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Recent Developments in Computer Law: An Update, 12 J. Marshall J. Computer & Info. L. 395 (1993)

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RECENT DEVELOPMENTS IN COMPUTER LAW: AN UPDATE*

by BRADLEY J. HULBERT†

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INTRODUCTION

U.S. courts continue to issue new interpretations of common and statutory law to meet the emerging legal issues associated with computer and information technology. The following overview provides a survey of the more significant court decisions over the past year that relate to the design, manufacture, transfer, and use of computer-related technology. Case summaries are arranged below according to traditional classifications of common law, although many of the distinctions between categories are fairly arbitrary.

Throughout the opinions in virtually all areas of the law, courts increasingly recognize the commercial significance of information, in the

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form of computer software and data bases. For example, the U.S. Supreme Court and Court of Appeals for the Sixth Circuit reasoned that controls on the distribution of "updates" for software could have substantial anti-competitive results, even if the software is distributed to a relatively small number of users.

The information found in software is now frequently acknowledged to include valuable, proprietary information. Courts regularly impose a duty to protect the confidentiality of such software on those who are in a fiduciary relationship with the software owner. Admittedly, some courts find it difficult to understand the significance of certain computer routines. However, the Court of Appeals for the Second Circuit adheres to the sound, basic legal principle that, unless the owner of proprietary software can identify specific confidential and commercially important information in the software (rather than pointing to the program generally), an action for trade secret misappropriation will not lie.

U.S. courts also continue to apply basic principles of law to contract actions involving computers. Thus, where a programmer simply stopped working on a complex assignment, the New York State Appellate Court reversed an award of consequential damages, since the plain wording of the programmer's contract limited his liability for damages. Conversely, where a programmer finished his assignment but was not paid pursuant to his contract, the Court of Appeals for the Seventh Circuit refused to elevate the failure to pay to the status of a "pattern of racketeering" under the U.S. Racketeer Influenced and Corrupt Organizations Act.

Even though courts may have difficulty understanding the similarities and differences between two programs, courts now emphasize, more than ever before, that a detailed analysis is required for a proper opinion as to the similarity between a copyrighted program and an allegedly copied program. The seminal "abstraction-filtration-comparison" test, first announced in *Computer Associates International, Inc. v. Altai*,¹ continues to be adopted by the courts in a variety of jurisdictions, even though such an analysis may require a substantial level of understanding regarding the technical issues.

Courts also continue to adhere to the basic tenet that ideas are not copyrightable and refuse to extend copyright protection to concepts such as a software lock mechanism or a simple computer screen icon. As in copyright cases involving books, the Court of Appeals for the Federal Circuit, when considering masked works, ruled that a finding of infringement would not have been upheld if the accused copier could have established its independent development through a "paper trail."

In the area of employment relations, the courts also recognize the

1. 23 U.S.P.Q.2d (BNA) 1241 (2d Cir. 1992).

importance of computers to industry. The Court of Appeals for the Seventh Circuit declined to find age discrimination where an elderly employee was fired for his refusal to understand and utilize a computer system adopted by his employer. However, given the pervasiveness of computers, a court will not enforce an employee's covenant not to work in the computer industry, upon termination, unless, upon scrutiny, the court finds that the agreement is no broader than reasonably necessary to protect the legitimate business interests of the employer.

Although stressing that a detailed analysis is required for a court to issue a valid opinion regarding copyright infringement, the courts also recognize that the disclosure in an application for a patent is directed to those of ordinary skill in the pertinent art. Thus, the Court of Appeals for the Federal Circuit found that the disclosure of a microprocessor, without the firmware used by the microprocessor, was sufficient, since the disclosure readily enabled one of ordinary skill in the art to make the invention.

Municipalities continue to find new ways to tax the emerging computer industry. The Chicago City Council has now enacted an ordinance imposing a tax on the privilege of using a remote terminal within Chicago that is interconnected to a computer outside of the city. The question of whether the municipal tax ordinance applies to the action of using an automatic teller machine or making a long distance telephone call has not yet been decided.

For each case discussed below, the relevant facts are recited, together with the court's holding and rationale. An index is provided at the end of this overview.

I. ADMINISTRATIVE LAW

1. THE FEDERAL RECORDS ACT APPLIES TO THE BUSH ADMINISTRATION "E-MAIL."

The Federal Records Act² requires federal agencies to retain records of their activities. In *Armstrong v. Executive Office of the President*,³ the U.S. District Court for the District of Columbia ruled that electronic materials saved on a computer system by the staff of the United States President fall within the definition of a "Federal Record."

The court reasoned that the Federal Records Act was intended to regulate materials "regardless of physical form or characteristic." Consequently, the court issued a restraining order preventing the Bush administration from deleting its stored electronic mail ("E-mail") messages before the Clinton administration assumed its responsibilities.

2. 44 U.S.C. §§ 2101-2118 (Supp. IV 1986).

3. 810 F. Supp. 335 (D.C. 1993).

II. ANTI-TRUST

1. A LAWSUIT IS NOT A "SHAM" UNLESS THE LITIGATION IS OBJECTIVELY MERITLESS, REGARDLESS OF THE PLAINTIFF'S SUBJECTIVE INTENT.

In *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*,⁴ the plaintiff, Columbia Pictures, owned copyrights for material on videodiscs. The defendants, Professional Real Estate Investors ("PREI"), played the videodiscs in rooms at a resort hotel. When Columbia sued PREI for copyright infringement, PREI counterclaimed, asserting that Columbia's suit was a sham, brought for the improper purpose of restraining trade.

A U.S. District Court dismissed the copyright claims after concluding that the in-room viewing was not a "public performance" and, thus, not prohibited under U.S. copyright law. The court further determined that the copyright suit brought by Columbia was not a sham and, thus, that Columbia was immune from anti-trust liability as a result of bringing the suit.

In affirming the decision of the District Court, the U.S. Supreme Court held that a party's subjective intent to engage in anti-competitive conduct by bringing a baseless suit cannot, in itself, dictate whether a legal action is a sham. In announcing a new, two-part definition, the Court ruled that a sham lawsuit must be objectively baseless, such that a reasonable litigant would not expect success on the merits. Only if the suit is baseless may a court then go on to consider the subjective intent of the plaintiff in initiating litigation.

2. UPDATE ON *VIRTUAL MAINTENANCE V. PRIME COMPUTER*—A LARGE FIRM'S SUPPLIER REQUIREMENTS, WHICH AFFECT NUMEROUS SUPPLIERS TO THE FIRM, MAY DEFINE A RELEVANT MARKET FOR ANTI-TRUST ANALYSIS.

In *Virtual Maintenance, Inc. v. Prime Computer, Inc.*,⁵ at the original trial, the jury found that Prime's marketing strategy of linking software update sales with hardware maintenance contracts was an illegal tying arrangement, in violation of the Sherman Anti-trust Act.⁶ The Court of Appeals for the Sixth Circuit, however, found that Prime lacked the requisite economic power to appreciably affect competition, and, thus, could not be liable for anti-trust violations. In October 1992, the U.S. Supreme Court directed the Court of Appeals to reconsider

4. 113 S. Ct. 1920 (1993).

5. 995 F.2d 1324 (6th Cir. 1993).

