

1 Bryan K. Anderson (SBN 170666)  
 TRACY J. PHILLIPS (SBN 209505)  
 2 SIDLEY AUSTIN BROWN & WOOD LLP  
 555 California Street, Suite 5000  
 3 San Francisco, California 94104  
 Telephone: (415) 772-1200  
 4 Facsimile: (415) 397-4621

5 BRUCE D. FISCHMAN (*PRO HAC VICE*)  
 JONATHAN E. KANOV (*PRO HAC VICE*)  
 6 FISCHMAN, HARVEY & DUTTON, P.A.  
 3050 Biscayne Boulevard, Suite 600  
 7 Miami, Florida 33137  
 Telephone: (305) 576-5522  
 8 Facsimile: (305) 576-7079

9 Attorneys for Defendant  
 SOURCE MEDICAL SOLUTIONS, INC.

11 UNITED STATES DISTRICT COURT  
 12 FOR THE NORTHERN DISTRICT OF CALIFORNIA  
 13 SAN JOSE DIVISION

15 MISHA CONSULTING GROUP, INC., a  
 California corporation, d/b/a eBUSINESS  
 16 DESIGN,

17 Plaintiff/CounterDefendant,

18 vs.

19 SOURCE MEDICAL SOLUTIONS, INC., a  
 Delaware corporation, P. DARYL BROWN,  
 20 an individual and MICHAEL A. PLAIA, an  
 individual,

21 Defendant/CounterPlaintiff.  
 22

No. C02-04908 JW (HRL)

23 **DEFENDANT SOURCE MEDICAL  
 SOLUTIONS, INC'S NOTICE OF  
 MOTION, MOTION AND  
 24 MEMORANDUM OF POINTS AND  
 25 AUTHORITIES IN SUPPORT OF  
 MOTION FOR PARTIAL SUMMARY  
 26 JUDGMENT**

**Declaration of Jonathan E. Kanov and  
 [Proposed] Order Filed Concurrently  
 Herewith**

Date: May 10, 2004  
 Time: 9:00 A.M.  
 Place: Courtroom 8  
 Judge: Hon. James Ware  
 Trial Date: July 13, 2004

27  
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 DEFENDANT'S NOTICE OF MOTION, MOTION AND MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF  
 MOTION FOR PARTIAL SUMMARY JUDGMENT - CASE NO. C02-04908 JW (HRL)

**TABLE OF CONTENTS**

	<u>Page</u>
I. ISSUES TO BE DECIDED .....	3
II. FACTUAL HISTORY .....	3
III. PROCEDURAL HISTORY .....	6
IV. LEGAL STANDARDS .....	8
V. ARGUMENT .....	9
A. The Parties' Agreement Called for EBD's Billing to Source to be Capped at Eight Hours/Day Per Employee For Their Time Spent Working on The Development of SourceRad, and as such, There is No Basis for Recovery for Additional Hours Allegedly Worked Over The Daily Cap .....	9
B. There is No Genuine Issue of Material Fact That EBD is Not Entitled to Any Damages For SOURCE's Hiring of Former EBD Personnel .....	13
1. Five of the Six Former Employees Were Laid Off by EBD Prior to Their Hiring by SOURCE, and the Other Former Employee Resigned in Advance of An Impending Layoff .....	14
2. The No Hire Provision Is Invalid and Unenforceable Under Section 16600 of the California Business and Professions Code and Public Policy .....	16
C. EBD Is Not Entitled to a Joint Copyright Interest In The SourceRad Software .....	21
VI. CONCLUSION .....	25

**TABLE OF AUTHORITIES**

Page

**CASES**

1		
2		
3		
4	<i>Aalmuhammed v. Lee,</i> 202 F. 3d 1227 (9th Cir. 1999) .....	25
5	<i>Ajir v. Exxon Corp.</i> , 195 W.L. 261411 (N.D. Cal. 1995) .....	8
6	<i>Anderson v. Liberty Lobby, Inc.</i> , 477 U.S. 242, 106 S. Ct. 2505, 916 L. Ed. 2d 202 (1986) .....	9
7		
8	<i>Application Group, Inc. v. Hunter Group, Inc.</i> , 61 Cal. App. 4th 881 (1998) .....	21
9	<i>Celotex Corp. v. Catrett</i> , 477 U.S. 317, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986) .....	8, 9
10		
11	<i>Communities for Creative Non-Violence v. Reid</i> , 490 U.S. 730, 109 S. Ct. 2166, 104 L. Ed. 2d 811 (1989) .....	25
12	<i>Crossen v. Foremost-McKesson, Inc.</i> , 537 F. Supp. 1076 (N.D. Cal 1982) .....	12
13		
14	<i>Diodes, Inc. v. Franzen</i> , 260 Cal. App. 2d 244 (1968) .....	20
15	<i>Durham Indus., Inc. v. Tomy Corp.</i> , 630 F. 2d 905 (2d Cir. 1980) .....	24
16		
17	<i>Eisenberg v. Ins. Co. of North Am.</i> , 815 F. 2d 1285 (9th Cir. 1987) .....	8
18	<i>Entertainment Research Group, Inc. v. Genesis Creative Group, Inc.</i> , 122 F. 3d 1211 (9th Cir. 1997) .....	24
19		
20	<i>Farrace v. Mass. Mutual Life Ins. Co.</i> , 1996 WL 570488 (N.D. Cal. 1996) .....	8
21	<i>Florida ex rel. Butterworth v. Exxon Corp.</i> , 109 F. 3d 602 (9th Cir. 1997) .....	12
22	<i>Hedging Concepts, Inc. v. First Alliance Mortgage Co.</i> , 41 Cal. App. 4th 1410 (1996) .....	11, 12
23		
24	<i>Heyde Cos., Inc. v. Dove Healthcare, LLC</i> , 637 N.W. 2d 437 (Wis. Ct. App. 2001) .....	18, 19, 20
25	<i>Hospital Consultants, Inc. v. Potyka</i> , 531 S.W. 2d 657 (Texas Civ. App. 1975) .....	18, 19, 20
26		
27	<i>Liberty Mutual Ins. Co. v. Gallagher &amp; Co.</i> , 1994 WL 715613 (N.D. Cal. 1994) .....	15
28		

1	<i>Masson v. New Yorker Magazine, Inc.</i> , 501 U.S. 496, 111 S. Ct. 2419, 115 L. Ed. 2d 447 (1991) .....	9
2		
3	<i>Matsushita Electric Industrial Co., Ltd. v. Zenith Radio Corp.</i> , 475 U.S. 574, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (1986).....	12
4	<i>Metro Traffic Control, Inc. v. Shaddow Tracking Network</i> , 22 Cal. App. 4th 853 (1994) .....	20
5		
6	<i>Moss, Adams &amp; Co. v. Shilling</i> , 179 Cal. App. 3d 124 (1986) .....	15
7	<i>Moncharsh v. Blase</i> , 144 Cal. App. 3d 946 (1993) .....	16
8		
9	<i>North Coast Indus. v. Jason Maxwell, Inc.</i> , 972 F. 2d 1031 (9th Cir. 1992) .....	24
10	<i>State Farm Fire and Casualty Co. v. Geary</i> , 699 F. Supp. 756 (N.D. Cal. 1987) .....	8
11		
12	<i>Wal-Noon Corp. v. Hill</i> , 45 Cal. App. 3d 605 (1975) .....	12
13	<i>Warren v. Fox Family Worldwide, Inc.</i> , 171 F. Supp. 2d 1057 (C.D. Cal 2001) .....	25
14		
15	<i>Watson Labs, Inc. v. Rhone-Poulenc Rorer, Inc.</i> , 178 F. Supp. 2d 1099 (C.D. Cal. 2001) .....	8
16	<i>Webb v. West Side District Hosp.</i> , 144 Cal. App. 3d 946 (1983) .....	16, 17, 18, 19, 20
17		
18	<i>Wilkerson v. Wells Fargo Bank</i> , 212 Cal. App. 3d 1217 (1989) .....	12

**STATUTES**

20	17 U.S.C. § 201(b) .....	25
21		
22	Cal. Prof. Code § 16600 .....	16
23	Fed.R.Civ.P. 56 .....	2, 8, 9 11

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1 **NOTICE OF MOTION AND MOTION**

2 TO: MISHA CONSULTING GROUP, INC. D/B/A eBUSINESS DESIGN AND TO ITS  
3 COUNSEL OF RECORD:

4 PLEASE TAKE NOTICE THAT at 9:00 A.M., on May 10, 2004, or as soon thereafter at the  
5 Motion can be heard, at 280 South First Street, San Jose, California, Courtroom 8, SOURCE  
6 MEDICAL SOLUTIONS, INC. ("SOURCE") will and hereby does move for Partial Summary  
7 Judgment pursuant to Federal Rule of Civil Procedure 56 on the following claims included in  
8 Plaintiff MISHA CONSULTING GROUP, INC., d/b/a eBUSINESS DESIGN's ("EBD") Second  
9 Amended Complaint:

10 (1) EBD's claim for damages for additional hours (over 8 hrs./day) worked on the  
11 SourceRad project which were never billed or invoiced to SOURCE;

12 (2) EBD's claim for damages for SOURCE's hiring of former EBD employees who had  
13 been released from EBD's employ; and

14 (3) EBD's claim for damages for an alleged joint copyright ownership in SourceRad.

