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Dennis S. Deutsch

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LITIGATE AND ARBITRATE: A HYBRID METHOD OF ALTERNATIVE DISPUTE RESOLUTION

DENNIS S. DEUTSCH*

Much has been written over the past several years concerning various forms of alternative dispute resolution ("ADR").[1] The best known and most often used format of ADR is arbitration; throughout the United States it is most often conducted through the American Arbitration Association.[2] However, use of other arbitration panels such as Judicate, Dispute Resolution, Inc., Equilaw, and the Center for Dispute Arbitration has grown recently.

Regardless of the forum chosen for arbitration, arbitration has certain advantages and disadvantages when compared to litigation. Among the advantages, arbitration is: (i) usually quicker; (ii) usually less expensive; (iii) less formal; and (iv) less complex. Among the disadvantages are the following: (i) the rules of evidence usually are not applicable; (ii) discovery may be limited or nonexistent; (iii) arbitrators may not have to apply the law; and (iv) in most jurisdictions, only an

* Dennis S. Deutsch specializes in Computer Law-High Technology litigating and transactional work. He is with the Hackensack, New Jersey law firm of Gallo, Geffner, Fenster, Schiffman & Berger and serves as an Adjunct Associate Professor of Law at Fordham University, School of Law, in New York, New York.

1. *See, e.g.*, Hennington, *Computer Arbitration: Taking the Byte Out of Data Processing Disputes*, 19 CUMB. L. REV. 279 (1989); Barger, *Arbitration of Computer Disputes in the United States: A Status Report*, ARB. J., March 1988, at 55; Stipanowich, *Rethinking American Arbitration*, 63 IND. L. J. 425 (1987-88); Nicklisch, *Agreement to Arbitrate to Fill Contracted Gaps*, J. INT'L ARB., Sept. 1988, at 35; Cain, *Commercial Disputes and Compulsory Arbitration*, BUS. LAW., Nov. 1988, at 65; Medalie, *The New Appeals Amendment: A Step Forward for Arbitration*, ARB. J., June 1989, at 22; O'Hara, *The New Jersey Alternative Procedure for Dispute Resolution Act: Vanguard of a "Better Way"?* 136 U. PA. L. REV. 1723 (1988); Hoeniger, *Tools to Tailor AAA Arbitration for Large, Complex Matters*, ARB. J., March 1989, at 15.

2. The American Arbitration Association is headquartered in New York City and has branch offices throughout the United States. For a fuller explanation of the pros and cons of arbitration, as well as the procedures utilized in a formal arbitration, see D. DEUTSCH, PROTECT YOURSELF: THE GUIDE TO UNDERSTANDING AND NEGOTIATING CONTRACTS FOR BUSINESS COMPUTERS AND SOFTWARE (1984); M. SCOTT, COMPUTER LAW §§ 6.115-6.124 (1984).

extremely limited right of appeal exists.[3]

There are, however, situations where arbitration is not initially available or desirable to an aggrieved party yet the advantages of arbitration are still compelling. This article is a case study of one such example.

FACTUAL BACKGROUND

Market Line International, Inc. and Com-Tech Research, Inc. were two affiliated corporations engaged in the design, development and marketing of computer software and systems.[4] Kalki P. Joisher was employed by Market Line from May 9, 1984 through December, 1988 as a computer programmer. At the commencement of his employment, he executed a non-disclosure employment agreement.[5] That agreement obligated Joisher to remain faithful to Market Line during his employment and further obligated Joisher not to disclose trade secrets of Market Line for two years following the termination of his employment. During this period, Mr. Joisher worked in the development of an application program for rental businesses.

In June of 1984, Market Line registered a copyright with the Library of Congress for a computer program entitled "Movie Star" which was then licensed to those in the movie rental industry. Using the "Movie Star" program as a basis, during the years 1984 through 1986 Market Line developed a derivative computer program which was ultimately titled, "Data Rental." (Joisher denied that Data Rental was derived from Movie Star.)

Joisher's employment was terminated in the fall of 1988. According to Joisher, following his termination with Market Line he developed a computer program which was completed in March, 1989 and known as "Rental-Pro." It served the same marketplace as Data Rental. Joisher,

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3. The statute in New Jersey relating to the vacation of an award or a rehearing in an arbitration reads as follows:

> The Court shall vacate the award in any of the following cases:
> a) Where the award was procured by corruption, fraud or undue means; b) Where there was either evident partiality or corruption in the arbitrators, or any thereof; c) Where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause being shown therefor, or in refusing to hear evidence, pertinent and material to the controversy, or of any other misbehaviors prejudicial to the rights of any party; d) Where the arbitrators exceeded or so imperfectly executed their powers that a mutual, final and definite award upon the subject matter submitted was not made. . . .