6. 15 U.S.C. §§ 1-40 (1988).

this ruling in light of *Eastman Kodak Co. v. Image Technical Services*,⁷ (the tying of the aftermarket sales of spare parts to an aftermarket repair service contract may constitute an anti-trust violation).

Upon remand, the Court of Appeals noted that, although Prime offered software support separately from a combined hardware and software support contract, "repurchase of software to obtain updates would cost as much as 900% more than if purchased in the software support hardware maintenance package."⁸ Also, a Prime customer, Ford, testified that it "felt 'locked-in' to Prime [if it wished to] remain economically viable in the automotive industry."⁹

The court accordingly reasoned that "Ford's requirements . . . affect the choice of . . . Ford suppliers,"¹⁰ and these requirements define the relevant market. Thus, Prime might well have substantial economic power in this market (if the suppliers were obliged to buy from Prime in order to do business with Ford).

The Court of Appeals remanded the case for a new trial. The original verdict would not stand, since only a general verdict had been given, and the court could not tell whether the jury had relied upon the correct legal theory in making its decision.

III. CIVIL PROCEDURE

1. THE FAILURE TO PRODUCE RELEVANT, REQUESTED DOCUMENTS IS SUFFICIENT TO OVERTURN A JURY VERDICT.

In *Intel Corp. v. Advanced Micro Devices, Inc.*,¹¹ the plaintiff, Intel, claimed that AMD had infringed its copyright on microcode found in microcomputers, exceeding the license granted in a contract entered into by the two firms. After trial, AMD learned that at least four documents it had requested from Intel prior to trial, had not been produced. The withheld documents related to the scope and coverage of the licensing agreement and internal opinions written by Intel's in-house counsel to be used in explaining Intel's position.

After a jury verdict finding in favor of Intel, the trial court ruled that Intel's failure to produce the documents substantially interfered with AMD's ability to prepare for trial. Accordingly, AMD's motion for a new trial was granted.

7. 112 S. Ct. 2072 (1992).

8. *Virtual Maintenance, Inc.*, 995 F.2d at 1330.

9. *Id.*

10. *Id.*

11. No. C-90-20237-WAI, 1993 U.S. Dist. LEXIS (N.D. Cal. Apr. 15, 1993).

2. TRADE SECRETS MUST BE DEFINED WITH SPECIFICITY IN COURT ORDERS.

In *Fonar Corp. v. Deccaid Services, Inc.*,¹² the plaintiff, Fonar, manufactures, sells and services magnetic resonance imaging scanners used in making medical diagnoses. The firm became concerned that former employees who had joined a competing, independent service company, Deccaid, were using its maintenance software and schematics, without authorization. Accordingly, Fonar instituted a suit alleging misappropriation of trade secrets.

The U.S. District Court for the Eastern District of New York entered a preliminary injunction, restraining Deccaid from using plaintiff's copyrighted "maintenance software." The court's order, however, never defined precisely what constitutes the "maintenance software." Like plaintiffs in many trade secret cases, Fonar apparently used the strategy of alleging trade secret theft, without ever specifically identifying what the trade secrets were (thus stymieing the defendants from showing that they did not take the trade secrets or that the alleged trade secrets were unprotectable public information).

On appeal, the Court of Appeals for the Second Circuit noted that "throughout, Fonar has adhered to the most ellusive of definitions and has refused repeatedly to provide the documents that would narrow and clarify the issue."¹³ Accordingly, the Court of Appeals for the Second Circuit vacated the district court orders and remanded the case for further evaluation.

IV. CONTRACTS

1. A WORK STOPPAGE BY A SOFTWARE DEVELOPER MAY NOT CONSTITUTE WILLFUL MISCONDUCT.

In *Metropolitan Life Insurance Co. v. Noble Lowndes International, Inc.*,¹⁴ the plaintiff, Metropolitan Life Insurance, hired the defendant, Lowndes, pursuant to a contract, to develop a software system. Lowndes apparently found the program more difficult to write than expected and attempted to negotiate with Metropolitan for a higher contract price. Metropolitan refused to pay Lowndes any more than was specified in the contract, and Lowndes intentionally stopped working on the software.

The contract specified the damages for which Lowndes could be liable. Metropolitan argued that the provision was inapplicable, since

12. 983 F.2d 427 (2d Cir. 1993).

13. *Id.* at 429.

14. 192 A.D.2d 83 (N.Y. App. 1993).

Lowndes had intentionally stopped working on the software. After a jury trial, the lower court awarded Metropolitan over \$5.6 million.

A New York State Appellate Court, however, concluded that a "conscious repudiation of the contract" did not rise to the level of willful misconduct, malice or bad faith. Thus, the damages were reduced to \$204,000, the amount specified in the contract.

2. A TRADEMARK INFRINGEMENT SUIT IS NOT AN "ADVERTISING INJURY," AS THAT TERM IS USED IN A GENERAL LIABILITY POLICY.

In *Houston General Insurance Co. v. BSM Corp.*,¹⁵ IBM sued BSM and alleged that BSM had purchased IBM memory cards, removed the memory modules, and then installed the modules on different memory cards. BSM then allegedly distributed the new memory cards to customers, representing that they were authentic IBM cards. IBM claimed that the goodwill associated with its name was tarnished because BSM had sold inferior cards, not meeting IBM specifications, under the IBM trademark.

BSM had obtained a general liability policy from Houston General Insurance ("HGI") that obligated HGI to defend BSM against suits alleging "advertising injury." BSM argued that HGI was responsible for defending the suit brought by IBM, since IBM was arguing that BSM's advertising had caused IBM injury.

Taking a pragmatic approach, the U.S. District Court for the Northern District of Illinois concluded that the "core" of IBM's complaint sounded in trademark infringement, rather than advertising. In construing the insurance contract, the court reasoned that trademark infringement coverage could easily have been specifically enumerated in the insurance policy had the parties intended such torts to be covered. Since it was not specifically listed, the court held that trademark infringement was not covered by BSM's general liability policy.

3. CRUCIAL LICENSE PROVISIONS SHOULD BE UNAMBIGUOUS.

In *Intel Corp. v. Advanced Micro Devices, Inc.*,¹⁶ two computer chip manufacturers, AMD and Intel, entered into a copyright license that permitted AMD to "copy microcodes contained in INTEL microcomputers and peripheral products sold by INTEL."¹⁷ An earlier jury verdict found that the language of the license agreement did not give AMD an unfettered right to use the microcodes contained in all Intel

15. No. 92-C6516, 1993 U.S. Dist. LEXIS 4725 (N.D. Ill. Apr. 13, 1993).

16. No. C-90-20237 WAI, 1992 U.S. Dist. LEXIS 18806 (N.D. Cal. Dec. 2, 1992).

17. *Id.*

microprocessors, but only the right to copy microcodes incorporated into a particular subset of the microcomputers (Microcomputer Development Systems) sold by Intel.

The jury apparently believed that, in such a crucial provision, AMD would have explicitly obtained the right to clone certain microcodes if, indeed, that is what AMD wanted. Since the contract provision was not specific, the jury apparently believed that only a portion of Intel's microcode was the subject of the license.

In considering the jury verdict, the U.S. District Court for the Northern District of California concluded that the jury had sufficiently considered the meaning of the contract provision and given an unambiguous decision. Accordingly, AMD's clone of Intel's popular "486" chip, scheduled for release in 1992, will be delayed for months.