15 Source also seeks partial summary judgment on its fifth counterclaim for declaratory relief in  
16 relation to the copyright claim.

17 This motion is based on this Notice of Motion and Motion, the attached Memorandum of  
18 Points and Authorities, the Declaration of Jonathan E. Kanov filed concurrently herewith, and such  
19 further matters as may be brought to the Court's attention prior to submission of this motion for  
20 decision.

1 MEMORANDUM OF POINTS AND AUTHORITIES

2 After over a year of aggressive discovery taken by both parties in this case, including six  
3 depositions taken in Atlanta, Birmingham and San Francisco in the last three weeks prior to the  
4 cutoff date, discovery closed on April 12, 2004.<sup>1</sup> Although the myriad of factual disputes in this  
5 case regarding the development of SourceRad and its functionality prevent a final disposition in this  
6 case by summary judgment, SOURCE is seeking summary adjudication of some discrete claims and  
7 issues raised by the parties for which there is no genuine issue of material fact, which will help focus  
8 the issues to be litigated. This should greatly assist both parties and the Court in conserving valuable  
9 resources.

10 SOURCE is entitled to judgment as a matter of law as to Plaintiff's claim for damages for  
11 hours worked by its employees on the SourceRad project that were never billed to SOURCE. The  
12 parties' agreement called for EBD's billing to SOURCE to be capped at eight hours/day per  
13 employee for their time spent on the development of SourceRad, and as such, there is no genuine  
14 issue of material fact that EBD is not entitled to recovery for additional hours allegedly worked over  
15 the daily cap. Furthermore, SOURCE is entitled to judgment as a matter of law as to Plaintiff's  
16 claim for damages due to SOURCE's hiring six former employees of Plaintiff. Five of the six  
17 former employees were laid off prior to the hiring by SOURCE, and the other former employee  
18 resigned in advance of an impending lay off. The agreement between the parties does not allow for  
19 EBD to be compensated for Source's hiring of these former EBD employees.

20 Lastly, SOURCE is entitled to judgment as a matter of law as to Plaintiff's alleged joint  
21 ownership in any copyright interest in SourceRad pursuant to the purported agreement between the  
22 parties. First, the amendment to said agreement specifically states that under no circumstances shall  
23 the software and deliverables developed and delivered to SOURCE be deemed to be works of joint

24 <sup>1</sup> The undersigned has diligently drafted the instant motion after returning to his office on April 12, 2004 from several  
25 weeks of depositions taken around the country in this matter. SOURCE is filing its Motion for Partial Summary  
26 Judgment pursuant to Fed.R.Civ.P. 56, which provides that summary judgment motions are to be served 10 days before  
27 the hearing with or without supporting affidavits. SOURCE notes that Local Rule 56-1 allows for the filing of summary  
28 judgment motions pursuant to the timing as laid out in F.R.C.P. 56. However, SOURCE is certainly amenable if the  
Court desires to reschedule the hearing, and SOURCE will also agree to a shortened time for filing of its Reply if this  
will aid any of the Court's scheduling concerns.

1 authorship or any other designation tending to imply that Plaintiff has or retains ownership or  
2 authorship rights thereto. Additionally, EBD has repeatedly acknowledged under oath that its  
3 contribution to the SourceRad project was a “work made for hire,” which renders the employer or  
4 other person for whom the work was prepared, SOURCE, the sole author and owner of the  
5 copyright.

6 **I. ISSUES TO BE DECIDED**

7 (1) Whether SOURCE is entitled to judgment as a matter of law as to Plaintiff’s  
8 claim for damages for hours worked by its employees on the SourceRad project that were never  
9 included in invoices submitted to SOURCE, since Amardeep Misha, Plaintiff’s Chief Executive  
10 Officer who entered into the agreement with SOURCE, has already testified that the parties’  
11 agreement capped all billing at 8 hours a day per employee.

12 (2) Whether SOURCE is entitled to judgment as a matter of law as to Plaintiff’s  
13 claim for damages due to SOURCE’s hiring six former employees of Plaintiff, where five of the six  
14 former employees were laid off by Plaintiff months before being hired by SOURCE and the other  
15 resigned in advance of an impending layoff.

16 (3) Whether SOURCE is entitled to judgment as a matter of law as to Plaintiff’s  
17 alleged joint ownership in any copyright interest in and to SourceRad pursuant to the purported  
18 agreement between the parties, whereby EBD acknowledges under oath a “work made for hire,” and  
19 the first amendment to said agreement states that under no circumstances shall the software and  
20 deliverables developed and delivered to SOURCE be deemed to be works of joint authorship or any  
21 other designation tending to imply that Plaintiff has or retains ownership or authorship rights thereto.

22 **II. FACTUAL HISTORY**

23 Defendant SOURCE provides outpatient information management solutions for various  
24 healthcare facilities. SOURCE’s solutions enable healthcare providers to quickly and easily collect  
25 information about their patients using the latest computer technologies, dramatically reducing  
26 paperwork and errors associated with more traditional methods of medical documentation.

27 SOURCE has its headquarters and principal place of business in Birmingham, Alabama. Plaintiff  
28

1 EBD, a computer software consulting and development company, has its headquarters and principal  
2 place of business in San Jose, California.

3 In April, 2001, EBD and SOURCE entered into an oral agreement under which EBD was to  
4 provide development, design and testing services to Source Medical for the development of a  
5 radiology software application which came to be known as SourceRad. *See* Second Amended  
6 Complaint (“SAC”) ¶¶ 1, 14. SourceRad was to be a complete web based radiology information  
7 management solution for diagnostic imaging centers. *Id.* ¶ 13. EBD’s business is to design and  
8 write custom software programs – generally software programs needed by businesses to perform  
9 specialized functions for which boxed, “off-the-shelf” software is unavailable. *Id.* ¶ 7. Essentially a  
10 software boutique, EBD specializes in difficult products. *Id.* EBD’s programmers are touted as  
11 being among the best in the industry. *Id.* ¶ 4.

12 A functional, tested version 1.0 of the software was to be delivered by EBD to SOURCE on  
13 October 31, 2001, and it had to be rolled out to 140 HealthSouth diagnostic centers between  
14 November, 2001 and June, 2002. *See* SOURCE’s Amended Answer, Affirmative Defenses and  
15 Counterclaims (“Amended Counterclaims”) ¶ 28. While Plaintiff is attempting to deflect blame for  
16 any of the problems with SourceRad, it is undisputed that SourceRad lacked functionality in many  
17 areas, was incomplete, unstable and did not allow the end users to properly and efficiently operate  
18 their medical centers. *Id.* at ¶ 36. Some of the plethora of bugs experienced in the software include  
19 the inability to schedule a patient, register a patient, insure that the referring physician gets the  
20 necessary medical reports (x-ray, CAT scan or the like) and properly bill claims. *See* Dep. of Becky  
21 Brown at 41-47, attached to the Declaration of Jonathan E. Kanov in Support of the Motion for  
22 Partial Summary Judgment (“Kanov Decl.”) as Exhibit A.

23 Both parties have raised causes of action for breaches of an oral and/or implied contract.<sup>2</sup> It  
24 should be noted that while the parties each allege some different terms govern the oral contract

25 \_\_\_\_\_  
26 <sup>2</sup> Plaintiff is largely seeking recovery of amounts in unpaid invoices over and above the \$4,794,306 already paid by  
27 SOURCE for EBD’s development work. SOURCE is seeking damages which include additional development costs  
28 (internal and third party) necessitated by the lack of functionality in the application and lost sales and revenues, in  
addition to a setoff for amounts EBD overbilled.