N.J. STAT. ANN. tit. 2A:24-8.

4. For the sake of convenience, as was actually the situation in the case and the complaint filed, the two plaintiffs will be referred to singularly as "Market Line" in the remainder of this article.

5. Joisher actually alleged in his papers that he was an independent contractor for Market Line prior to becoming a full-time employee.

through a corporation he created, began marketing Rental-Pro prior to its completion in late January, 1989.

By the summer of 1989, Joisher had attended trade shows and was becoming a force in the market place with which Market Line had to contend. That summer, Market Line consulted counsel.[6]

After counsel conferred with the client and investigated the situation, it became evident that Market Line had a colorable claim for copyright infringement and misappropriation of trade secrets (as well as other possible claims). As with many clients the cost of the litigation was a concern. Although arbitration is often seen as a less expensive vehicle for dispute resolution than litigating through the courts, this was not a breach of contract action where an arbitration clause could be invoked to force arbitration.

The only choice Market Line had was to abandon its claim or commence litigation.[7] A Verified Complaint and Jury Demand was filed in the United States District Court, District of New Jersey on September 6, 1989 (a copy of the Complaint appears in Appendix A). Concurrent with the filing of the Verified Complaint, Market Line followed the procedure often utilized in copyright infringement actions; i.e., the filing of an Order to Show Cause seeking a Temporary Restraining Order and Preliminary Injunction. The matter was assigned to the Honorable Dickinson R. Debevoise who, after conducting a partial plenary hearing and reviewing affidavits and briefs submitted by both parties, denied the application for a Temporary Restraining Order. Judge Debevoise did indicate, however, that he was convinced that there was an element of copyright infringement established by Market Line but that the showing was inadequate at this early stage of the proceedings to restrain the defendants. Despite the failure to obtain a favorable ruling at this preliminary proceeding which, in all likelihood, would have resolved the entire litigation, Market Line was not discouraged. It was equally evident that Market Line was totally convinced that Joisher had violated his employment agreement, misappropriated its trade secrets and infringed upon its copyrights.

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6. The author was retained to represent Market Line.

7. There was no existing contract between the parties where the contract called for the arbitration of any dispute arising from the contract or the relationship established in the contract. Had that been the case, Market Line could have originally brought the matter in arbitration. Furthermore, litigation could not be commenced as soon as that decision to litigate was made. Market Line had never registered Data Rental with the Library of Congress Copyright Office. Since registration of the program is a prerequisite to filing in Federal court for copyright infringement under Federal law (a copy of the Certificate of Registration should be attached to the Complaint), the program had to be registered on an expedited basis in accordance with the Copyright Office's procedure for special handling of expedited registrations as set forth in Copyright Office Announcement ML-319, reported in 49 Fed. Reg. 39,741 (1984).

The realities of litigation now began to set in. The proceeding to this point had required an extensive investigation by the plaintiff's attorney, a review of materials, the interviewing of witnesses, the preparation of a complex complaint, a plenary hearing, the writing of a brief and two court appearances (one on the initial Order to Show Cause and one on the return date of the Order to Show Cause). Market Line had already expended considerable money, and the litigation was still in its very early stages. Discussions with counsel for Joisher revealed that the defendant was equally concerned about the costs to date and the costs which lay ahead, although he indicated his intent to defend the action fully.

In order to protect their clients' intellectual property rights and take into consideration the realities of the economics of litigation, both attorneys reached what I believe was a rather creative compromise: a third party would decide the matter, and that third party's determination would lead to a court order reflecting the "arbitrator's" decision.

While this solution satisfied Market Line's and Joisher's economic concerns, from the perspective of plaintiff's counsel it was imperative that the plaintiff understand that the decision of the third party would be binding and that once the issue was placed in the hands of the arbitrator, this methodology effectively eliminated the advantage that any attorney's litigation skills might render to either party. Despite this, the attorneys could utilize important skills with respect to the manner in which the matter was placed in the hands of the arbitrator. This is where we shall turn our attentions next.

Both attorneys needed to create a Consent Order which would set the rules for the arbitrator to follow. At the same time, this Consent Order would establish the mechanism for the arbitrator's decision to become an order of the court. It is important to note that, in consideration for entering into this arrangement, Market Line agreed to forego any claim for actual damages and Joisher agreed to dismiss an ancillary lawsuit against Market Line for alleged compensation due him arising out of the employment relationship.