4. THE FAILURE TO COMPLAIN REGARDING MALFUNCTIONING SOFTWARE
MAY ESTOP A LATER SUIT FOR RECOVERY OF THE PURCHASE
PRICE.

In *Hospital Computer Systems, Inc. v. Staten Island Hospital*,¹⁸ the defendant, Staten Island Hospital, hired the plaintiff, HCS, to create a custom, computerized, accounting software system. In return for developing and installing the system, the hospital agreed to pay a monthly management fee to HCS. Staten Island Hospital paid the fees for one and a half years. The hospital then declared that it intended to replace the system because it did not work well. The hospital also sued HCS to recover the amount of monthly management fees that it had paid.

The U.S. District Court for the District of New Jersey noted that the hospital had failed, during the year and a half period, to protest the fee or attempt to renegotiate the charges with the consulting firm. As a result, the court found that the consulting firm had been led to believe that, while the software system and the consultation services were not perfect, they were at least acceptable under the terms of the contract. Accordingly, no reimbursement was allowed.

5. THE FAILURE TO PAY A COMPUTER PROGRAMMING CONSULTANT IS
UNLIKELY TO BE A "PATTERN OF RACKETEERING" UNDER THE
RICO ACT.

In *Uni*Quality, Inc. v. Infotronx, Inc.*,¹⁹ the defendant, Infotronx, began work on developing a software package relating to labor scheduling. Infotronx hired a variety of other software development companies, including the plaintiff, Uni*Quality, to help write the software.

18. 788 F. Supp. 1351 (D.N.J. 1992).

19. 974 F.2d 918 (7th Cir. 1992).

Upon not being paid for its work, Uni*Quality brought suit against Infotronx, alleging, *inter alia*, that Infotronx's failure to pay constituted a violation of the U.S. Racketeer Influenced and Corrupt Organizations Act²⁰ ("RICO"). A district court dismissed Uni*Quality's RICO claim, and Uni*Quality appealed.

On appeal, the Court of Appeals for the Seventh Circuit noted Infotronx's allegations that the RICO charge was:

an imaginative lawyer's attempt to recast a simple debt collection case as a violation of a federal criminal statute so that Uni*Quality may use RICO's treble damages provisions and adverse consequences that come from charge of "racketeering" to bludgeon Infotronx and obtain a favorable settlement.²¹

The court also observed that a RICO violation requires a "pattern" of racketeering. Racketeering acts must normally be related and continuous to constitute a pattern under the statute. While the contract between the two parties itself was "open ended," in that a completion date was not determined, the alleged racketeering scheme had a natural end point: the completion of the services contract. Thus, the alleged scheme could last, at most, seven to eight months. The court further noted that "Congress was concerned in RICO with long-term criminal conduct" and, thus, acts "extending over a few weeks or months and threatening no future criminal conduct do not satisfy RICO's continuity requirement."²² Accordingly, the dismissal of the RICO count was affirmed.

V. COPYRIGHTS

1. A COPYRIGHT OWNER'S INABILITY TO PRODUCE THE SOURCE CODE IN WHICH IT ASSERTS RIGHTS DOES NOT PRECLUDE A FINDING OF COPYRIGHT INFRINGEMENT AND TRADE SECRET MISAPPROPRIATION.

In *Data General Corp. v. Grumman Systems Support Corp.*,²³ the plaintiff, Data General, developed an engineering computer program entitled "MV/ADEX." Data General also obtained a federal copyright registration for the MV/ADEX source code (which is a prerequisite for bringing a federal copyright action, where the "work of authorship" was created within the United States). Subsequently, Data General filed suit against the defendant, Grumman, alleging copyright infringement, as well as violation of Massachusetts state trade secret law.

Notably, Grumman admitted to copying the object (machine-readable) code of Data General's program. However, Grumman argued that,

20. 18 U.S.C. §§ 1961-68 (1988).

21. *Uni * Quality, Inc.*, 974 F.2d at 922.

22. *Id.*

23. 825 F. Supp. 340 (D. Mass. 1993).

since Data General was unable to produce the original MV/ADEX source (human-readable) code, Data General was precluded from bringing a copyright action.

In responding to Grumman's position, the U.S. District Court for the District of Massachusetts reasoned that the "Copyright Office . . . considers source code and object code as two representations of the same computer program. For registration purposes, the claim is in the computer program rather than any particular representation of the program."²⁴ Accordingly, the court held that Data General need not produce a program's original source code to prove infringement of the program, since Grumman admitted copying the corresponding object code.

Further, since Data General no longer had a copy of the original source code, it could not specifically identify which trade secrets were purportedly misappropriated. Nonetheless, the court found that, during the nine-week trial, Data General had produced sufficient general evidence that trade secrets existed in the program and they had been taken by Grumman.

In an apparent "shotgun" (or all-encompassing) defense, Grumman further argued that Data General had failed to establish that it took reasonable steps to preserve the secrecy of its trade secrets and, thus, that the alleged secrets were unprotectable. The court noted Data General's confidentiality agreements, brochures detailing company policy on proprietary information, and policies restricting employee access to areas having the MV/ADEX program. The court deemed such measures sufficient for showing that suitable precautions had been taken to preserve the confidentiality of Data General's proprietary information and the status of the MV/ADEX program as a trade secret.

Grumman also apparently made a tactical error and lost credibility with the court. Grumman argued that it had not "knowingly taken anything in breach of a duty," even though over two hundred copies of Data General's programs were found in Grumman's possession and some of the copies had a Grumman label pasted over Data General's labels.²⁵ Following the trial, the court approved the jury awards of \$27 million for copyright infringement and \$27 million for trade secret theft, and added a further award of \$9 million because of the willfulness of the trade secret theft.

24. *Id.* at 354.

25. *Id.* at 360.

2. UPDATE ON *ATARI V. NINTENDO*—A PROGRAM'S USE OF UNNECESSARY FEATURES IS STRONG EVIDENCE OF COPYING.

In *Atari Games Corp. v. Nintendo of America, Inc.*,²⁶ Nintendo sued Atari for copying the security system in its entertainment system. The security system precluded non-Nintendo cartridges from being used with a Nintendo console. The software-implemented lock mechanism, by itself, was held to be an unprotectable idea. However, the trial court considered whether Atari, in writing its own lock program, had copied more than the ideas in Nintendo's lock program.

The court used the approach first announced in *Computer Associates International, Inc. v. Altai, Inc.*²⁷ Under this analysis, the court followed the following three steps: (1) Abstraction—the copyrighted program at issue is broken into its constituent, structural parts over a variety of different levels of abstraction; (2) Filtration—the structural elements identified in the first step are determined to be either (a) an idea or dictated by external considerations, such as the operating environment, or (b) an expression; and (3) Comparison—the expressions of the copyrighted and accused products are compared.

In conducting the comparison, the court found substantial evidence that Atari had copied expressions rather than ideas. For example, Nintendo's lock program had features that prevented Nintendo cartridges from being used with non-Nintendo consoles. Although this function was not necessary for Atari games to work in a Nintendo console, Atari's lock program nonetheless included this feature. Other features, such as the particular sequence for data transfer (where several alternative sequences existed) were found in the Atari program as well as the Nintendo program. Thus, the court granted Nintendo's motion for summary judgment on its claim of copyright infringement.