1 between the parties, for purposes of the instant Motion for Summary Judgment, SOURCE will  
2 adhere to EBD's version of the contractual terms. Although the Court's April 24, 2003 order  
3 dismissed with prejudice Plaintiff's written contractual claims because of SOURCE's lack of  
4 acceptance of Plaintiff's written proposal which references and suggests the adoption of contractual  
5 terms from a July 31, 2000 Professional Services and Nondisclosure Agreement ("PSNA") between  
6 EBD and a non-party to this action, SurgiCenter Information Systems ("SIS"), EBD later amended  
7 its Complaint and is now traveling under an oral contact based on those same terms in the EBD-SIS  
8 PSNA. SAC at ¶ 20.

9 EBD billed SOURCE for the SourceRad development on a time and materials basis, sending  
10 monthly invoices to SOURCE. SAC ¶ 1. The parties agreed that EBD's charges to SOURCE would  
11 be capped at eight hours a day per employee working on the SourceRad project. *See* Dep. of  
12 Amardeep Misha, at 213-215, 233-234, attached to Kanov Decl. at B. The invoices which EBD sent  
13 to SOURCE reflect this eight hour a day cap per weekday worked and per weekend day worked after  
14 November 14, 2001. *Id.* at Ex. C; Document F-3 at Ex. D.

15 EBD seeks damages for SOURCE'S hiring of six former EBD employees, pursuant to  
16 paragraph 11 of the PSNA. SAC ¶¶ 42-46. These individuals are Srinivas Chari, Dharmesh Vora,  
17 Ajit Goel, Yogesh Agrawal, Vinod Shetye and Hareesh Pereira. However, even assuming the terms  
18 of the PSNA apply, paragraph 11 only prohibits the hiring by SOURCE of any individuals that are  
19 "working for and being paid by the party [EBD]." *See* EBD-SIS PSNA attached to Kanov Decl. at  
20 Exhibit E. Five of the six former EBD employees at issue (all except Dharmesh Vora) had been laid  
21 off by EBD months before approaching SOURCE for work and eventually being hired by SOURCE.  
22 *See* Misha Dep. at 243-244 and exhibits 119-123 attached to Kanov Decl. at Exhibit B; Affidavit of  
23 SOURCE's Assistant Vice President of Human Resources, Tracy Vebber, which contains hiring  
24 dates for these individuals, attached to Kanov Decl. at Exhibit F. Mr. Vora resigned from EBD's  
25 employ prior to working for SOURCE, in lieu of an impending layoff. *See* Dep. of Dharmesh Vora  
26 at 276: 18-277:23; 284:15-23, attached to Kanov Decl. at Exhibit G. Furthermore, all of these  
27 former employees at issue were Indian nationals who were in the United States based on H-1B visas,  
28

1 which allow American employers to hire educated and/or experienced foreign workers to work in the  
2 United States. They all would have been forced to leave the country without gainful employment in  
3 a specialty occupation complying with the H-1B visa guidelines. *See* Kanov. Decl.; Ex. F.

4 Lastly, EBD has raised a cause of action for an accounting based on an alleged joint  
5 copyright interest in and to the software. SAC ¶¶ 38-41; 95-99. Pursuant solely to paragraph 7 of  
6 the PSNA, EBD alleges it is entitled to retain a joint copyright interest in the software until it  
7 receives full payment for its work done on the SourceRad project. *Id.* ¶ 39. EBD is seeking  
8 damages in the amount of 50% of any revenues from the sale or license of SourceRad based on this  
9 purported joint copyright interest in the software. *Id.* ¶ 97. EBD also filed several applications and  
10 ultimately received a copyright registration with the U.S. Copyright Office based on these  
11 allegations. *See* Amended Counterclaims Exs. A-E, which are also attached to Kanov Decl. at  
12 composite Exhibit H. In all of these filings with the Copyright Office, EBD attested, under oath, that  
13 their contribution was a “work made for hire.” *Id.* Additionally, paragraph 7 of the PSNA was  
14 clearly amended in the First Amendment to the PSNA dated March, 2001, executed by both parties.  
15 A copy of First Amendment to PSNA is attached to the Kanov Decl. at Exhibit I. The First  
16 Amendment to the PSNA alters paragraph 7 in its entirety and states that “under no circumstances  
17 shall the software and deliverables developed and delivered to Client under the Agreement be  
18 deemed to be works of joint authorship or any other designation tending to imply that Consultant  
19 [EBD] has or attains ownership or authorship rights thereto.” *Id.*

### 20 **III. PROCEDURAL HISTORY**

21 Plaintiff originally brought suit against SOURCE for alleged breach of contract, quantum  
22 meruit, monies for services rendered, account stated and provisional relief. These claims all  
23 stemmed from alleged monies owed by Defendant for work provided by Plaintiff in connection with  
24 the design and development of SourceRad. Plaintiff also moved for a Right to Attach Order based  
25 on its contract claims.

26 On January 27, 2003, the Court entered an Order Granting Defendant’s Motion to Dismiss  
27 With Leave to Amend and Denying Plaintiff’s Motion for a Right to Attach Order. The Court  
28

1 dismissed Plaintiff's claims for breach of contract, account stated and provisional relief, holding that  
2 Plaintiff cannot properly plead Defendant accepted Plaintiff's written proposal and its terms  
3 (included in the EBD-SIS PSNA dated July 31, 2000) by Defendant's e-mail sent on April 24, 2001.  
4 *See* Court's January 27, 2003 Order at 6. The Court held that where the parties understood that  
5 acceptance of an offer would be signified by a signature, a binding contract does not arise until this  
6 is done. *Id.* at 5.

7 Plaintiff filed its First Amended Complaint on February 26, 2003 against Defendants  
8 SOURCE, P. Daryl Brown, SOURCE's Chief Executive Officer, and Michael A. Plaia, SOURCE's  
9 Chief Operating Officer. In the First Amended Complaint, Plaintiff alleged breach of written  
10 contract, breach of oral contract, quantum meruit, money for services rendered, account stated,  
11 provisional relief, copyright infringement, and vicarious and contributory copyright infringement.  
12 Defendant SOURCE filed a motion to dismiss Plaintiff's claims for breach of written contract, oral  
13 contract, provisional relief and copyright infringement.

14 On April 24, 2003, the Court entered an Order granting Defendant's Motion to Dismiss.  
15 Despite Plaintiff's allegations of e-mail acceptance and that the parties discussed, clarified and  
16 agreed orally to the terms of the written Agreement, the Court reiterated that there could be no  
17 contract action brought on the written Agreement without the signature requirement being satisfied.  
18 *See* Court's April 24, 2003 Order at 6. Hence, the Court dismissed Plaintiff's breach of written  
19 contract counts, with prejudice, and dismissed the oral contract counts, with leave to amend. The  
20 Court also dismissed Plaintiff's provisional relief claim, with leave to amend, and dismissed the  
21 copyright infringement claim, with prejudice.

22 On May 19, 2003, Plaintiff filed its Second Amended Complaint for breach of oral contract,  
23 breach of implied contract, equitable estoppel, other monetary relief, provisional relief and  
24 accounting. Defendant's Motion to Dismiss certain claims and for sanctions was denied on July 14,  
25 2003. Defendant's Amended Counterclaims were filed on October 15, 2003, and they include  
26 causes of action for breach of oral contract, breach of implied contract, intentional misrepresentation  
27 and negligent misrepresentation, with SOURCE seeking compensatory and consequential damages  
28

1 including, but not limited to, lost revenues and profits, increased costs associated with fixing and  
2 completing the software on its own, increased costs from the delay of rolling out the software,  
3 overpayment for EBD services and damages to its business reputation. SOURCE also included a  
4 fifth counterclaim for declaratory relief seeking a declaration that EBD is not entitled to a joint  
5 copyright interest in SourceRad and must relinquish any purported rights, title or interest in and to  
6 the SourceRad software.

7 **IV. LEGAL STANDARDS**

8 Summary judgment is properly granted when no genuine and disputed issues of material fact  
9 remain, and when, viewing the evidence most favorably to the non-moving party, the movant is  
10 clearly entitled to prevail as a matter of law. Fed. R. Civ. P. 56; *Celotex Corp. v. Catrett*, 477 U.S.  
11 317, 322-23, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986). The question in summary judgment motions  
12 is whether reasonable minds could differ as to the import of the evidence. *Eisenberg v. Ins. Co. of*  
13 *North Am.*, 815 F. 2d 1285, 1288 (9th Cir. 1987); *Farrace v. Mass. Mutual Life Ins. Co.*, 1996 WL  
14 570488 at \*1 (N.D. Cal. 1996). If opposing evidence is merely colorable or is not significantly  
15 probative, summary judgment may be granted. See *Eisenberg*, 815 F.2d at 1288.