A copy of the Consent Decree appears as Appendix B. Several observations may be made with respect to the way the Consent Decree was framed.

First, in addition to having both parties place their computer programs in source code form into escrow for delivery to the arbitrator, the arbitrator was to ascertain whether the software delivered by Joisher was capable of producing the screens and reports included in the sales literature which Joisher had been disseminating. This was essential to insure that during the pendency of the lawsuit Joisher did not alter the code or substitute a code for the one which Market Line claimed was

the infringing software. If the arbitrator determined that Joisher had switched programs, the Consent Order provided that Joisher would lose by default. As a matter of course, Joisher demanded that the arbitrator also verify that the software deposited by Market Line was the program they had been selling. (Although as a practical matter Joisher would have benefitted had Market Line substituted another program.)

Second, the Consent Order set the standards to be applied by the arbitrator in determining if there was an infringement. The wording here was essential for Market Line. Since the standards for demonstrating a copyright infringement vary from circuit to circuit and currently are somewhat uncertain due to the pending cases dealing with "look and feel," a more liberal, open standard was important. Thus, we were able to negotiate a Consent Order which directed the arbitrator to find an infringement if he discovered a literal copying *or a "copying of the structure, sequence and organization of the plaintiff's program."*[8]

Finally, the Consent Order contained the remedies which the Final Order of the Court would contain in the event an infringement was found. They included a permanent injunction from using the program or any derivatives of the program which was binding not only on Joisher but also on his agents, employees and *licensees*. If the arbitrator found an infringement, enjoining the licensees from using the defendant's software, despite the fact that they were not parties to the lawsuit, was an important element for the proper resolution of the case. This injunction was necessary to pave the way for Market Line to contact those licensees of Joisher with whom it was familiar, to advise them to cease and desist their usage of the software, and to begin, in earnest, negotiation for license fees from each of Joisher's users. Hence, the way would be paved to recoup the monetary losses which would result when Market Line agreed to forego its damage claim against Joisher in the lawsuit.

The software was deposited in escrow by the parties and forwarded to a third party arbitrator along with a copy of the Consent Order setting forth the rules for the arbitrator to follow.

Market Line was correct in their initial determination that Joisher misappropriated their software. After a relatively short time, the arbitrator's report was rendered which unquestionably found an infringement utilizing the parameters established by the Consent Order.

CONCLUSION

Naturally, the foregoing exercise was a risk for Market Line. It also, as a practical matter, saved the company thousands of dollars in

8. *See* Appendix B, Consent Decree paragraph 6.

attorney fees as well as expert witness fees. Yet, Market Line successfully obtained a satisfactory conclusion; a federal judgment establishing their rights to their program and protecting their intellectual property rights.

APPENDIX A

GALLO, GEFFNER, FENSTER, FARRELL, TURITZ & HARRAKA
235 Main Street
Hackensack, New Jersey 07601
Phone: (201) 489-5400

Attorneys for Plaintiff

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UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

MARKET LINE INTERNATIONAL, INC. and COM-TECH RESEARCH, INC.

Plaintiff

v.

KALKI P. JOISHER and JK DATA SYSTEMS, INC.

Defendant

HON

Civil Action No. 89-3777 (DRD)

VERIFIED COMPLAINT AND JURY DEMAND

Plaintiffs MARKET LINE INTERNATIONAL, INC. and COM-TECH RESEARCH, INC., through their undersigned attorneys, complain of the Defendants, KALKI P. JOISHER and JK DATA SYSTEMS, INC., and allege as follows:

JURISDICTION AND VENUE

1. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. Sections 1331 and 1338 (a) and (b) and the Doctrine of Pendent Jurisdiction.

2. The venue is proper in this Court pursuant to 28 U.S.C. Sections 1391 (b) and (c) and in 1400 that the Defendants reside in this district, have their place of business in this district, are transacting business in this district, are committing infringing acts in this district.

THE PARTIES

3. Plaintiff, MARKET LINE INTERNATIONAL, INC. ("MLI"), was incorporated on May 18, 1982 in the State of New Jersey and is a New Jersey corporation with its principal place of business in Hackensack, New Jersey. MLI is engaged primarily in the business of designing, developing, and marketing computer software and computer hardware for various applications including rental management systems, fuel oil management systems, service management systems, and video store management systems. MLI is the owner of all copyrights, trade secrets and other proprietary rights in and to its computer system known as "Data Rental" including its documentation, user's manuals, and related information (collectively referred to as "Software"); a derivative work of a computer program known and registered as "Movie Star." by Co-Plaintiff, CTR.