3. UPDATE IN *APPLE V. MICROSOFT*—WHERE A USER INTERFACE INCLUDES MOSTLY UNCOPYRIGHTABLE ELEMENTS, INFRINGEMENT REQUIRES BOTH ACCESS AND "VIRTUAL IDENTITY" (RATHER THAN "SUBSTANTIAL SIMILARITY").

Apple sued Microsoft and Hewlett-Packard for infringement of its copyrights on graphical user interfaces (screen displays). The U.S. District Court had previously held that many of the icons on the screen were unprotectable ideas, rather than protectable expressions. Thus,

26. Nos. C 88-4805 FMS, C 89-0027 FMS, 1993 U.S. Dist. LEXIS 8864 (N.D. Cal. June 30, 1993).

27. 23 U.S.P.Q.2d (BNA) 1241 (2d Cir. 1992).

for example, an icon shaped like a file folder, intended to represent a computer file, was denied protection.

In a recent decision, *Apple Computer, Inc. v. Microsoft Corp.*,²⁸ the court noted that the principal outstanding issue to be resolved was the similarity of the works as a whole. In most copyright cases, absent direct evidence of copying, copying is proven by showing that the alleged copier had access to the copyrighted work and that the original and allegedly copied work are "substantially similar." The court concluded, however, that in a compilation of many elements, where most of the elements are unprotectable (such as screen display icons), and the protectable aspects of the works are relatively small and isolated, the "substantial similarity" standard should not be used. Rather, the court held that infringement of Apple's copyright could not be found in the absence of "virtual identity" between the works (rather than "substantial similarity" or "bodily appropriation of expression").

4. NOT ALL "WORK-FOR-HIRE" FACTORS ARE OF EQUAL IMPORTANCE.

In *Aymes v. Bonelli*,²⁹ Jonathan Bonelli was the president of Island Swimming Sales Inc. ("Island") which operated a chain of retail swimming pool stores. Bonelli hired Clifford Aymes to create a series of computer programs called "CSALIB" to assist Bonelli in operating the stores. Aymes did most of his programming at the Island swimming office, where he had access to Island's computer hardware. Although Aymes worked irregular hours, he was not always paid by the hour and, on occasion, presented his bills to Bonelli as invoices. Bonelli never paid an employer's payroll tax for Aymes and never withheld any of his salary for federal or state taxes. No written agreement existed between Bonelli and Aymes regarding the ownership or copyright of CSALIB.

After a dispute over his wages, Aymes registered CSALIB in his own name with the U.S. Copyright Office and filed suit against both Bonelli and Island for copyright infringement.

After a bench trial, a U.S. District Court found that Aymes owned no copyright in CSALIB. The court, thus, concluded that Aymes was an employee and the program was a "work-made-for-hire" and Island owned the program.

On appeal, the U.S. Court of Appeals for the Second Circuit ruled that under, the U.S. Copyright Statute, for a "work-made-for-hire," an employer is considered the author for the purposes of the copyright statute "unless the parties have expressly agreed otherwise."³⁰ The court further noted that the Copyright Statute defines a work made for

28. 821 F. Supp. 616 (N.D. Cal. 1993).

29. 25 U.S.P.Q.2d (BNA) 1181 (2d Cir. 1992).

30. 490 U.S. 730 (1989).

hire as "(1) a work prepared by an employee within the scope of his or her employment; or (2) a work specially ordered or commissioned for use . . . if the parties expressly agreed in a written instrument signed by them that the work shall be considered a work made for hire."³¹ Since there was no written agreement assigning CSALIB from Bonelli, the court considered whether the program was work prepared by Aymes as "an employee within the scope of his employment."³² In determining whether one is an employee, the court looked to the general common law of agency, in light of the seminal ruling of *Community for Creative Non-Violence v. Reid*.³³ Such factors include the hiring party's right to control the manner and means of the creation, the skill required, the provision of employee benefits, and the tax treatment of the hired party. However, many of the factors should not necessarily receive equal consideration. For example, the Appellate Court noted that the "location of the work" should "be accorded negligible weight," since Aymes was required to work in Island's offices in order to have access to its computer hardware. Similarly, the "source of the equipment" was deemed to carry little weight, since all equipment Aymes used was located in Island's office. Further, the "authority to hire assistance" is "virtually meaningless" where the hired party does not need any assistance. Given Aymes' skill and tax benefits status, the court concluded that indeed Aymes was an independent contractor, and, thus that the program was not a work-for-hire. Therefore the District Court's judgment was reversed and Aymes was found to be the author and owner of the copyright.

5. A ROUND OBJECT PAINTED BY PICASSO MAY STILL BE
COPYRIGHTABLE.

In *Atari Games Corp. v. Oman*,³⁴ Atari applied for a copyright registration of its video game, BREAKOUT. BREAKOUT was a relatively early video game in which players moved a "paddle" to hit a "ball" against a "wall." The paddle, ball, and wall were all made of rectangles and squares. The U.S. Copyright Office refused registration of the work, reasoning that since only simple geometric patterns were used, "the display screens both individually and as a whole simply [lack] sufficient creativity to make them registerable as audio visual works."³⁵ A U.S. District Court affirmed the Register's decision.

On appeal, the U.S. Court of Appeals for the District of Columbia

31. *Aymes*, 25 U.S.P.Q. 2d (BNA) at 1183.

32. *Id.*

33. *Id.*

34. 979 F.2d 242 (D.C. Cir. 1992).

35. *Id.* at 243.

considered the bellwether case, *Feist Publications v. Rural Telephone Services Co.*³⁶ In *Feist*, the U.S. Supreme Court ultimately held that the simple arrangement of names, in alphabetical order, together with the corresponding addresses and telephone numbers, in the white pages of the telephone directory did not show enough creativity to be copyrightable. The Court observed, however, that while the white pages under consideration showed an insufficient level of creativity, "the requisite level of creativity is extremely low; even a slight amount will suffice. The vast majority of works may make the grade quite easily, as they possess some creative spirit 'no matter how crude, humble or obvious' it may be."³⁷

The Court of Appeals for the District of Columbia reasoned that the abstract representations in *BREAKOUT* were neither "obvious" nor "inevitable." The coordination of a square "ball" and a rectangular, "shrinking" paddle, the placement of the scores, and the change in the speed of the "ball" could be evidence of creativity. Accordingly, the court reversed the judgment granted to the Register and remanded the case with instructions to return the matter of Atari's application to the Register for renewed consideration.

6. REVERSE ENGINEERING OF A VIDEO GAME CONSOLE TO DEVELOP A COMPATIBLE CARTRIDGE MAY BE FAIR USE.

In *Sega Enterprises Ltd. v. Accolade, Inc.*,³⁸ the plaintiff, Sega, develops and markets video entertainment systems under the tradename, Genesis. In order to make a compatible video cartridge for the Genesis game console, the defendant, Accolade, decompiled (or transformed) the machine-readable object code contained in commercially available copies of Sega's game cartridges into human-readable source code. Accolade engineers then loaded the disassembled code into a computer and experimented to discover the interface specifications for the Genesis console. Accolade then created and began selling its own game cartridges for Genesis consoles. With exception of the interface specifications, none of Accolade's code was derived from an examination of Sega's code.

Sega's console also uses a security system that causes its trademark to be displayed before any game is operated in the system. Accolade's game cartridge similarly causes Sega's trademark to be displayed before the game will begin.