16 Partial summary judgment that falls short of a final determination, even of a single claim, is  
17 authorized by Rule 56 in order to limit the issues to be tried. *State Farm Fire and Casualty Co. v.*  
18 *Geary*, 699 F. Supp. 756, 759 (N.D. Cal. 1987). The purpose of summary judgment is met when the  
19 summary adjudication of discrete theories of liability or claimed damages helps to focus the issues to  
20 be litigated, thus conserving judicial resources. See *Watson Labs, Inc. v. Rhone-Poulenc Rorer, Inc.*,  
21 178 F. Supp. 2d 1099, 1123 (C.D. Cal. 2001) (court rejected plaintiff's procedural objections to  
22 partial summary judgment motion that sought only to narrow the issues on one part of a damage  
23 claim); *Ajir v. Exxon Corp.*, 195 WL 261411 at \*4 (N.D. Cal. 1995)(concluding that a motion for  
24 partial summary judgment may properly be directed to only part of a claim).

25 A party seeking partial summary judgment bears the initial burden of informing the court of  
26 the basis for its motion and of identifying those portions of the pleadings and discovery responses  
27 that demonstrate the absence of a genuine issue of material fact. *Celotex*, 477 U.S. at 323. Where  
28

1 the moving party will have the burden of proof on an issue at trial, the movant must affirmatively  
2 demonstrate that no reasonable trier of fact could find other than for the moving party. *Id.* On an  
3 issue as to which the nonmoving party will have the burden of proof, however, the movant can  
4 prevail simply by pointing out the insufficiency of evidence to support the nonmovant's case. *Id.*  
5 The nonmoving party then must set forth "specific facts showing there is a genuine issue for trial."  
6 *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 250, 106 S. Ct. 2505, 916 L. Ed. 2d 202 (1986);  
7 F.R.C.P. 56(e). Thus, entry of summary judgment is mandated against a party if, after adequate time  
8 for discovery and upon motion, the party fails to make a showing sufficient to establish the existence  
9 of an element essential to that party's case, and on which that party will bear the burden of proof at  
10 trial. *Celotex*, 477 U.S. at 322.

11 In judging evidence at the summary judgment stage, the court must draw all justifiable  
12 inferences in favor of the nonmoving party, including questions of credibility and of the weight to be  
13 accorded particular evidence. *Masson v. New Yorker Magazine, Inc.*, 501 U.S. 496, 520, 111 S. Ct.  
14 2419, 2435, 115 L. Ed. 2d 447 (1991). With all of these standards in mind, the court can consider  
15 the motion before it. The parties are operating under California law.

## 16 V. ARGUMENT

17 Defendant SOURCE seeks partial summary judgment on three areas of liability alleged in the  
18 Second Amended Complaint Plaintiff is not entitled to damages for unbilled hours, as the parties'  
19 agreement limits EBD to the invoiced amounts, which were capped at 8 hours/day per employee.  
20 Furthermore, Plaintiff is not entitled to damages for SOURCE's hiring of six former EBD employees  
21 who were laid off or resigned and who no longer worked for EBD. Lastly, Plaintiff does not have a  
22 joint copyright interest in and to SourceRad and is not entitled to any damages as a result thereof.

23 Since there are no genuine disputed issues of material fact relating to these issues and claims,  
24 Source is clearly entitled to prevail as a matter of law, even when viewing the evidence most  
25 favorably to Plaintiff.

### 26 A. The Parties' Agreement Called for EBD's Billing to Source to be Capped at 27 Eight Hours/Day Per Employee For Their Time Spent Working on The 28 Development of SourceRad, and as such, There is No Basis for Recovery for

1 Additional Hours Allegedly Worked Over The Daily Cap

2 Amardeep Misha, Chief Executive Officer and founder of EBD, entered into a billing  
3 agreement with SOURCE for the SourceRad project by which each EBD staff member's time billed  
4 for the development of SourceRad would be capped at 8 hours per day. See Misha Dep. at 213-215;  
5 233-235, attached to Kanov Decl. at Exhibit B. Mr. Misha testified under oath as follows:

6 Q. Okay. Was there ever an understanding between the parties that  
7 Source Medical was only to bill for eight hours a day.

8 A. Source Medical or eBD?

9 Q. I'm sorry. That EBD was only to bill for eight hours a day on  
10 SourceRad.

11 A. I think, when we were working for SIS, Tom Hui – I had a  
12 conversation with him where he had said that for him to predict  
13 – for his budgeting purposes, to predict how much he should  
14 allocate for the work that we were doing it would be helpful if  
15 we could bill on an eight hour day cycle. So that was the  
16 understanding, and we billed SIS, I think, the first invoice I  
17 think may have been on – I'm not sure about this, but the first  
18 invoice may not have followed that model, but all other  
19 invoices, after that conversation, were on an eight hour billing  
20 cycle.

\*\*\*\*

21 Q. But when was that discussed to be also a part of the SourceRad  
22 project?

23 A. All the terms that we were following were essentially a carry  
24 over from whatever had been agreed with SIS. So those terms  
25 carried on.

26 See Misha Dep. at 213-215, attached to Kanov Decl. at Ex. B.

27 Mr. Misha was asked later in his deposition for the basis for EBD seeking recovery of  
28 alleged hours worked over the eight hour/day cap which were never billed or invoiced to SOURCE,  
and Mr. Misha reaffirmed his previous testimony by stating as follows:

Q. Okay. But was there any parameter that allowed for, then, the  
billing of uninvoiced hours, should one of those invoices not be  
paid in a timely fashion?

[Objection by Mr. Gerlach.]

Q. Was that ever part of the parties' agreement?

A. That the invoices would be paid, yeah, I think it was part of the  
agreement.

Q. No, that's not what I'm saying. You previously testified that  
the parties had an agreement that Source Medical would not be  
billed, for SourceRad, more than eight hours per day, correct?

A. Yeah. That was a courtesy I had extended to Tom.

Id. at 233-234.

1           Additionally, there is e-mail correspondence between the parties offering further proof of the  
2 agreement capping the number of hours billed to SOURCE for EBD's development work. A  
3 November 14, 2001 e-mail exchange between Tom Hui, SOURCE'S Chief Technology Officer, and  
4 Brian Clark, EBD's Project Manager for SourceRad, indicates EBD has been charging SOURCE  
5 eight hours per weekday regardless of actual hours worked and that EBD reached agreement with  
6 SOURCE to follow the same procedure for weekend days worked starting after November 14th. *See*  
7 Kanov Decl. at Ex. D (document labeled F-3). EBD billed SOURCE for eight hour days even when  
8 EBD employees worked less than eight hours on a particular day, as exhibited by an October 1, 2001  
9 e-mail from Alok Bal, an EBD Project Manager. *See id.* Ex. C. In Mr. Bal's e-mail, he says that  
10 EBD staff can each bill eight hours on September 11, 2001, even though the offices closed early that  
11 day, because the parties have an agreement that SOURCE will be billed eight hours/day regardless  
12 of actuals. Mr. Clark also has that same understanding in his portion of the e-mail chain included in  
13 Exhibit C.

14           It is readily apparent that EBD agreed, with its collective eyes wide open, that its  
15 compensation on the SourceRad project would be limited to hourly billing for the services of its  
16 programmers, developers and other management staff, to be capped at eight hours/day per employee,  
17 plus any billable costs. EBD's financial expert witness, Michael Wagner, acknowledges that EBD's  
18 invoices to SOURCE reflect a billing of eight hours per weekday worked and per weekend day  
19 worked after November 14, 2001, irrespective of the number of hours EBD personnel actually  
20 worked. *See Kanov Decl. at Ex. D at p. 6.* Even if, *arguendo*, EBD staff members did work more  
21 than eight hours on a particular day, EBD is constrained by its contractual agreement with SOURCE.  
22 There is no authority for the proposition that this contractual limit is inoperative with respect to  
23 EBD's claim for collection of monies for hours worked over this cap.