4. Plaintiff, COM-TECH RESEARCH, INC. ("CTR"), is a corporation with its principal place of business in New Jersey. CTR is engaged primarily in the business of designing, developing, and marketing certain computer software and hardware for various applications including rental management systems, fuel oil management systems, service management systems, and video store management systems. CTR is a wholly owned subsidiary of the Plaintiff, MLI, and is the owner of all copyrights, trade secrets and other proprietary rights in and to its computer system known and registered as "Movie Star"; a computer program from a which a derivative program known as "Data Rental"

was created by the Co-Plaintiff, MLI.

5. Plaintiffs, MLI and CTR, are hereinafter collectively referred to as "MLI".

6. Defendant, KALKI P. JOISHER ("JOISHER"), is an individual, who, from May 9, 1984 through December, 1988, was employed by MLI as a computer programmer.

7. Upon information and belief, JOISHER is the corporator, principal stockholder, and employee of the Co-Defendant, JK DATA SYSTEMS, INC. JOISHER resides and conducts business within this judicial district.

8. Defendant, JK DATA SYSTEMS, INC. ("JK"), upon information and belief, is a corporation organized pursuant to the laws of the State of New Jersey with its principal place of business located at 23 Park Place, Upper Saddle River, New Jersey. JK is engaged in the business of designing, manufacturing and marketing computer software and hardware products which compare to MLI's products. JK resides, transacts business, and may be found in this judicial district.

IDENTIFICATION OF THE SUBJECT MATTER

NATURE OF THE ACTION AND FACTUAL BACKGROUND

9. On or about June 13, 1984, MLI published (within the meaning of the Federal Copyright statute) a computer program entitled "Movie Star" for which, on July 20, 1984, the Library of Congress, Office of Copyrights, issued registration number TX 1-392-621, a copy of which is attached hereto as Exhibit "A".

10. MLI began, at that time, marketing Movie Star which primarily runs on IBM and IBM-Compatible MicroComputers, and has been marketed to video stores as a video store managment system.

11. Movie Star encompasses a number of sub-programs which automate certain activities for video stores including rental inventory management, accounts receivable, contract processing, retail sales, cash receipts, and other necessary and various functions of the retail video store business.

12. On May 9, 1984, the Defendant, JOISHER, executed an Employment Agreement, ("Agreement"), attached hereto as Exhibit "B", and commenced employment with the Plaintiff. Defendant, JOISHER, was engaged and hired by Plaintiff as a computer programmer to design, create, and develop custom software for MLI. His employment duties also included engaging in such other activities as directed by MLI as might be assigned to him from time to time.

13. During the period 1984 to the Fall of 1986, MLI, at various times during that period, was engaged in the development of a derivative program from "Movie Star" designed for use by the retail rental industry.

14. As a result of that effort, MLI created the "the Software" which is the subject of this litigation.

15. The Software, which primarily runs on IBM and IBM-compatible microcomputers, is marketed to the tool, equipment and party rental management businesses.

16. The Software encompasses various computer programs which automate certain rental management activities including

rental inventory management, accounts receivable, contract processing, retail sales, cash receipts, and other necessary and various functions of the rental managment business.

17. The following are examples of functions which are part of the Software:

a) rental transaction tracking;

b) sales transaction tracking;

c) contract (out/in) printing;

d) cash management;

e) inventory control (rental/non-rental)

f) customer control;

g) invoice printing;

h) accounts receivable;

i) customer billing;

j) mailing lists;

k) sales analysis;

l) detailed daily transaction reports;

18. MLI is continuously enhancing its Software, improving the performance of the Software, incorporating new features and modules in to the Software, and designing and developing new capabilities for the Software.

19. MLI has invested hundreds of thousands of dollars and many man-years in the design, development and programming of its Software.

20. MLI's software contains valuable proprietary and confidential information and trade secrets, including techniques and methods of programming that are unique to MLI and its Software. Disclosure of such information and secrets would cause substantial and irreparable harm to MLI.

21. As a result of extensive marketing efforts during the last three (3) years, MLI has assembled an extensive customer list and has been able to identify a large number of existing stores who are potential purchases of MLI's Software as well as individuals who may become video rental store owners and potential customer of MLI's Software and other products. MLI considers this information to be confidential and proprietary.

EMPLOYMENT OF JOISHER

22. As stated above, on or about May 9, 1984, JOISHER began employment at MLI. During the period from May 9, 1984 through December, 1988, JOISHER continued in his employment with MLI.