Sega argued that Accolade's programs were improperly derived from the programs in its game console. Also, since Accolade's program

36. 111 S. Ct. 1282 (1991).

37. *Id.* at 1287.

38. 977 F.2d 1510 (9th Cir. 1992).

caused Sega's trademark to be displayed, Sega reasoned that Accolade was liable for trademark infringement. The trial court granted a preliminary injunction against further infringement by Accolade.

On appeal, the Court of Appeals for the Ninth Circuit reviewed Accolade's argument that its actions were permissible under the doctrine of "fair use." The court observed that Accolade copied Sega's entire program for commercial gain, rather than, for example, scholarly inquiry. This weighed against a finding of fair use.

However, the court also noted that Accolade was not attempting to avoid performing its own creative work, but only wished to create a cartridge that would work with the consoles that consumers had already purchased. With respect to the effect on the potential market, the court concluded that the Sega and Accolade games were substantially different and that consumers might purchase both games. With respect to the nature of the copyrighted work, the court found that many elements of the Sega video game were properly characterized as functional and, therefore, not protectable. Moreover, the video games contained unprotected aspects that could not be examined without copying and, therefore, were afforded a lower degree of protection. Ultimately, in weighing such factors, the court concluded that, since disassembly was the only way to gain access to the functional elements embodied in the copyrighted computer program, Accolade had a legitimate reason for its actions. Thus, Accolade's disassembly of Sega's program was held to be fair use.

Moreover, the court noted that Sega regulated access to its console, and there was no feasible, alternative method of gaining access to the console other than by displaying Sega's trademark. Accordingly, the court concluded that Sega, and not Accolade, was primarily responsible for any confusion resulting from Sega's mark being displayed on the screen. The Court of Appeals for the Ninth Circuit reversed the district court's grant of a preliminary injunction and remanded for further action by the district court.

7. ALTHOUGH CONDONED BY STATUTE, REVERSE ENGINEERING OF A SEMICONDUCTOR CHIP REQUIRES A THOROUGH "PAPER TRAIL" OF INDEPENDENT DEVELOPMENT.

In *Brooktree Corp. v. Advanced Micro Devices, Inc.*,³⁹ the plaintiff, Brooktree, received a registration on the mask work of a semi-conductor chip. The circuit design (which combined the functions of a static random access memory ("SRAM") and a digital to analog converter) was used to produce colors in video displays. Brooktree brought suit for

39. 977 F.2d 1555 (Fed. Cir. 1992).

infringement, pursuant to the U.S. Semiconductor Chip Protection Act,⁴⁰ against the defendant, AMD.

Under the *sui generis* protection granted in the U.S. for semiconductor mask works, "designs that are staple, commonplace, or familiar in the semiconductor industry, or variations of such designs, combined in a way that, considered a whole, is not original" are excluded from protection, just as "ideas" are excluded from protection under the U.S. Copyright Statute.⁴¹ Thus, the Act permits analogous copying of registered masks, provided that the "copier" only reverse engineers a chip sufficiently to understand how the chip works and then independently designs its own chip.

At trial, the court instructed the jury on the law pertaining to the reverse engineering defense and told the jurors to place "great weight" on the paper trail allegedly showing independent development. The jury returned a verdict of infringement despite a tremendous volume of documentation by AMD showing its independent development.

Applying the discernible law of the Ninth Circuit, the Court of Appeals for the Federal Circuit found that AMD's documentation was not as thorough as it could have been:

A reasonable jury could have placed great weight on the evidence that AMD did not use an alternative transistor configuration but used Brooktree's configuration. A reasonable jury could have inferred that AMD's paper trail, insofar as it related to the SRAM cell, related entirely to AMD's failures, and that as soon as the Brooktree chip was correctly deciphered by reverse engineering, AMD did not create its own design but copied the Brooktree design.⁴²

Accordingly, the judgment of the lower court was affirmed.

VI. CRIMINAL LAW

1. INCONSISTENT JURY VERDICTS ARE INSUFFICIENT TO OVERTURN A CONVICTION.

In *U.S. v. Suppenbach*,⁴³ the defendant, Robert Suppenbach (also known as "decoder Bob"), was indicted pursuant to a multi-count indictment. The indictment alleged that Suppenbach had both conspired to unlawfully modify decoders to be used in the unauthorized decryption of satellite cable television programming, as well as actually modifying certain decryption equipment.

The jury convicted Suppenbach of conspiring to modify the decoders, but did not find him guilty of the substantive offense of actually

40. 17 U.S.C. §§ 901-914 (1992).

41. *Id.*

42. *Brooktree Corp.*, 977 F.2d at 1569.

43. 1 F.3d 679 (8th Cir. 1993).

modifying specific decoders. The Court of Appeals for the Eighth Circuit ruled that Suppenbach could not successfully attack a conviction on one count simply because it was inconsistent with the jury's verdict of acquittal on another count.

2. WITH A SEARCH WARRANT DESIGNATING ONLY COMPUTER
HARDWARE, THE GOVERNMENT MAY ALSO SEARCH THE
COMPUTERS' HARD DRIVES.

In *U.S. v. Lyons*,⁴⁴ upon obtaining a search warrant for stolen UNISYS computer hardware, FBI agents seized computer equipment from Darian Lyons' home. Without seeking a separate search warrant, the FBI agents searched the drives of the computers and found over \$250,000 of pirated software.

Mr. Lyons argued that the search of the computer drives was a violation of his Fourth Amendment privacy rights. A U.S. Court of Appeals ruled there could be no expectation of privacy in the hard drives, because the individual who stole the equipment did not have any legal interest in the property. Thus, the Court of Appeals determined that the trial court had acted properly in considering the stolen software when sentencing Lyons.

3. ENABLING OTHERS TO HAVE UNAUTHORIZED RECEPTION OF
TELEVISION CABLE COMPANIES' PROGRAMMING IS A CRIMINAL
VIOLATION OF THE U.S. WIRETAP LAW.

In *U.S. v. Davis*,⁴⁵ Duane Davis engaged in the business of manufacturing and selling satellite television descrambling devices. After paying him \$1,000, Davis' customers received a device allowing them to receive television cable programming without paying a fee to any cable company. Davis appealed his conviction of "intentionally [intercepting] electronic communications" in violation of the provisions of the Federal Wiretap Law.⁴⁶ Davis argued, on appeal, that no written law specifically prohibits interception of commercial satellite programming. The Court of Appeals for the Eighth Circuit construed the general Wiretap Law prohibitions as prohibiting Davis' activity and affirmed Davis' conviction.

44. 997 F.2d 826 (10th Cir. 1993).

45. 978 F.2d 415 (8th Cir. 1992).

46. 18 U.S.C. § 2512 (1988).

4. THE FELONY STATUS OF INFRINGEMENT OF A COPYRIGHT ON SOFTWARE NOW RELATES TO THE RETAIL VALUE OF THE SOFTWARE.

A bill⁴⁷ signed into law by President Bush provides that any person who illegally copies or distributes, during a 180-day period, ten or more computer programs may commit a felony. If the infringing programs have a retail value exceeding \$2,500, the crime is deemed a felony, and the offender is subject to five years of imprisonment or a fine not exceeding \$250,000 or both. Subsequent offenders are subject to ten years in prison or a fine or both. Notably, the determination of whether an offense is a felony or misdemeanor is now based on the retail value of the infringing copies and not the type of work infringed.