24           The law is well settled in California that there is no equitable basis for an implied-in-law  
25 promise to pay the reasonable value of one's services when the parties have an actual agreement  
26 covering compensation. *Hedging Concepts, Inc. v. First Alliance Mortgage Co.*, 41 Cal. App. 4th  
27  
28

1 1410, 1419 (1996)<sup>3</sup>; *see also* 55 California Jurisprudence Third, Restitution, § 19, at 328 *et seq.*; *Id*  
2 § 58, and at 375-376 (no ground to imply payment obligation in conflict with express contract).  
3 “The reason for the rule is simply that where the parties have freely, fairly and voluntarily bargained  
4 for certain benefits in exchange for undertaking certain obligations, it would be inequitable to imply  
5 a different liability ....” *Wal-Noon Corp. v. Hill*, 45 Cal. App. 3d 605, 613 (1975); *Wilkerson v.*  
6 *Wells Fargo Bank*, 212 Cal. App. 3d 1217, 1227 (1989), *disapproved on other grounds* (inequitable  
7 to imply obligation different from those in parties’ bargain). Quite simply, there cannot be a valid,  
8 express contract and implied contract each embracing the same subject but requiring different  
9 results. *Crossen v. Foremost-McKesson, Inc.*, 537 F. Supp. 1076, 1077 (N.D. Cal 1982); *Wal-Noon*,  
10 45 Cal. App. 3d at 613.<sup>4</sup>

11 When the parties have an actual contract covering a subject, a court cannot – not even under  
12 the guise of equity jurisprudence – substitute the court’s own concepts of fairness regarding that  
13 subject in place of the parties’ own contract. *Florida ex rel. Butterworth v. Exxon Corp.*, 109 F. 3d  
14 602, 608-612 (9th Cir. 1997) (when a person makes an agreement with eyes open to be paid a certain  
15 amount for his services, that is all he gets). Since both parties agree that there is an oral contract  
16 which covers EBD’s compensation for its work on the SourceRad project, the terms of said contract  
17 will control the subject of compensation. *Id.* at 612 (attorney who agreed not to exceed 425 hours in  
18 billing on consolidated antitrust cases is limited to the stated amount, even if he worked more hours  
19 in connection with the suit); *see also Hedging Concepts, Inc.*, 41 Cal. App. 4th at 1419-1421. Thus,  
20 the parties’ contractual term which capped billing at eight hours a day per employee precludes any  
21 recovery by EBD of additional hours worked but not invoiced or billed, and SOURCE is entitled to  
22 summary judgment as a matter of law. *See Matsushita Electric Industrial Co., Ltd. v. Zenith Radio*  
23 *Corp.*, 475 U.S. 574, 587, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (1986)(quoting Rule 56(e) advisory  
24

25 <sup>3</sup> EBD asks for damages pursuant to unbilled hours allegedly worked by its staff in numerous causes of action, including  
26 quantum meruit. Quantum meruit is an equitable theory which supplies, by implication and in furtherance of equity,  
27 implicitly missing contractual terms. *Hedging Concepts, Inc.*, 41 Cal. App. 4th at 1419. Contractual terms regarding a  
28 subject are not implicitly missing when the parties have agreed on express terms regarding that subject. *Id.*

<sup>4</sup> The Court does not have to stretch to make a finding that an actual contract exists between the parties for capping  
billable hours at eight per day, as attested to by Mr. Misha himself.



1 committee's note on 1963 amendments) ("purpose of summary judgment is to 'pierce the pleadings  
2 and to assess the proof in order to see whether there is a genuine need for trial'" on some or all  
3 issues).

4 **B. There is No Genuine Issue of Material Fact That EBD is Not Entitled to Any**  
5 **Damages For SOURCE's Hiring of Former EBD Personnel**

6 EBD's third and fourth causes of action in its Second Amended Complaint for breach of an  
7 oral contract and/or implied contract allege that EBD is entitled to damages for SOURCE's hiring of  
8 six individuals who were formerly employees of EBD. The sole basis for these damages is  
9 paragraph 11 of the EBD-SIS PSNA, which provides for a \$75,000 penalty for each violation of the  
10 no hiring language. Even assuming in the light most favorable to EBD that the parties traveled  
11 under the PSNA, a closer look at the contract language in paragraph 11 reveals that EBD is not  
12 entitled to any damages, as the evidence clearly shows that there was no violation of this provision.

13 The alleged no hiring clause from the PSNA states as follows:

- 14 11. No Solicitation or Hiring. Either Party or that "Party's  
15 Representatives," as defined below, shall not solicit or hire the  
16 Other Party's Personnel(s), as defined below, during the term  
17 of the work contemplated under this Agreement and for  
18 twenty-four (24) months thereafter without the Other Party's  
19 prior written consent. If any Party violates this clause of the  
20 Agreement and solicits or hires any Personnel(s) before the  
21 expiration of the 24-month period specified in this clause, that  
22 Party shall, within 5 days of notice, pay the Other Party a fee of  
23 Seventy-Five Thousand Dollars (\$75,000) for each violation.

24 \*\*\*\*\*

25 For the purpose of this Agreement, the term "Party's  
26 Personnel(s)" will include any individual(s) that are working  
27 for and being paid for by the Party.

28 As discussed below, none of the individuals hired by SOURCE were "working for and being paid"  
by EBD at the time of their hire.

1           1.       **Five of the Six Former Employees Were Laid Off by EBD Prior to**  
2                   **Their Hiring by SOURCE, and the Other Former Employee**  
3                   **Resigned in Advance of An Impending Layoff**

4           Plaintiff alleges that SOURCE proceeded to hire away six of EBD's former employees. SAC

5 ¶ 5. However, as stated in the definition of "Party's Personnel(s)," *former employees* are not  
6 included in the no hire clause. The six former employees at issue are Srinivas Chari, Hareesh  
7 Pereira, Ajit Goel, Yogesh Agrawal, Vinod Shetye and Dharmesh Vora. The first five listed  
8 employees were all laid off by EBD months prior to being approached and coming to work for  
9 SOURCE, and Dharmesh Vora had resigned in advance of his impending dismissal.<sup>5</sup>

10           For a large number of EBD employees who worked on SourceRad, once EBD's involvement  
11 in the project was over, they were out of a job. *See, e.g.,* Declaration of Vora (Docket No. 33) at pp.  
12 7-8; Declaration of Chari (Docket No. 38) at p. 7; Declaration of Pereira (Docket No. 34) at pp. 7-8.  
13 Soon after the six employees at issue began work at EBD, they learned that once a particular project  
14 was over, there was a strong likelihood they would be laid off and EBD would simply restaff from  
15 India when the next engagement occurred. *Id.*; *see also* Vora Dep. at 277-278 attached to Kanov  
16 Decl. at Exhibit G. This had consequences for their ability to remain in the United States, pursuant  
17 to their H-1B work visas.

18           EBD had retained the services of all of the six programmers at issue from India, and these  
19 individuals came to the United States through H-1B work visas. A H-1B visa is the most common  
20 type of visa used by American employers to obtain employment authorization for foreign workers.  
21 It is very popular because it enables American employers to hire educated and/or experienced  
22 foreign workers to come work in the United States. In the computer and high tech sectors, the H-1B  
23 is an essential business tool. The H-1B is particularly desirable because the American employer can  
24 obtain the H-1B without establishing that there is a shortage of qualified American workers.

25 \_\_\_\_\_  
26 <sup>5</sup> Unlike any of the other individuals at issue, there is evidence that SOURCE had communications with EBD about the  
27 solicitation of Mr. Vora during his employ at EBD. However, review of Plaintiff's Second Amended Complaint reveals  
28 that EBD is only seeking damages of \$75,000 per employee for each EBD employee whom SOURCE hired. *See* SAC  
¶¶ 61-70. Since Mr. Vora had resigned in lieu of an impending release, he was not an EBD employee when ultimately  
hired by SOURCE, and the PSNA was not violated.

1 The dates that each employee was released or left EBD and the date of hire by Source  
2 Medical are as follows:

	<u>Date of Release by EBD</u> <sup>6</sup>	<u>Date of Hire by Source Medical</u> <sup>7</sup>	
3			
4	AGIT GOEL	June 21, 2002	October 7, 2002
5	VINOD SHETYE	June 21, 2002	August 21, 2002
6	YOGESH AGRAWAL	May 28, 2002	October 7, 2002
7	HAREESH PEREIRA	May 8, 2002	August 19, 2002
8	SRINIVAS CHARI	May 8, 2002	August 26, 2002
9	DHARMESH VORA	July 19, 2002 <sup>8</sup>	July 19, 2002

10 In light of these undisputed facts, it is clear that none of the former EBD employees were “working  
11 for and being paid by the Party [EBD]” at the time of their hiring by SOURCE.<sup>9</sup>

12 Paragraph 11 of the PSNA covers two distinct scenarios where a party must pay the  
13 purported \$75,000 penalty for hiring of the other’s personnel. The first, and most obvious, scenario  
14 is in the likelihood that SOURCE hires a current EBD employee while the agreement between EBD  
15 and SOURCE is still being performed. This clearly is not the case as EBD ceased work for  
16 SOURCE in June, 2002 (SAC ¶ 2). The clause also attempts to cover a second scenario where  
17 SOURCE hires a current EBD employee within 24 months after the contract between EBD and  
18 SOURCE is terminated. Again, this is not operative in the instant case because none were current  
19 EBD employees when hired by SOURCE, as five of the six employees at issue were released prior to  
20 the end of EBD’s engagement with SourceRad, and Vora resigned ahead of a pending release.