23. JOISHER was hired to be a computer programmer and to perform various functions in connection with that position.

24. Pursuant to Section 2 of the Agreement, JOISHER covenanted that he would remain faithful to MLI during the term of the Agreement.

25. Pursuant to Section 3 of the Agreement, the Agreement, absent a notice of termination, would be and was renewed automatically for one (1) year periods.

26. Pursuant to Section 9 of the Agreement, JOISHER covenanted not to disclose MLI's trade secrets, including its customer lists (during the course of employment).

27. Pursuant to Section 10 of the Agreement, JOISHER further covenanted that the promises set forth in Section 9 of the Agreement would remain in full force and effect for a period of two (2) years after the termination of JOISHER's employment for any reason, thus, agreeing not to disclose MLI's trade secrets for a period of two (2) years following the termination of the Agreement.

28. Pursuant to Section 15 of the Agreement, JOISHER agreed that any "breach.....of any of the terms of (this) contract by either party (hereto) will result in an immediate and irreparable injury to the other party and will authorize recourse to injunction and/or specific performance as well as to all other legal or equitable remedies to which such injured party may be entitled (hereunder)."

29. During the term of this Agreement, JOISHER had access to MLI's proprietary and confidential information and trade secrets. In particular, JOISHER had access to the source code and documentation for MLI's Software, MLI's customer lists and MLI's prospect lists.

30. JOISHER's employment was terminated in December, 1988.

FORMATION OF JK DATA SYSTEMS, INC. AND UNLAWFUL USE OF MLI'S SOFTWARE AND TRADE SECRETS.

31. Upon information and belief, JOISHER planned the formation of JK Data Systems, Inc. while still employed at MLI.

32. Subsequent to termination, JOISHER filed for unemployment benefits with the State of New Jersey. After a full hearing on the matter, it was determined by a Deputy Director for the Division of Unemployment and Disability Insurance that JOISHER left his employment with MLI voluntarily on January 29, 1989 to become self-employed.

33. The Defendant, JOISHER, incorporated the Defendant, JK, in New Jersey within three (3) months after he left MLI. Additionally, in December, 1988, within days after he left MLI, JOISHER, in conjunction with his wife, started his own related computer business, incorporating such business on March 16, 1989 as the JK

34. During the first week of February, 1989, Joisher was seen at a trade show in Orlando, Florida, by an employee of MLI obtained a marketing brochure regarding JK which promoted a computer software system to the rental community and solicited attendents of the American Rental Association National Convention in Orlando to "call us immediately to see a demo of rental pro at the Ramada Inn International Plaza, off International Drive - two minutes from Convention Hall."

35. Upon information and belief Defendants have used lists of MLI's clients and contacts for the purposes of marketing the

products and services of JK

36. MLI is specifically aware that JOISHER or JK has spoken to or corresponded with MLI's contact persons at the following prospects: A & J Rent-All, Washington, PA; Gettysburg Rental, Gettysburg, PA; Total Rental Center, Lake Charles, LA; General Rental Center, Frankfurt, KY; Thomas Equipment Rental, Louisville, KY.

37. Upon information and belief, Defendants have misappropriated and improperly used MLI software and trade secrets.

38. Plaintiff has demanded that the Defendants cease and desist their acts of infringement, return all misappropriated items and account for their profits as a result of their infringement and misappropriation. Defendants have failed to do so.

COUNT ONE

(COPYRIGHT INFRINGEMENT)

39. MLI repeats and incorporates herein the allegations as set forth in paragraphs 1 through 37 above.

40. MLI's software including the Data Rental computer program and User Manual constitute copyrightable subject matter under the Copyright Act of 1976 as amended by the Copyright Act of 1986, 17 U.S.C. Section 101 ("Copyright Act").

41. On July 20, 1984 MLI, in compliance with the Copyright Act, applied for and received from the Register of Copyrights a certification of registration of a claim to copyright in MLI's software entitled "Movie Star" under Certificate of Registration No. TX 1-392-621 effective July 20, 1984; a copy of said certificate is attached hereto as Exhibit "A" and incorporated herein.

42. On or about July 19, 1989, MLI, in compliance with the Copyright Act, applied for and received subsequently thereto, a certificate of registration of a claim to copyright in MLI's software entitled "Data Rental, a derivative work under the Copyright Act of the previously registered product entitled Movie Star'." Said Certificate of Registration bears number TX-2-598-709 dated July 21, 1989 and is attached hereto as Exhibit C and incorporated herein.

