply retroactively. “Extending copyrights is not promoting useful arts, nor is it securing exclusivity for a limited time.” 2001 U.S. App. LEXIS 2335 at 28.

The majority of the court, however, found that CTEA is a “ ‘necessary and proper’ measure to meet contemporary circumstances rather than a step on the way to making copyrights perpetual,” and pointed to the consistency of CTEA’s term with that of the European Union’s copyright laws as such an example. Citing its identical holding in *Schnapper v. Foley*, 215 U.S. App. D.C. 59, 667 F.2d 102 at 112 (D.C. Cir. 1981), the court rejected the idea that “the introductory language of the Copyright Clause constitutes a limit on congressional power.” 2001 U.S. App. LEXIS 2335 at 15.

7th Circuit Weighs in on the “Actual Injury” Dispute Regarding the Federal Trademark Dilution Act

In *Eli Lilly & Co. v. Natural Answers*, 233 F.3d 456 (7th Cir. 2000), the 7th Circuit added its two cents on whether a plaintiff must prove an actual, economic injury for a claim under the Federal Trademark Dilution Act [“the Act”]. Eli Lilly, the maker of Prozac, sought to enjoin the maker of Herbrozac, a “drug alternative” mood elevator. The Court granted the injunction deciding a hotly disputed issue under the Act. The Circuit Courts have split as to whether the plaintiff in a dilution action must prove a present injury (the 4th and 5th Circuits have required proof of actual harm, while the 2nd and 3rd Circuits have held that mere likelihood is sufficient).

The Act protects famous trademarks from unauthorized uses that might diminish the capacity of the mark to distinguish goods or services. To prove a violation of the Act, a plaintiff must show that (1) the mark is famous; (2) the defendant uses the mark commercially; (3) the defendant’s use began after the mark became famous; and (4) the defendant’s use of the mark dilutes the quality of the mark by diminishing the capacity of the mark to identify and distinguish goods and services. The Circuit split relates to the fourth element, specifically whether the plaintiff must prove that the defendant has caused a present injury or whether the plaintiff may merely show a likelihood of injury.

In *Eli Lilly & Co.*, the 7th Circuit held that requiring proof of a present injury would subject senior mark holders to uncompensable injury. Senior mark holders would be restrained from bringing suit until they suffer an injury. Since the Act’s primary remedy is an injunction against future use, in most circumstances the plaintiff would not be able to recover for such injury. More important, because dilution is an invidious harm, marked by the slow erosion of a trademark’s value, it would be virtually impossible for plaintiffs to prove actual injury. Further, even if the plaintiff could demonstrate decreased revenue, it would be immensely difficult to prove that the loss occurred as a result of the dilution. Consequently, the 7th Circuit stated “[i]t is hard to believe that Congress would create a right of action but at the same time render proof of the plaintiff’s case all but impossible,” and held that only likelihood of future injury is required.

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