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This newsletter is provided with our compliments. Its purpose is to inform our readers of developments within the firm and in the legal field of intellectual property law. We invite your comments, questions, and opinions.

Some Thoughts On Software License Agreements

by Jacques Etkowicz



Software has become indispensable to business in all fields of commerce over the past several years. Word processing software and software for bookkeeping and other financial and business roles is used by almost every business. More recently, software has also become prominent in process control and other manufacturing roles. Although these examples are radically different from one another in their complexity and product, they have one thing in common, unless developed internally; all of these software packages are almost certainly subject to a license of one form or another.

The software and the agreement which governs the end user's rights to use the software can have a significant impact on the user's

business. Further, these same agreements also are crafted to protect the software developer's rights to control the distribution of their product and prevent unauthorized copying and use. Accordingly, great

care should be given to the software license agreement from both the developer's (licensor) and end-user's (licensee) perspective.

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You may have noticed some changes to the look of this newsletter. Our name has changed and we have a new corporate signature, which incorporates the new name with a new logo and the firm's slogan, "We Specialize in the Law of Creativity."



The logo is designed to be an abstract representation of RatnerPrestia's values and characteristics. The design originated from the representation of an atomic nucleus with parts of its surrounding electronic orbits in the context of a scientific symbol reflective of the firm's foundation in technology. This concept evolved into the current logo, a graphic suggestive of a dynamic legal team focused on integrating science and creativity. The burgundy and warm gray colors were chosen some time ago to represent the corporate identity of RatnerPrestia.

Another change for the firm is the move of our Delaware office to the Nemours Building in downtown Wilmington. This move was necessitated by our continued growth of that office. The new space will allow us to double the size of our practice in Wilmington. The Nemours Building, previously a DuPont building, is easily accessible to I-95. The new location should be more convenient for our clients and for our litigation practice.■

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Software License Agreements

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A software license agreement (“Agreement”) is generally between the provider of the software product and the end user or customer. On occasion, a third party, typically a value-added reseller (VAR) can also be a party to the Agreement. In these cases, the VAR provides services or software modules that interface with the software (most commonly if the software is an “off the shelf” product) and the user’s systems to provide the customer with a custom solution.

As an alternative to providing software, VARs and developers may allow a customer to access their software only at a remote location. In these arrangements, the developer or VAR is acting as an applications service provider (ASP). The right to access the software also is covered by a license agreement.

The Agreement that most individuals are familiar with is the “shrink wrap” or “click wrap” license that typically comes with off the shelf or downloaded software packages, such as Microsoft® Office, Adobe® Acrobat, etc. The customer, upon installation of the software, must agree to the terms of the license by performing some action, such as opening the package or selecting the “I ACCEPT” icon. In this case, the users have no opportunity to negotiate the terms of the license; they must simply “take it or leave it.” The reason for such a license for commodity software is understandable. It can hardly be expected that the developer negotiate a license agreement with every end user of a \$300 word processing/spreadsheet package. Further, the end-user (in this case, generally a consumer) would not have the financial resources to justify negotiating terms for a commodity software product.

In the VAR or ASP situations mentioned above, however, the VAR or developer generally presents the customer/client with the license agreement prior to the development and/or receipt of the software. This

is one point where the customer must be on guard for terms that may leave the customer with little, if any, recourse against the software provider and/or VAR, should the software fail to perform as promised or should the provider fail to maintain the software. In these situations, it is advisable for the customer to negotiate additional terms to protect its interests and provide some relief in the event that the provider and/or VAR fails to meet its obligations. In addition, the customer should ensure that the Agreement protects any of its proprietary information and trade secrets that may become available to the provider during design, installation and maintenance of the software. An ASP licensee must be concerned with the reliability and security of the host’s servers. In the event of a breach, the Agreement also must provide adequate remedies to the customer.

On the other hand, the developer and/or VAR also has proprietary information/trade secrets that may become available to the end user through the use of the software and/or user manuals and must be adequately protected against misuse of the software by the licensee. Protection of these legitimate interests also must be addressed during negotiation and ultimately covered by the license.