43. On or about July 19, 1989, Plaintiffs applied for and received a copyright registration subsequent thereto, in their current version of a work entitled "Data Rental User's Manual". Said Certificate of Registration bears number TX-2-598-710 dated July 21, 1989 and is attached hereto as Exhibit D, and incorporated herein.

44. MLI has complied in all respects with the Copyright laws and is the sole and exclusive owner of a copyright in Movie Star and Data Rental.

45. Defendant, JOISHER, has had access to MLI's Data Rental, including the source and object code, as well as the User Manuals and the documentation with respect to the Software.

46. Defendant, JOISHER, has reproduced, copied, prepared derivative works based upon, distributed, performed and displayed MLI's Data Rental and Data Rental's User'S Manual in violation of MLI's exclusive rights under 17 U.S.C., Section 106.

47. Defendants have created, distributed and displayed works in substantial similiarity to Plaintiff's Data Rental and Data Rental User's Manual, in violation of Plaintiff's rights.

48. Defendant, JOISHER, has knowingly, willfully and deliberately infringed MLI's copyright in Data Rental and Data Rental's User's Manual and continues to do so in violation of MLI's exclusive copyright rights.

49. By reason of Defendant JOISHER's act of copyright infringement, MLI has suffered and will continue to suffer irreparable injury until the Court enters an injunction (i) restraining Defendants from reproducing, preparing, distributing, performing or displaying any computer programs or manuals which constitute or are copied or derived from Data Rental or Data Rental User's Manual, and (ii) impounding all originals and copies of any computer programs which are copies or derived from Data Rental or Data Rental User's Manual.

50. By reason of Defendant JOISHER's acts of copyright infringement, MLI is also entitled to recover its actual damages from Defendant JOISHER in an amount to be determined by the Court. Pursuant to 17 U.S.C., Section 504, MLI is entitled to recover, at its election after trial, its actual or statutory damages from the Defendant JOISHER, as well as all profits

received or otherwise achieved directly or indirectly by defendants in connection with his use of Data Rental and/or the Data Rental User's Manual.

51. By reason of Defendant JOISHER 's copyright infringement, MLI is entitled, pursuant to 17 U.S.C., Section 505, to recover from the JOISHER the full costs and attorneys' fees incurred by MLI in connection with the prosecution of this action.

COUNT TWO

(CONTRIBUTORY COPYRIGHT INFRINGEMENT BY JK)

52. MLI repeats and incorporates herein the allegations set forth in paragraph 1 through 51 above.

53. JK has contributorily infringed MLI's copyright by reproducing, preparing derivative works based upon, marketing, distributing, performing and displaying Data Rental and the Data Rental User's Manual for works based thereupon in violation of MLI's exclusive copyrights therein.

54. JK has through its representatives, agents and servants, knowingly, willfully, and deliberately contributorily infringed MLI's copyright and continues to do so in violation of MLI's exclusive copyright rights.

55. By reason of JK's acts of contributory copyright infringement, MLI has suffered and will continue to suffer irreparable injury until the Court enters an injunction (i) restraining the representatives, employees, agents and servants of JK from disclosing to JK or its representatives, customers,

or other entities any computer programs or documentation which constitute or are copied or derived from the Data Rental software or the Data Rental User's Manual, and (ii) impounding all originals and copies of any computer programs or manuals which are copies or derived from the Data Rental software or the Data Rental User's Manual.

56. By reason of JK's act of contributory copyright infringement, MLI is entitled to recover its actual damages from JK in an amount to be determined by the Court. Under 17 U.S.C., Section 504, MLI is entitled to recover, at its election after trial, its actual or statutory damages from JK, as well as all profits received or otherwise achieved directly or indirectly by JK in connection with its use of the Data Rental software or the Data Rental User's Manual.

57. By reason of JK's act of contributory copyright infringement, MLI is entitled, under 17 U.S.C., Section 505, to recover from JK the full costs and attorneys' fees incurred by MLI in connection with the prosecution of this action.

COUNT THREE

("LOOK AND FEEL" COPYRIGHT INFRINGEMENT)

58. MLI repeats and incorporates herein the allegations set forth in paragraphs 1 through 57 above.

59. Upon information and belief, Defendants have developed a computer program called "Rental-Pro" which embodies and generates a copy of the Data Rental software audio/visual works.