21  
22 <sup>6</sup> See Kanov Decl. at Ex. B - Misha Dep. at 243-244 and Exhibits 119-123, which includes the COBRA notification  
forms for five of the six employees indicating their release on the “date of qualifying event.”

23 <sup>7</sup> See Affidavit of Tracy Vebber, attached to Kanov Decl. at Exhibit F.

24 <sup>8</sup> See Resignation letter from Vora at Ex. 17 to Vora Dep., attached at Ex. G. Mr. Vora had last been billed out to  
SOURCE on June 21, 2002 (see Kanov Decl., Ex. D - Klausner Expert Report to Kanov Decl., Tab A, Schedule 3(a))  
and was told by Mr. Clark at EBD that he would soon be laid off. See *id* at Ex. G at p. 277.

25 <sup>9</sup> Furthermore, there has been no evidence that any of these individuals were solicited during the time of their employ,  
26 other than the contention surrounding Mr. Vora. In any event, EBD does not seek damages in Counts 3 and 4 for  
solicitation and California law renders antisolicitation covenants void as unlawful business restraints except when their  
27 enforcement is necessary to protect trade secrets. *Moss, Adams & Co. v. Shilling*, 179 Cal. App. 3d 124, 130 (1986);  
*Liberty Mutual Ins. Co. v. Gallagher & Co.*, 1994 WL 715613 at \*3 (N.D. Cal. 1994). EBD has not alleged the need to  
28 protect any trade secrets.

1           What the alleged clause does not cover is the scenario present here where SOURCE hired six  
2 *former* EBD employees after the contract between EBD and SOURCE had ended. "Party  
3 Personnel(s)" is specifically defined to require two elements. First the individual must be "working  
4 for the party." Second, the individual must be "being paid" by the party. Hence, this provision  
5 precludes the hiring of an employee still employed and actively engaged on a paying project with his  
6 original employer. EBD may attempt to argue that some or all of these individuals would have still  
7 been working at EBD if SOURCE had paid its invoices timely. However, no such provision is  
8 included in the contractual language allegedly agreed upon by the parties, and it is irrelevant to the  
9 Court's analysis. Hence, SOURCE is entitled to judgment as a matter of law as to EBD's claims for  
10 damages for the hiring of these six former employees.

11           **2. The No Hire Provision Is Invalid and Unenforceable Under**  
12           **Section 16600 of the California Business and Professions Code and**  
13           **Public Policy**

14           Additionally, California Business and Professions Code Section 16600 precludes EBD's  
15 claims for the hiring of these six individuals. In response to Defendant's Motion to Dismiss the  
16 Second Amended Complaint, the Court denied such motion in part by finding that the no hire  
17 provision at issue does not violate Section 16600. *See* Order dated July 14, 2003 at 9. The Court  
18 held that the no hire clause in this case is nearly identical to the one in *Webb v. West Side District*  
19 *Hosp.*, 144 Cal. App. 3d 946 (1983), *overruled on other grounds by Moncharsh v. Blase*, 144 Cal.  
20 App. 3d 946 (1993). However, in light of the additional discovery taken in the case since the  
21 Court's ruling, Defendant believes a further analysis of the relevant statutory and case law is  
22 warranted.<sup>10</sup>

23           Defendant relied on the case of *Webb* to support its position that the no hire clause did not  
24 violate Section 16600, and the Court said that the clause in this case is nearly identical to the clause  
25 in *Webb*, as it is "between two private parties and does not impact an employee's ability to be hired

26 <sup>10</sup> The Court specifically welcomed SOURCE to later file a motion for summary judgment with respect to the fact that  
27 five of the former employees were laid off at the time of their hire by SOURCE, since this addressed matters outside of  
28 the four corners of the complaint. *See* Order dated July 14, 2003 at 9. SOURCE believes the results of subsequent  
discovery also impact the Court's Section 16600 analysis, and therefore provides argument herein.

1 by Defendant, so long as Defendant is willing to pay a fee for such employee.” See Order dated  
2 July 14, 2003 at 9. However, unlike in the instant case, the *Webb* court made key findings before  
3 deciding that the clause was not in conflict with California public policy and Section 16600.

4 The plaintiff in *Webb* operated as an employment agency that provided temporary physicians  
5 to work in the emergency room of a hospital that was the only hospital within a forty mile radius.  
6 See *Webb*, 144 Cal. App. 3d at 949. The contract between the plaintiff and the hospital contained a  
7 “non-interference” provision requiring the hospital to pay a \$30,000 fee whenever it hired a  
8 physician who was provided by the plaintiff. *Id.* The court upheld the provision, reasoning that the  
9 placement fee was necessary to allow the employment agency to maintain its business. *Id.* at 952-  
10 53.

11 In *Webb*, the court recognized that “all parties involved in negotiating the contract agreed  
12 that its purpose was not to create a monopoly, but instead to allow the hospital to employ physicians  
13 originally recruited by Webb while at the same time protecting Webb against the unfair exploitation  
14 of his services.” *Id.* at 953. Essential to the determination in *Webb* was the hospital’s  
15 acknowledgement that it “would have had to pay a placement fee substantially similar to the amount  
16 set in Section 2.15 (\$30,000 per physician) if it had recruited physicians through employment  
17 agencies.” *Id.* Based on these facts, the *Webb* court held “[o]n this record, we must find the fees  
18 charged to be reasonable and without illegal restraining effect.” *Id.*

19 In the instant case, EBD is not a placement agency, as was the case in *Webb*. EBD’s  
20 business is to create and design software. SOURCE paid EBD to develop code and produce a  
21 working software application. It did not retain EBD for the purpose of acquiring software  
22 developers, as opposed to *Webb* where the plaintiff entered into a contract with the hospital  
23 specifically for the plaintiff to furnish the hospital with physicians to staff its emergency room.

24 Additionally, unlike in *Webb*, there is no evidence that SOURCE would have had to pay a  
25 placement fee for the hiring of six additional programmers at a substantially similar rate to the  
26 \$75,000.00 per employee asked for by EBD. Discovery has shown that five of the six former EBD  
27 employees were hired by SOURCE in fall or winter of 2002, after having been laid off by EBD, and  
28

1 the tech market was still mired in a deep funk. There was a glut of unemployed programmers  
2 looking for work. There has been no evidence produced in the lengthy discovery in this case, nor  
3 can the Court make any such finding, that the alleged \$75,000 fee per former employee hired is  
4 “substantially similar” to the amount which SOURCE would have had to pay to retain similar junior  
5 level software programmers. In fact, SOURCE has never paid or even approximated that fee for any  
6 of its programmers. This amount is greater than the yearly salary paid by SOURCE for any of these  
7 junior programmers.

8 Also integral to the finding in *Webb* was that “without recoupment of the recruitment  
9 expenses he had incurred, Webb became vulnerable to unfair exploitation of his labors by the  
10 hospital.” *Id.* at 954. The court clarified this assertion, stating “[t]he interest we find protectable  
11 here is limited to the placement services furnished.” *Id.* at 954, n. #6. However, in the instant case,  
12 Plaintiff’s economic interest was not equally valuable and protectable. EBD hired a constant inflow  
13 of Indian nationals on H-1B visas as its projects required, and these employees would often be  
14 released upon the job’s conclusion. *See* Chari Decl. (Docket No. 38) at 7; Vora Dep. at 276-277  
15 attached to Kanov Decl. at Ex. G. Furthermore, Plaintiff is not an employment agency and does not  
16 allege to make money by recruiting software developers for placement at SOURCE or any other  
17 company. SAC ¶ 7. Most importantly, all of the employees at issue were no longer working for  
18 EBD at the time they were hired by SOURCE, as they either were laid off prior to the conclusion of  
19 the SourceRad job or resigned. This downsizing by EBD necessitated they quickly find new  
20 employment if they wanted to remain in the country under their H-1B visas.