In addition, the terms of a negotiated Agreement generally relate to the scope and cost of the software license, availability of source code, testing and acceptance of the software, ownership of software modifications, warranties, indemnification for infringement of third party property rights, such as patent infringement, training and support. With respect to patent infringement, for example, both parties should protect themselves. Specifically, the end user wants assurance from the developer that the software does not infringe the patents of another, and wants to be indemnified in the event of infringement. The developer, on the other hand, should be assured that the indemnification clause is not triggered if the infringement is due

to a change to the software made by the end user or another party.

In certain cases, the software provider might be designing a custom package for the customer. Who owns the product, who owns the copyright to the product, and who has a right to copy or modify the product are important variables in software development contracts. In these situations, it is also advisable for the customer to negotiate a clause to ensure that the software and any maintenance updates do not have any virus, time bomb, trapdoors, etc. that might cause damage to the customer’s systems or permit the provider to “disable” the software without proper cause. Of course, the developer might need to have a means to control use of the software in the event that the end user fails to meet certain terms of the agreement, such as annual license fees. Such disabling mechanisms might also be present in “off the shelf” software as well, typically when dealing with evaluation versions of software, or packages that require annual renewal, such as some virus scanning utilities.

Further, it is essential that the agreement be unambiguous, workable and enforceable. The technical and legal knowledge of your counsel and their understanding of the needs of both parties will significantly enhance the bargaining power of the represented party. No one is looking toward a lawsuit and a clearly drafted agreement can avoid many conflicts. If, on the other hand, such a result occurs it is important that the terms of the Agreement are clear so as to afford relief to the aggrieved party.

Finally, it is important to note that because every situation is different, not every one of the suggestions mentioned above is appropriate in all cases. Therefore, it is best to have your counsel review any software license agreement before agreeing to its terms, allowing them to suggest the additions or deletions to the agreement that best fit your specific needs. ■

Announcing

- RatnerPrestia is pleased to announce that Robert P. Seitter has



joined the firm. Formerly Associate General Counsel and General Patent Counsel for ITT Corporation, Mr. Seitter has been involved with all aspects of intellectual property law since 1968. He has built valuable IP portfolios, enforced and licensed IP rights and implemented intra-company agreements that efficiently met national and international tax regulations regarding the use of intangible assets in a multi-national corporation. In 20 years at ITT, he handled complex IP and other issues in national and international acquisitions, divestitures, start-ups, spin-offs, joint ventures and technology incubators. Mr. Seitter is registered to practice before the United States Patent and Trademark Office, the Commonwealth of Pennsylvania and the State of New York.

Mr. Seitter received his B.S. from Drexel University and his J.D. from George Washington University. He was a member of the American Association of Corporate Patent Counsels when he was with ITT and is a member of the American Intellectual Property Law Association and the Philadelphia Intellectual Property Law Association.

- We are pleased to announce that Frank P. Tise, Ph.D. has joined the



firm as a Patent Agent. Frank has over nineteen years of experience in corporate research and development involving lithographic and gravure printing ink resins, functional and process chemicals for paper manufacture, and integrated circuit photoresists. His technical experience includes photochemistry, phenolic resins, hydrocarbon resins, rosin-based resins, and water-based polyamides. Dr. Tise has over six years of experience in technical project management and product commercialization. He is also an

inventor or co-inventor of three U.S. Patents. He will be resident in the Wilmington office.

- Shareholder Kevin R. Casey's article entitled, "‘Problem’ Trademarks of the Descriptive-Misdescriptive-



Deceptive Types" was published in the Summer 2002 edition of the [Intellectual Property Law Newsletter](#). The newsletter is a publication of the Pennsylvania Bar Association Intellectual Property Law Section and is distributed to all members. ■



RatnerPrestia welcomes summer associates, Christian Bauer, Jenae Avallone, Nancy Stanford and Ming Chang to the Valley Forge office. RatnerPrestia's Summer Associate Program allows law students to experience the practice of an intellectual property law firm with the personal attention that can shape a student's law career.