60. The visual displays, screens and images created by Rental-Pro are illegal and infringing copies of the Data Rental visual works and are unauthorized derivative works. Attached hereto are photocopies of various screen displays generated by Data Rental (Exhibit E, 1 through 10) and screen displays generated by Rental-Pro (attached hereto as Exhibit F, 1 through 10). The similarity between Data Rental and Rental-Pro visual displays and images is so great that it simulates and emulates the "look and feel" of the Data Rental program.

61. The visual displays and images generated by Rental-Pro are themselves illegal and infringing copies of the Data Rental visual works.

62. Defendants copying an adaptation of the Data Rental visual works in Rental-Pro are unauthorized by MLI and constitute willful infringement of the exclusive rights reserved to MLI under the Copyright Act.

63. By reason of Defendant's acts of infringement, MLI has suffered and will continue to suffer irreparable injury until the Court enters an injunction (i) restraining Defendants from disclosing to its customers, emulating, copying, or creating derivative works from Data Rental software or the Data Rental User's Manual and (ii) impounding all originals and copies of any computer programs which are copied from the Data Rental software or Data Rental User's Manual.

64. By reason of Defendant's acts, MLI is entitled to recover its actual damages in an amount to be determined by the Court. Under 17 U.S.C., Section 504, MLI is entitled to recover, at its election after trial, its actual or statutory damages from the Defendants, as well as all profits received or otherwise achieved directly or indirectly by Defendants in connection with its use of the Data Rental software and the Data Rental User's Manual.

65. By reason of Defendant's acts of copyright infringement, MLI is entitled, under 17 U.S.C., Section 505, to recover from Defendants the full costs and attorneys' fees incurred by MLI in connection with the prosecution of this action.

COUNT FOUR

(BREACH OF DUTY OF CONFIDENCE AND LOYALTY BY JOISHER)

66. MLI repeats and incorporates herein the allegations set forth in paragraphs 1 through 65 above.

67. As generally alleged above, Defendant, JOISHER, breached his duty of confidence to MLI by misappropriating MLI's confidential and proprietary information, including, but not limited to: (i) source code, object code, notes, manuals, and other documentation relating to the Data Rental software; (ii) the Data Rental User's Manual; (iii) MLI's client lists; and (iv) MLI's sales contacts and prospective customer lists.

68. JOISHER breached his duty of confidence by making use of MLI's confidential and proprietary information for purposes other than the performance of services for MLI and by releasing and disclosing such information to parties other than MLI, without obtaining the prior written permission or consent of MLI.

69. JOISHER breached his duty of confidence after terminating his employment with MLI by using, copying, and disclosing MLI's trade secrets, software products, software tools, including, but not limited to Data Rental software and the Data Rental User's Manual.

70. By reason of JOISHER'S acts and breach of his duty of confidence, MLI has suffered and will continue to suffer irreparable injury until the Court enters an injunction restraining JOISHER from taking such acts.

71. By reason of JOISHER's acts and breach of his duty of confidence, MLI is entitled to damages in an amount to be determined by the Court, plus interest, costs and attorneys' fees.

72. JOISHER's actions, as alleged above, were and are willful, wanton, malicious, deceitfuly, fraudulent, and oppressive, and justify the award of punitive damages.

COUNT FIVE

(BREACH OF CONTRACT BY JOISHER)

73. MLI repeats and incorporates herein the allegations set forth in paragraph 1 through 72 above.

74. As generally alleged above, JOISHER breached his employment agreement with MLI by misappropriating MLI's confidential and proprietary information, including, but not limited to: (i) source code, object code, notes, manuals, and other documentation relating to the Data Rental software; (ii) the Data Rental User's Manual; (iii) MLI's client lists; and (iv) MLI's sales contacts and prospective customer lists.

75. JOISHER breached Section 2 of his employment agreement by, during the term of his employment with MLI, acting in a manner that was not faithful to MLI in that he illegally and improperly misappropriated MLI's confidential and proprietary information.

76. JOISHER breached Sections 9 and 10 of his employment agreement after terminating his employment by using, copying, and disclosing MLI's trade secrets, including, inter alia, information concerning MLI's business, manner of operation, processes, customers, lists of prospective customers, and leads.

77. JOISHER breached Sections 9 and 10 of his employment agreement after terminating his employment by using, copying and disclosing MLI's Data Rental software and Data Rental User Manual.

78. By reason of JOISHER'S acts and breach of his employment agreement, MLI has suffered and will continue to suffer irreparable injury until the Court enters an injunction restraining JOISHER from taking acts in breach of his employment agreement.

79. By reason of JOISHER'S act and breach of his employment agreement, MLI is entitled to damages in an amount to be determined by the Court plus interest, costs and attorneys' fees.