5. A LONGER TERM OF IMPRISONMENT MAY BE IMPOSED WHERE A COMPUTER PROGRAMMER BETRAYS A POSITION OF TRUST.

In *U.S. v. Williams*,⁴⁸ the defendant, Henry Williams, was a military pay account technician working in a restricted access area. Williams used a variety of different computer access codes in order to embezzle small amounts from military pay accounts. The trial court sentenced Williams to four months of imprisonment, to be followed by eight months of supervised release. On appeal, Williams argued that the trial court had erred in sentencing him to a harsher prison term than called for in the federal guidelines.

The Court of Appeals for the Tenth Circuit noted that the crime involved substantial planning by a person in a position of trust. Accordingly, the increased sentence was affirmed.

VII. EMPLOYMENT RELATIONS

1. THERE IS NO ACTION FOR AGE DISCRIMINATION WHERE THE TERMINATED EMPLOYEE HAD REFUSED TO UTILIZE A NEW COMPUTER SYSTEM.

In *Colosi v. Electri-Flex Co.*,⁴⁹ the plaintiff, Mariano Colosi, was a 57 year old manager of an electrical products manufacturer. After being discharged, he alleged that he had been fired as the result of improper age discrimination. His former employer, Electri-Flex, moved for a summary judgment in its favor. The trial court agreed that there was no material fact in dispute and that Colosi's age had not been used as the basis for his termination.

On appeal, the Court of Appeals for the Seventh Circuit noted that

47. P.L.102-561, 106 Stat. 4233 (codified as amended at 18 U.S.C. § 2319 (1992)).

48. 966 F.2d 555 (10th Cir. 1992).

49. 965 F.2d 500 (7th Cir. 1992) (Judge Posner).

all affidavits supported the conclusion that, among other things, Colosi had failed to understand and utilize the output of Electri-Flex's new computer system for inventory. The new system was shown to be critical to improvements in inventory control and the minimization of manufacturing costs. The lower court's summary judgment was affirmed.

2. AN EX-EMPLOYEE'S COVENANT NOT TO COMPETE IN THE COMPUTER INDUSTRY MUST BE NO BROADER THAN REASONABLY NECESSARY FOR THE PROTECTION OF A LEGITIMATE BUSINESS INTEREST.

In *Kramer v. Robec, Inc.*,⁵⁰ William Kramer was a project manager for Robec, a distributor of computer hardware and software. His written employment contract barred him from working for competitors in the computer technology field for a three-year period after termination of his employment. Kramer brought suit, seeking relief from the restrictive covenant.

The U.S. District Court for the Eastern District of Pennsylvania observed that technical innovation often has a "shelf life" of only one to one and a half years. The court also found that Kramer lacked detailed knowledge of Robec's products and marketing strategies.

Thus, the court concluded that the covenant not to compete was broader than reasonably necessary for the protection of a legitimate business interest of Robec. Accordingly, the covenant's duration was modified to encompass a two-year period from the time that Kramer first gave notice of resignation, resulting in only a six-month period during which Kramer could not work in this field.

VIII. FOREIGN LAW

1. RELYING ON THE SEMINAL *COMPUTER ASSOCIATES V. ALTAI*⁵¹ CASE, A UNITED KINGDOM COURT FINDS COPYRIGHT INFRINGEMENT OF A COMPUTER PROGRAM, BASED ON ORGANIZATIONAL SIMILARITIES.

In *John Richardson Computers Ltd. v. Mr. T. Flanders & Chemtec Systems Ltd.*,⁵² John Richardson Computers ("JRC") produced a program for a microcomputer that was used in drug stores for label printing, stock control, and patient records. T. Flanders, a former JRC employee, created a rival program to run on personal computers.

The U.K. High Court accepted that there was no direct source code copying, and that the "structure and operation" of the Richardson pro-

50. 824 F. Supp. 508 (E.D. Pa. 1992).

51. 23 U.S.P.Q.2d (BNA) 1241 (2d Cir. 1992).

52. COMPUTERWORLD, Issue 28 (March, 1993).

gram had not been copied. JRC nonetheless claimed copyright infringement had occurred, since the general scheme of the program's unusual sub-routines had been appropriated. Explicitly relying upon the United States case, *Computer Associates v. Altai*,⁵³ the U.K. court deemed that two sub-routines were functionally similar in both programs. Accordingly, the U.K. court found that Flanders was liable for copyright infringement.

IX. PATENTS

1. TECHNICAL INFORMATION GIVEN BY AN INVENTOR TO A PATENT ATTORNEY MAY BE PRIVILEGED.

In *Laitram Corp. v. Hewlett-Packard Co.*,⁵⁴ Laitram sued Hewlett-Packard for infringement of its patent. Laitram sought reconsideration of a magistrate's ruling that documents relating to the exchange between itself and its patent lawyer during the course of preparing and prosecuting the patent application were discoverable by Hewlett-Packard.

The U.S. District Court for the Eastern District of Louisiana noted that courts generally take one of two positions regarding inventor-attorney communications. Some courts reason that the technical information conveyed to a lawyer is only protectable as privileged if a legal opinion is to be rendered based upon the information. Another view considers the dialogue between the attorney and inventor as immune from discovery, so as to help encourage inventors to think about the logical limits of their claimed inventions.

The court considered the second view to be more consistent with the "professional realities," since it reflects the "transactional give-and-take that occurs between an inventor and patent lawyer in the patent acquisition process."⁵⁵ The court reversed the magistrate's ruling that inventor-attorney communications were subject to discovery.

2. PATENT RIGHTS MAY BELONG TO AN EMPLOYER, PURSUANT TO AN EMPLOYMENT AGREEMENT, EVEN IF THE EMPLOYEE RESIGNS BEFORE SEEKING A PATENT.

In *Goldwasser v. Smith Corona Corp.*,⁵⁶ the plaintiff, Dr. Eric Goldwasser, was employed by IBM. Pursuant to a written employment agreement, he was obligated to assign patent rights to IBM for all inventions "made or conceived" while employed by the company. About a

53. 23 U.S.P.Q.2d (BNA) 1241 (2d Cir. 1992).

54. 27 U.S.P.Q.2d (BNA) 1541 (E.D. La. 1993).

55. *Id.* at 1544.

56. 5:91-CV-21 (JAC), 1993 U.S. Dist. LEXIS 11182 (D. Conn. Aug. 6, 1993).

year after resigning from IBM, however, Goldwasser filed an application for a patent on a program that he drafted while still an employee. After a patent issued on the application, Goldwasser filed a patent infringement suit against a third party, Smith Corona, and IBM intervened.

A U.S. District Court found that IBM's employment agreement was not overreaching. The court further ruled that the program was substantially related to (1) the employee's responsibilities at IBM and (2) the businesses of IBM. Since Goldwasser developed the program while he was an employee (albeit possibly during his "off hours") and the agreement was unambiguous, the court held that IBM owned the patent.

3. THE DISCLOSURE OF A MICROPROCESSOR, WITHOUT THE FIRMWARE USED BY THE MICROPROCESSOR, MAY BE A SUFFICIENT DESCRIPTION.

A modem converts a computer's digital signals to an analog form for transmission over telephone lines. Most modems include the ability to distinguish between data, which a modem transmits over the telephone lines, and command signals, which give the modem operating instructions, for example, to discontinue transmitting or switch to a different speed of operation.