Supreme Court Overturns? Festo

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claim, courts may presume that the amended text was composed with awareness of the bar, and that the territory surrendered is not an equivalent of the territory claimed. The Court carved out an exception, allowing the patentee to overcome the presumed bar against a claim of equivalence. This is the “rebuttable” part of the presumption against a claim of equivalence: the patentee may overcome the bar against a claim of equivalence where he can show that, at the time of the claim amendment, one skilled in the art could not reasonably be expected to have drafted a claim that would have literally encompassed the alleged equivalent. *See, Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 62 USPQ2d 1705, 2002 WL 1050479 (2002).

Thus, the Court has dismissed the “absolute bar” and replaced it with a rebuttable bar, which applies in those cases where, as the Court stated it, “[t]he equivalent may have been unforeseeable at the time of the application; the rationale underlying the amendment may bear no more than a tangential relation to the equivalent in question; or there may be some other reason suggesting that the patentee could not reasonably be expected to have described the insubstantial substitute in question. In those cases the patentee can overcome the presumption that prosecution history estoppel bars a finding of equivalence.”

More generally, the case represents continued Supreme Court intervention in the patent area; the Court is not deferring to the Federal Circuit. Thus, the Federal Circuit is clearly not (if it ever was) the “Supreme Court of patents.” Some have questioned whether such intervention is consistent with the Federal Circuit’s mandate, as provided by Congress, to establish uniformity in the patent area. Interestingly, the Supreme Court in *Festo* encouraged Congress to intervene in this area (doctrine of

equivalents, prosecution history estoppel) of judicially created legal principles.

Questions raised by *Festo* include: Do the doctrines of equivalents and prosecution history estoppel present legal, factual, or mixed questions? What is the appellate standard of review? Will courts adopt a separate *Festo* hearing addressing the presumption created by the Supreme Court? Will the Federal Circuit tend to favor the presumption or weigh more heavily rebuttal evidence offered against the presumption? Consider also the following hypothetical: Suppose the patent owner asserts that an element of an accused device was not foreseeable and therefore could not have been literally recited in a claim so that the doctrine of equivalents applies; can the accused infringer use this assertion as evidence of non-obviousness to secure allowance of its own patent claim (which includes the “unforeseeable” element)?

It is too early to offer accurate commentary on the effects of the *Festo* decision. One thing continues to remain important, however, even after the Supreme Court’s ruling. Not only must claim amendments be made with knowledge of the potential ramifications, but the entire application must be drafted, from the start, with knowledge of the art and what one skilled in that art could reasonably be expected to have claimed. Stay tuned. ■



Kevin R. Casey served as President of the Benjamin Franklin American Inn of Court for the 2001 - 2002 term. In his capacity as President, Kevin presented all Past Presidents of The Benjamin Franklin American Inn of Court with a Ben Franklin statue giving honor to their presidential term. Here Kevin stands with (left to right) three of his fellow Presidents: Bill Murray, Paul Prestia and George Frank.

Supreme Court Overturns? Festo

Not many of us experienced in patent law were surprised to learn that the U.S. Supreme Court vacated the *en banc* finding of the Court of Appeals of the Federal Circuit (CAFC) this past May when it “redefined” the interplay between the doctrine of equivalents and prosecution history estoppel. But did the Supreme Court really change the rules?

For a quick review of the CAFC’s decision, see the Winter 2001 issue of INSIGHT, 2001, where we reported the CAFC *en banc* ruling. Generally, the CAFC held that an amendment that narrows the scope of a claim for any reason related to the statutory requirements for a patent will give rise to prosecution history estoppel with respect to the amended claim element, and furthermore

that when a claim amendment creates prosecution history estoppel, no range of equivalents is available for the amended claim element. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, No. 95-1066 (Fed. Cir. Nov. 29, 2000) (*en banc*). While so holding, the CAFC acknowledged that its decision would often limit patent owners to a literal infringement analysis. It sought the certainty that “the patentee and the public can look to the prosecution history, a public record, to determine if any prosecution history estoppel arises as to any claim element.”