21 The *Webb* opinion relies in large part on the Texas case *Hospital Consultants, Inc. v. Potyka*,  
22 531 S.W. 2d 657 (Texas Civ. App. 1975), noted as the only case which the *Webb* court discovered  
23 with substantially similar facts. However, a glaring difference exists between *Webb* and *Potyka*  
24 relevant to the instant case. In *Potyka*, the no hire clause was invalidated in part because the court  
25 found it unacceptable that the physicians, whose employment was being restrained, were unaware of  
26 the contractual provision restricting them. *Potyka*, 531 S.W. 2d at 664; *see also Heyde Cos., Inc. v.*  
27 *Dove Healthcare, LLC*, 637 N.W. 2d 437, 441-42 (Wis. Ct. App. 2001), *aff’d* 654 N.W. 2d 830  
28

1 (comparing *Webb* and *Potyka* and finding the facts before them to be more in line with *Potyka* since  
2 none of the physical therapists knew their employment was restricted because of their work with  
3 Greenbriar, an employment agency). The *Potyka* court held, in pertinent part:

4 It is one thing to uphold a restraint as reasonable where it results from  
5 an agreement freely entered into by the person whose commercial  
6 activities are being restricted. Such a conclusion is the result of the  
7 weighing of several policy considerations, not the least of which is our  
8 traditional reverence for a person's freedom to contract. But where the  
9 restriction on B's freedom results, not from B's voluntary agreement  
10 with A, but from A's agreement with C, the difference in the situation  
11 and in the policy considerations to be balanced is obvious. In the one  
12 case B voluntarily relinquishes his freedom in order to obtain a benefit  
13 which, as the time of such relinquishment, he considered desirable. In  
14 the other situation B is deprived of his freedom without his  
15 acquiescence and with no resulting benefit to him.

16 *Potyka*, 531 S.W. at 664.

17 This Court found that since the no-hire clause was between SOURCE and EBD and did not  
18 impact an EBD's employee's ability to be hired by Defendant, so long as SOURCE was willing to  
19 pay a fee for such employee, the no hire clause at issue did not violate Section 16600 or the public  
20 policy of the State of California. However, the present case is more in line with *Potyka* and *Heyde*  
21 than with *Webb*, since the no-hire provision in the parties' contract was not known or consented to  
22 by affected employees at the time of its execution.

23 In *Heyde*, a temporary employment agency (Greenbriar) brought an action against a nursing  
24 home (Dove) for breach of a no hire contractual provision. *Id.*, 637 N.W. 2d at 438. Per the parties'  
25 agreement, Greenbriar provided Dove with physical therapists. *Id.* The therapists worked in Dove's  
26 nursing home, but remained Greenbriar employees. *Id.* The agreement contained a provision that  
27 prevented Dove from hiring any Greenbriar therapists for up to one year after the agreement expired  
28 unless Dove obtained Greenbriar's written consent. *Id.* If Greenbriar gave consent, Dove was  
required to pay Greenbriar a fee of 50% of the therapist's annual salary. *Id.* Greenbriar therapists  
were unaware of this provision. *Id.* Shortly after terminating the agreement, Dove hired one current  
and three former Greenbriar employees. Dove did not seek Greenbriar's written consent, nor did it  
pay 50% of the employees' salaries in accordance with the no-hire provision. *Id.*

1 Greenbriar relied on the *Webb* case to support its argument that the no hire provision was  
2 enforceable. *Id.* at 441. However, the *Heyde* court found that its case was more in line with *Potyka*,  
3 as even though the clause was between two private parties, none of the physical therapists knew their  
4 employment was restricted because of their employment at Greenbriar. *Id.* at 442. The court held  
5 that “an employee’s individual right and freedom to contract may not be restricted by a contract  
6 between two employers unless the employee is aware of and consents to the contract.” *Id.*  
7 (emphasis added). Thus, since the no-hire provision restricted the employment opportunities of  
8 Greenbriar employees without their knowledge or consent, it was unenforceable. *Id.*

9 Furthermore, the no hire provision was not limited to therapists who worked at Dove; rather,  
10 Dove was prohibited from hiring any Greenbriar therapists even if that therapist had never worked  
11 at Dove. *Id.* Thus, the provision went beyond what was reasonably necessary to protect  
12 Greenbriar’s interests and thus the clause was unenforceable. *Id.*

13 Similarly in the instant case, there has been no evidence presented throughout the lengthy  
14 discovery process that any of the programmers at issue knew their employment was restricted or  
15 consented to same when they accepted employment with EBD. Furthermore, the no hire provision  
16 contained in paragraph 11 of the PSNA restricts SOURCE from hiring any personnel working for  
17 and being paid by EBD and was not restricted to programmers working on the SourceRad project.  
18 This attempted restriction on the mobility of all EBD employees is the exact problem that Section  
19 16600 was drafted to remedy. *Metro Traffic Control, Inc. v. Shaddow Tracking Network*, 22 Cal.  
20 App. 4th 853 (1994); *see also Diodes, Inc. v. Franzen*, 260 Cal. App. 2d 244, 255 (1968)(the  
21 interests of the employee in his own mobility and betterment are deemed paramount to the  
22 competitive business interests of the employers).

23 In sum, EBD’s foundation for the enforceability of the no-hire clause hinges on 1) the  
24 necessity of SOURCE to pay similar placement fees to hire workers; 2) whether the restrictions  
25 were narrowly tailored to only those individuals who worked on SourceRad; and 3) whether the  
26 employees had knowledge and gave consent to the restrictions placed in the agreement between the  
27 two employers. There has been no evidence that SOURCE would have had to pay similar fees to  
28



1 hire programmers in mid to late 2002. The no-hire clause goes well beyond any reasonable  
2 restrictions by including all EBD staff, including those who never worked on SourceRad.  
3 Furthermore, there is no evidence that these former EBD employees knew and agreed to being so  
4 restricted. The no-hire clause is invalid, as California has a low tolerance for any restrictions on  
5 mobility, including the forced payment of monies by an employer which would chill employment  
6 opportunities. *See Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 900 (1998).  
7 Thus, Section 16600 and California public policy do not allow for enforcement of the no-hire clause  
8 at issue.

9 **C. EBD Is Not Entitled to a Joint Copyright Interest In The SourceRad Software**

10 EBD's stated basis for retaining a joint copyright interest in the software is paragraph 7 of the  
11 PSNA, which states as follows:

12 7. Grant Of Rights. Effective upon Consultant's receipt of  
13 full payment of all applicable fees set forth in the Proposal (and  
14 any amendments to the Proposal), Consultant shall assign and  
15 transfer to Client all rights, title and interest, worldwide, in and  
16 to the software and Deliverables covered by the Proposal  
17 (excluding Third Party Programs, as defined below), including  
18 without limitations all intellectual property rights and other  
19 property rights (collectively called "IP Rights") that Consultant  
20 has in such software and Deliverable as per the Proposal, such  
21 that Client will own all right, title and interest in and to the  
22 Deliverable as per the Proposal. Consultant shall retain no  
23 interest in the IP Rights.

19 EBD alleges that since it has not been paid in full for its development work on SourceRad,  
20 EBD is entitled to a joint copyright interest until such time as it receives full payment. SAC ¶ 6.  
21 However, since the inception of the SourceRad project and throughout EBD's involvement, both  
22 parties always intended and understood that SOURCE would retain any and all copyright and/or  
23 ownership interest in the software and under no circumstances would SourceRad be considered a  
24 work of joint authorship. This is supported by the First Amendment to the PSNA executed by  
25 Messrs. Hui and Misha in March, 2001, in which Section 7 of the PSNA was amended in its entirety  
26 prior to EBD's SourceRad proposal on April 20, 2001, that the parties' agreement be governed by  
27  
28

1 the terms of the PSNA. See Kanov Decl. at Ex. I. The First Amendment to the PSNA reads, in  
2 pertinent part:

3 Section 7 of the Agreement is amended in its entirety to read as  
4 follows:

5 Effective upon Consultant's receipt of full payment of all  
6 applicable fees set forth in this Proposal (and any amendments to the  
7 Proposal), Consultant shall (without any further action on the part of  
8 any Party) assign and transfer to Client all rights, title and interest,  
9 worldwide, in and to the Software and Deliverables covered by the  
10 Proposal (excluding Background Technology, as defined below),  
11 including without limitation, all intellectual property rights and other  
12 property rights (collectively called "IP Rights") that Consultant has in  
13 such Software and Deliverables, such that Client will own all right,  
14 title and interest in and to the Software and Deliverables. Consultant  
15 shall retain no interest in the IP Rights.