In *In Re Hayes Microcomputer Products, Inc.*,⁵⁷ the plaintiff, Hayes, is the assignee of a patent claiming a predetermined signal sequence that allows a modem to distinguish between data and command signals. Further, the Hayes escape sequence had become a *de facto* industry standard, and modem manufacturers were obliged to use the Hayes sequence in order to be compatible with most commercially available software. Thus, the defendant, Ven-Tel, and dozens of other modem manufacturers, were charged with infringement by Hayes.

One of the other modem manufacturers charged with infringement, U.S. Robotics, obtained competent patent counsel and requested his opinion regarding the validity of Hayes' patent. After an initial review of the patent, prosecution history file, prior art, and other documentation associated with the Hayes' patent, U.S. Robotics' counsel issued a preliminary opinion to U.S. Robotics regarding the nature of his findings, with a more detailed, complete opinion to follow. Ven-Tel obtained a copy of the preliminary opinion and relied upon it, without seeking its own opinion of counsel nor obtaining any later, final opinion issued by U.S. Robotics' counsel.

A U.S. patent grants the owner the exclusive right to make, use, or

57. 982 F.2d 1527 (Fed. Cir. 1992).

sell the claimed invention in the United States for 17 years, but only if the applicant fully discloses the best mode of which he or she is aware for making and using the claimed invention. Upon being sued for infringement by Hayes, Ven-Tel contended that the Hayes patent was invalid for failing to comply with the best mode requirement. The Hayes applicant had disclosed a preferred type of microprocessor, but had failed in its duty of disclosure by not listing the firmware used by the microprocessor.

The Court of Appeals for the Federal Circuit, however, found that, for one of ordinary skill in the art to understand the invention, all that the applicant needed to disclose was that a particular microprocessor was used and that the microprocessor had certain capabilities and functions. The court also concluded that the interim report from the counsel for Ven-Tel's competitor, U.S. Robotics, was too conclusory for Ven-Tel properly to rely upon to establish its good faith. Accordingly, the court affirmed the lower court's judgment, which was based on a jury verdict that the Hayes patent was valid and willfully infringed by Ven-Tel.

Practice Tips:

Remember that a copier in a patent infringement trial always faces an "uphill battle."

U.S. counsel issuing letters to their clients should remember that they often have little control over where their letters go after they are placed in the possession of a client.

X. PRIVACY LAW

1. THE CLINTON ADMINISTRATION HAS PROPOSED A VOLUNTARY PROGRAM FOR ENCODING TELEPHONE AND COMPUTER TRANSMISSIONS.

The Clinton administration has proposed a voluntary program in which telephonic communications will be made with a new encryption device developed by government engineers called the "Clipper Chip." The chips scramble and unscramble telephone and computer transmissions. By incorporating the device into their transmission systems, companies will be able to protect proprietary information by insuring the privacy of personal phone conversations and preventing unauthorized release of electronically transmitted data. At the same time, however, the Clipper Chips include a "key escrow system" that will allow federal, state, and local law enforcement agencies to intercept and unscramble electronic transmissions.⁵⁸

58. St. Louis Post Dispatch, Sunday, April 18, 1993: White House press release dated April 16, 1993.

XI. TAX LAW

1. A MUNICIPAL SALES TAX MAY APPLY, EVEN WHERE COMPUTER EQUIPMENT IS BOTH DELIVERED TO A COMMON CARRIER AND ASSEMBLED OUTSIDE OF THE RELEVANT STATE.

In *International Business Machines Corp. v. Oklahoma Tax Commission*,⁵⁹ the plaintiff, IBM, manufactured computer parts and accessories that were delivered by IBM to a common carrier outside of Oklahoma. The parts were assembled by the common carrier's employees at a consolidation facility in Dallas, Texas. However, IBM's customer took possession of the equipment from the common carrier in Oklahoma and paid for the computer equipment from its place of business in Oklahoma.

An Oklahoma City municipal tax applied to any computer goods sold within the city. IBM argued that the tax was inapplicable, since the major elements of the transaction occurred outside of Oklahoma. The Oklahoma State Supreme Court, however, ruled that the transfer of possession of the equipment, which occurred inside Oklahoma City at the customer's place of business, was the controlling factor. Thus, the court concluded the imposition of the municipal sales tax was proper.

2. MODIFIED SOFTWARE MAY BE CONSIDERED "INTANGIBLE PROPERTY."

In *Computer Associates International, Inc. v. City of East Providence*,⁶⁰ Computer Associates ("CA") licenses computer programs to its customers. The City of East Providence, Rhode Island, levied a personal property tax on CA's software. In reversing the decision of a lower court, the Rhode Island State Supreme Court held that CA's programs could not constitute taxable, tangible personal property and, thus, were not subject to the city's personal property taxes under Rhode Island state law. The court reasoned that CA was selling "intangible services," rather than "tangible software," because Computer Associates performed extensive customization of each program.

3. COMPUTERS CONTINUE TO BE A NEW SOURCE OF INCOME TO MUNICIPALITIES.

The city council for the city of Chicago has enacted a new personal property lease transaction tax.⁶¹ The new law, which became effective March 1, 1993, imposes a tax on the privilege of using a remote terminal, within the city of Chicago, that is interconnected to a computer located outside of the city of Chicago. Such a tax is applicable, for

59. 853 P.2d 770 (Okla. 1993).

60. 615 A.2d 467 (R.I. 1992).

61. Chicago, Ill., Chicago Transaction Tax Ordinance, Chapter 3-32-010 (1993).

example, to users of data bases such as Lexis, Dialog, and Prodigy. Formal interpretations of the new law have yet been issued by the City regarding whether the broadly drafted tax law also applies to users of automatic teller machines or to automated long distance telephone calls.

XII. TRADEMARKS

1. PRIOR SALES, RATHER THAN PRIOR SALES ACTIVITIES, MAY GIVE A USER SUPERIOR TRADEMARK RIGHTS.

In *Future Domain Corp. v. Trantor Systems, Ltd.*,⁶² the plaintiff, Future Domain, began to use the mark, "SCSIWorks!" in October 1992. The defendant, Trantor, began to use the same mark for substantially the same goods in November 1992. At a COMDEX trade show in November 1992, both companies distributed material showing the same trademark. Both learned of the other's use of the same mark at the show. Litigation followed.

At trial, Future Domain showed that it had sent test versions of its SCSIWorks! software, free of charge, to those who requested the software at the trade show. Trantor, however, was the first to complete actual sales of its software under the trademark.

A U.S. District Court concluded that Future Domain's early activities were only "promotional," since no sales were involved. Accordingly, Trantor was deemed the first user of the mark and, thus, the party having prior rights. The court issued a preliminary injunction, barring Future Domain from using the mark for its software.

2. AN APPLICATION TO REGISTER NUMERICAL MARKS BASED ON AN INTENT TO USE THEM IS PROPER AND MAY NOT BE OPPOSED AS BEING DESCRIPTIVE UNLESS A STATEMENT OF USE HAS BEEN FILED.

In *Eastman Kodak Co. v. Bell & Howell Document Management Products Co.*,⁶³ Bell & Howell filed applications to register certain numbers ("6200," "6800," and "8100") as trademarks, based on its intent to use the marks at a later date to identify the source of origin for microfilm readers. Eastman Kodak filed oppositions to the applications for registration, arguing that the Bell & Howell's marks are merely descriptive and, therefore, not registerable as trademarks.