The U.S. Supreme Court, however, modified this absolute bar and created a “rebuttable presumption” which starts with the premise that when a patentee has chosen to narrow a

Speaker's Forum

- Jonathan Spadt spoke to the junior chemical engineering students at Penn State University on April 11, 2002 about the basics of the patent law system and its place in our economy.



Jonathan focused on the role of chemical engineers not only as inventors, but also as patent attorneys, should any of the students choose to go to law school and enter the intellectual property profession. Approximately 80 students attended, making this third annual event at University Park as well attended as the first two.

- Kevin Casey was responsible for planning the program at this year's Federal Circuit Bar Association's Fourth Bench and Bar Conference. Participating as a part of the program are Chief Judge Mayer and Circuit Judges Newman, Michel, Rader, Linn, Prost, and Senior Circuit Judge Plager of the Federal Circuit. The program also included judges from the Ninth Circuit Court of Appeals and several other Federal Courts, as well as the Chief Administrative Patent Judge of the United States Patent and Trademark Office.



- W. Mark Mullineaux, a shareholder with RatnerPrestia, and Robert E. Rosenthal, a partner with Duane Morris, co-hosted a roundtable program entitled, "Negotiating Intellectual Property Dispute Settlements." The roundtable took place



on March 12 in the law offices of Duane Morris in Philadelphia. The program was organized by the Intellectual Property Litigation Committee of the American Bar Association Section of Litigation.

- Andrew Ney spoke at the LES Philadelphia Chapter meeting held on March 13, 2002 at The Union League in Philadelphia. The presentation entitled, "Treatment of Intellectual Property Related to Joint R&D Projects" included issues such as (a) the sharing of rights to intellectual property coming out of a joint development project, (b) the rights to background intellectual property owned by each party at the start of a joint development project, and (c) the factors that should be considered by the parties to a joint development project on how to share such rights.



- Kevin Casey and Mark Mullineaux were panel experts at the Chester County Bar Association's presentation titled "Legal Issues in Launching a Business" on May 21, 2002. The presentation centered on issues related to intellectual property and its role in counseling start-ups.

- Kenneth N. Nigon, a Shareholder with RatnerPrestia, spoke at the recent American Intellectual Property Law Association's Advanced Computer and Electronic Patent Practice Seminar held in Newport Beach, California. Ken's presenta-



tion entitled, "Business Method Patent Searching, Non-Patent Prior Art Sources" covered resources used by patent searchers for computer software and business method inventions. Approximately 50 people attended the seminar.

- Kenneth N. Nigon also spoke at the American Intellectual Property Law Association's Spring Meeting held in New York City recently. Ken's presentation entitled, "Means-Plus-Function and Step-Plus-Function Claims" addressed recent developments in the court's interpretation patent claims drafted using functional language. Approximately 600 people attended the seminar.

- RatnerPrestia shareholder Joshua L. Cohen has been invited to return as a faculty member at the annual "Patent Prosecution Basic Training Seminar" CLE program to be held August 21 through 24 in Arlington, Virginia. Josh will be conducting a "Claims Drafting Workshop," which is designed to provide new practitioners with practical instruction in drafting patent claims, including specific claim drafting tips that apply to particular technologies. The workshop provides a venue for sharing the knowledge of experienced practitioners with those just starting the practice of intellectual property law. Approximately 200 people are expected to attend the seminar. ■



RatnerPrestia specializes in patent, trademark, and copyright matters and realizes an obligation to keep its clients, and others, informed in those areas. The articles in this newsletter are intended to provide only a brief, general overview of each subject and are not necessarily the opinion of this firm. Nothing herein should be construed as legal advice. RatnerPrestia recommends that readers seek specific information and/or legal advice on particular matters of concern.

INSIGHT is published by RatnerPrestia. The firm welcomes your articles, ideas for articles, comments, and suggestions. Please contact Jonathan H. Spadt, the editor, at our Valley Forge Office.

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