16 *Under no circumstances shall the Software and Deliverables  
17 developed and delivered to Client under the Agreement be deemed to  
18 be works of joint authorship or any other designation tending to imply  
19 that Consultant has or retains ownership or authorship rights thereto.*

20 *Id.* (emphasis added)

21 The amended ¶ 7 of the PSNA makes clear that under no circumstances shall the software  
22 deliverable be deemed a co-authorship. Hence, the very agreement which EBD contends is  
23 operative specifically precludes EBD from retaining a joint copyright interest and/or ownership of  
24 the software. See Misha Dep. at 218-219 attached to Kanov Decl. as Exhibit B, where he  
25 acknowledges entering into this First Amendment to the PSNA. There are also numerous documents  
26 drafted by EBD reflecting this understanding and indicating that all copyright interests belonged to  
27 SOURCE. See, e.g., Ex. 116 to Misha Dep.; Ex. 78 to Tipnis Dep., both attached to Kanov Decl. as  
28 composite Exhibit J.

As an additional basis for granting partial summary judgment, SOURCE directs the Court's  
attention to the numerous applications filed by EBD with the U.S. Copyright Office. EBD did not  
file an application for registration of a copyright interest in SourceRad until on or about January 17,  
2003, in the midst of the current litigation and without notice to SOURCE. In its original  
application, EBD represented that it was the sole author of SourceRad, which was listed as a  
derivative work. See Kanov Decl. at Ex. H, specifically document A at §§ 2(a), 6 which is also

1 attached to Amended Counterclaims. Additionally, EBD noted that its contribution to SourceRad  
2 was a “work made for hire.” *Id.* at § 2(a). After receiving notification from the U.S. Copyright  
3 Office notifying EBD that it was delaying registration because the application for this work included  
4 a claim for copyright in “interface” and “business logic,” some of which may not be copyrightable,  
5 EBD filed another application (“second application”) for registration of a copyright interest in  
6 SourceRad. *See id.* at document C. In its second application, EBD again noted that its contribution  
7 to SourceRad was a “work made for hire.” *Id.* at § 2(a). Furthermore, EBD again represented that it  
8 was the sole author of SourceRad, which is listed as a derivative work. *Id.* at §§ 2(a), 6. However,  
9 now EBD claimed copyright in “additional program code relating to healthcare facility  
10 management,” without specifying further the details of this new material. *Id.* at § 6(b).

11 The Copyright Office registered a copyright in SourceRad to EBD, registration number TXu-  
12 1-065-223, with an effective date of January 17, 2003. A printout from the U.S. Copyright Office  
13 web page is attached to the Kanov, Declaration as Exhibit H at document D. The information  
14 contained in both the original application and the second application was certified to be correct by  
15 the applicant, Todd Thompson, Esq., counsel/agent for EBD. SOURCE had received no prior notice  
16 of the aforementioned applications and registration and did not have a chance to dispute EBD’s  
17 representations. EBD knew that SOURCE vehemently objected in the instant litigation to EBD’s  
18 purported claims to a copyright interest in the software.

19 In its First Amended Complaint, EBD for the first time brought copyright infringement  
20 claims against SOURCE and two of its officers, P. Daryl Brown and Michael Plaia. EBD claimed  
21 that it was the sole owner of all rights, title and interest in the source code for SourceRad, pursuant  
22 to its copyright registration. However, pursuant to SOURCE’s Motion to Dismiss, the Court  
23 dismissed, with prejudice, the copyright infringement claim against it. *See* Order dated April 24,  
24 2003. The Court held that EBD only alleged the existence of a joint work by asserting “it was hired  
25 by Defendant to provide computer software design and programming engineers to Defendant to  
26 assist Defendant in creating SourceRad, in which the parties’ employees worked together in the  
27 creation of SourceRad.” *Id.* at 7-8.

1 On May 19, 2003, EBD filed its Second Amended Complaint in which it now seeks an  
2 accounting based on an alleged joint ownership in the copyright to SourceRad software. On July 7,  
3 2003, EBD filed an application for supplementary registration (“supplementary application”),  
4 revising its previous stance that it was the sole owner of the software, ostensibly to be consistent  
5 with the Court’s ruling on its First Amended Complaint. A copy of the supplementary application is  
6 attached to the Kanov Declaration as Exhibit H at document E. In its supplementary application,  
7 EBD now represented that SOURCE was a coauthor of SourceRad. EBD continues to attest under  
8 oath that SourceRad was both a work made for hire and a derivative work, and no information is  
9 listed as to the owner, or any permission granted by the owner, of such derivative work. *Id.*

10 A certificate of copyright registration shifts to the defendant the burden to prove the  
11 invalidity of the plaintiff’s copyright. *Entertainment Research Group, Inc. v. Genesis Creative*  
12 *Group, Inc.*, 122 F. 3d 1211, 1217 (9th Cir. 1997). This is because under the copyright laws, the  
13 registration of a copyright certificate constitutes *prima facie* evidence of the validity of a copyright  
14 in a judicial proceeding commenced within five years of the copyright’s first publication. *Id.*; 17  
15 U.S.C. § 410(c). The presumption of validity can be rebutted by simply offering some evidence or  
16 proof to dispute or deny the plaintiff’s *prima facie* evidence. *Id.*; *North Coast Indus. v. Jason*  
17 *Maxwell, Inc.*, 972 F. 2d 1031, 1033 (9th Cir. 1992).

18 SOURCE has rebutted any presumption of validity by informing the Court that the  
19 agreement on which EBD solely hinges its joint copyright assertion contains language that makes  
20 such a result an impossibility. The Court should then shift the burden of proving validity back to  
21 EBD. *Entertainment Research Group*, 122 F.3d at 1218; *Durham Indus., Inc. v. Tomy Corp.* 630 F.  
22 2d 905, 908-909 (2d Cir. 1980).

23 In evaluating whether EBD is entitled to a joint copyright interest in the SourceRad software,  
24 in addition to the specific contractual language between the parties which bars such a claim, EBD’s  
25 copyright applications themselves negate their position. In all of its copyright applications, EBD has  
26 consistently stated that its contribution to the work was a “work made for hire.” It is axiomatic that  
27 if a work is made for hire, the employer or other person for whom the work was prepared is  
28

1 considered the author and owns the copyright. *Communities for Creative Non-Violence v. Reid*, 490  
2 U.S. 730, 737, 109 S. Ct. 2166, 104 L. Ed. 2d 811 (1989); 17 U.S.C. § 201(b). As stated by the  
3 United States Supreme Court in *Reid*, classifying a work as “made for hire” determines the  
4 ownership of its copyright and has profound significance for freelance creators, including computer  
5 programmers. *Id.*; see also *Warren v. Fox Family Worldwide, Inc.*, 171 F. Supp. 2d 1057, 1070-71  
6 (C.D. Cal 2001) (creator of a work for hire cannot claim beneficial ownership of a copyright in the  
7 work). Thus, since EBD repeatedly attested under oath that its contributions to SourceRad were  
8 “work for hire,” EBD is not entitled to any ownership interest in the copyright.<sup>11</sup>

9 As a result, SOURCE is entitled to partial summary judgment as to EBD’s purported joint  
10 interest in SourceRad, and SOURCE requests a ruling that SOURCE is the sole owner of SourceRad  
11 and EBD is not entitled to any ownership or copyright interest in and to the software and must  
12 relinquish and/or transfer any such purported interests to SOURCE.

13 **VI. CONCLUSION**

14 For the foregoing reasons, the Court should grant SOURCE’s Motion for Partial Summary  
15 Judgment.

16 Dated: April 19, 2004

Respectfully Submitted,

FISCHMAN, HARVEY & DUTTON, P.A.

19 By: s/Jonathan E. Kanov

21  
22  
23  
24 <sup>11</sup> Another factor in deciding whether a contributor may be deemed a coauthor of a joint work is whether the putative  
25 coauthors make objective manifestations or a shared intent to be coauthors, such as by denoting the authorship of the  
26 *Pirates of Penzance* as “Gilbert and Sullivan.” See *Aalmuhammed v. Lee*, 202 F. 3d 1227, 1234 (9th Cir. 1999). The  
27 Ninth Circuit goes on to state that objective manifestations are required because, were the mutual intent to be determined  
28 by subjective intent, it could be a common instrument of fraud, were one coauthor to hide from the other an intention to  
take sole credit for the work. *Id.* The contract language between the parties as alleged by EBD, as well as all of the  
other aforementioned documents, make clear that the parties always intended that SOURCE would be the sole owner of  
all ownership and copyright interests in and to the software.