The Trademark Trial and Appeal Board granted Bell & Howell's motion for summary judgment that the descriptiveness of the marks could not be determined before Bell & Howell filed statements, with the Patent and Trademark Office, setting forth how the marks are be-

62. 27 U.S.P.Q.2d (BNA) 1289 (N.D. Cal. 1993).

63. 26 U.S.P.Q.2d (BNA) 1912 (Fed. Cir. 1993).

ing used. Kodak appealed the Board's decision to the Court of Appeals for the Federal Circuit.

The court found the Board's evaluation reasonable and affirmed the decision. It further ruled that if Kodak found itself precluded from opposing the applications (because Bell & Howell had not yet filed its statements of use), it still had the remedy of later petitioning the Board to cancel Bell & Howell's registrations after they issued.

3. THE U.S. TRADEMARK OFFICE ISSUES A FINAL ACTION, DENYING MICROSOFT'S REGISTRATION FOR "WINDOWS."

In a final action issued February 17, 1993, the U.S. Patent and Trademark Office denied Microsoft's application to register the word, WINDOWS, as a trademark.⁶⁴ The Trademark Office found that the term, WINDOWS, was generic in the computer software field for a type of software that contains windows and for software that allows windows to function on a screen. Since the word is in the public domain, one company, such as Microsoft, cannot assume all rights to the word and deprive the public of the right to it.

XIII. TRADE REGULATION

1. THE LANHAM ACT MAY EMPOWER A COURT TO EXERT CONTROL OVER FOREIGN SUBSIDIARIES OF A PARTY BEFORE THE COURT.

In *International Business Machines Corp. v. Comdisco, Inc.*,⁶⁵ IBM alleged that Comdisco had engaged in the practice of reconfiguring IBM's memory cards, in a manner inconsistent with IBM's specifications, and then selling the cards to the public as genuine IBM memory cards. IBM and Comdisco filed a stipulation with a U.S. District Court. The stipulation, which the court then issued as an order, prohibited Comdisco from representing to its customers that such reconstituted memory cards were genuine IBM products.

Comdisco agreed that the stipulation applied to its own sales of memory cards to foreign customers. Comdisco, however, argued that the court lacked subject matter jurisdiction to control the sales of memory cards made by Comdisco's foreign subsidiaries to those same customers.

The court, however, apparently understood Comdisco's practical control over its foreign subsidiaries. The court ruled that the Lanham

64. Final Office Action dated February 17, 1993, U.S. Patent and Trademark Office, Ref. No. 663005.220.

65. No. 91-C6777, 1993 U.S. Dist. LEXIS 6143, 8416 (N.D. Ill. May 7, 1993 & June 21, 1993).

Act⁶⁶ (regulating unfair trade practices) has a "sweeping reach" over foreign commerce. The court reasoned that if Comdisco, a U.S. company, undertook acts that "were essential steps in the course of business consummated abroad," then Comdisco's activities were within the scope of the Lanham Act and controllable by the court. The court was unwilling to allow Comdisco to accomplish through foreign subsidiaries that which it had prohibited the company itself to do.

XIV. TRADE SECRETS

1. UNLESS THE OWNER OF ALLEGED TRADE SECRETS CAN IDENTIFY VALUABLE INFORMATION THAT WAS NOT PUBLICLY AVAILABLE, THERE CAN BE NO CLAIM FOR TRADE SECRET THEFT.

In *Julie Research Laboratories, Inc. v. Select Photographic Engineering, Inc.*,⁶⁷ the plaintiff, Julie Research, hired the defendant, Select, as a marketing agent. In this role, Select had access to the details of Julie Research's electronic photographic retouching system called "JRL Diamond." Julie Research terminated Select as its agent, and Select began to market its own electronic photographic retouching system. Julie Research alleged that Select had misappropriated its trade secrets in JRL Diamond and obtained a preliminary injunction barring Select from selling such a system.

At a later hearing, however, the court noted that "the court sought ad nauseam to have the plaintiff explain what was proprietary about Diamond. That question was never answered."⁶⁸ Accordingly, all claims against Select were dismissed.

2. A SOFTWARE LICENSEE MAY BE LIABLE FOR MISAPPROPRIATION OF TRADE SECRETS IF IT SHOULD HAVE KNOWN THAT THE LICENSOR'S SOFTWARE INCLUDED THE PROPRIETARY INFORMATION OF OTHERS.

In *Avtec Systems, Inc. v. Peiffer*,⁶⁹ Jeffrey Peiffer was a full-time employee of Avtec, where he used computer programs to produce simulations relating to satellite orbital analysis. Peiffer created an updated version of an orbital simulation program in his spare time, at home, and with his own computer. The majority of the work on the orbit program occurred in furtherance of Peiffer's personal hobby and not to satisfy specific work obligations for Avtec.

66. 15 U.S.C. § 1114 (1988).

67. 810 F. Supp. 513, 519 (S.D.N.Y. 1992).

68. *Id.*

69. 805 F. Supp. 1312 (E.D. Va. 1992).

While still employed by Avtec, Peiffer signed an agreement with Kisak-Kisak, Inc. ("KK"), giving KK an exclusive license to market the orbital simulation program. Peiffer failed to inform Avtec of the agreement. After KK sold approximately 50 copies of the program, earning revenues of \$197,000, Avtec sued both Peiffer and KK, charging copyright infringement and misappropriation of trade secrets.

The trial court concluded that in order to determine whether Avtec owns a copyright in the program, the court must inquire into the scope of Peiffer's employment. Since Avtec was unable to show that the creation of the program was within the scope of Peiffer's employment, Peiffer was deemed the exclusive owner of the program's copyright.

However, the court also remained unpersuaded that the orbit was developed from information in the public domain. A trade secret includes secret information that gives its owner a competitive advantage. The court found that the program used many of the secret and valuable programming functions of Avtec. Thus, the court concluded that Avtec's unintentional contribution of its trade secrets to the program gave Avtec a right to use the program "in a similar manner as an employer may possess 'shop rights' to an employee's patented invention."⁷⁰ Further, the court found that Peiffer had breached his fiduciary duty toward Avtec, which he had assumed simply by becoming an employee. Further, KK was found by the court to have "an obligation to investigate any ownership claims by Avtec,"⁷¹ which it failed to do. As such, the court deemed that KK was "also liable for misappropriation of Avtec's trade secrets" within the orbital analysis program.⁷²

3. UPDATE ON THE COPYRIGHT MISUSE CASE, *QAD V. ALN*.

In one of the leading cases involving copyright misuse, *qad, Inc. v. ALN Associates, Inc.*,⁷³ Judge Shadur of the U.S. District Court for the Northern District of Illinois found that plaintiff, qad, had misrepresented the source of the ownership and the ownership of software for which they obtained a copyright registration. The court has now granted attorney's fees to the defendants. The defendants were awarded over \$211,000 for legal services in connection with the damages hearing and in the preparation of the first fee petition, plus over \$77,000 for the accounting services for establishing damages.

70. *Id.* at 1320.

71. *Id.* at 1321.

72. *Id.*

73. 807 F. Supp. 465 (N.D. Ill. 1992).

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