80. JOISHER'S actions, as alleged above, were and are willful, wanton, malicious, deceitful, fraudulent and oppressive and justify the award of punitive damages.

COUNT SIX

(UNFAIR COMPETITION BY BOTH DEFENDANTS)

81. MLI repeats and incorporates herein the allegations set forth in paragraphs 1 through 80 above.

82. By virtue of the aforementioned acts, Defendants have engaged in unfair competition with MLI.

83. By reason of such unfair competition, Defendants have realized profits and other benefits that rightfully belong to MLI.

84. By reason of Defendant's unfair competition, MLI has suffered and will continue to suffer irreparable injury until the Court enters an injunction restraining Defendants from such acts.

85. By reason of such unfair competition, the Defendants have caused and are causing damage to MLI in an amount to be determined by the Court.

86. Defendants wrongful acts as alleged above were and are willful, wanton, malicious, deceitful, fraudulent and oppressive and justify the award of punitive damages.

COUNT SEVEN

(Violation of N.J.S.A. 56:4-1--Unfair Competition)

87. MLI repeats and incorporates herein the allegations set forth in paragraphs 1 through 86 above.

88. Upon information and belief, Defendants have represented to third parties that their products are based upon MLI's products and thus have appropriated Plaintiff's name, reputation and goodwill, in violation of N.J.S.A. 56:4-1 et seq.

WHEREFORE, MLI respectfully demands judgment as follows:

1) that Defendants, and their agents, servants, employees and all persons acting under them joint and several, direction, control, permission, or license be enjoined and restrained from:

(i) using, authorizing the use of, reproducing, preparing derivative works based upon, distributing, performing or displaying MLI's copyrighted Data Rental software and/or Data Rental User's Manual, or any works derived therefrom;

(ii) releasing or disclosing any confidential and proprietary information of MLI;

(iii) misappropriating and using MLI's software;

(iv) unfairly competing with MLI in any manner whatsoever.

2) entering judgment in favor of MLI and against the Defendants declaring that the Defendants are infringing and have infringed the works in suit and that the Defendant, JK, has and is contributorily infringing the works in suit;

3) ordering Defendants to account for all gains, profits and advantage derived from their infringement of Plaintiff's copyrights;

4) entering judgment in favor of the Plaintiff and against the Defendants, jointly and severally, in an amount equal to the damages sustained by the Plaintiff and the profits earned by the Defendant from the infringements alleged herein pursuant to 17 U.S.C., Section 504 (b);

5) entering judgment in favor of the Plaintiff and against the Defendants, jointly and severally, for statutory damages in the amount of $50,000.00 per infringement pursuant to 17 U.S.C., Section 504 (c);

6) entering judgment in favor of the Plaintiff and against the Defendants, jointly and severally, in an amount equal to Plaintiff's costs, including attorneys' fees, pursuant to 17 U.S.C., Section 505;

7) entering judgment in favor of the Plaintiff and against the Defendants, jointly and severally, ordering the impoundment and destruction of all computer programs known as "Rental-Pro", or any version, revision or modification thereof or any derivative work based thereon;

8) entering judgment in favor of the Plaintiff and against the Defendants, jointly and severally, for all damages sustained by Plaintiff as a result of Defendant's acts of unfair competition;

9) entering judgment in favor of the Plaintiff and against the Defendants for damages and injunctive relief under N.J.S.A. 56:4-2 including treble damages.

10) entering judgment in favor of the Plaintiff and against the Defendant JOISHER for all damages sustained by Plaintiff as a result of the Defendant JOISHER'S breach of contract;

10) entering judgment in favor of the Plaintiff and against the Defendants, jointly and severally, for punitive and exemplary damages in an amount to be fixed by the Court;

11) ordering such other relief as this Court deems just and equitable.

GALLO, GEFFNER, FENSTER, FARRELL,
TURITZ & HARRAKA
Attorneys for the Plaintiff

By: Dennis S. Deutsch
Dennis S. Deutsch, Esq.

DATED: August 15, 1989

JURY DEMAND

Plaintiff demands trial by jury pursuant to Rule 38 of the Federal Rules of Civil Procedure on all tryable issues herein.

Dennis S. Deutsch, Esq.

DATED: August 15, 1989

VERIFICATION

STATE OF NEW JERSEY)
ss:
COUNTY OF BERGEN)

ANDREW ALPER, being duly sworn according to law deposes and says:

I am the Vice President of Operations for the Plaintiff, MLI in the within lawsuit.

I have read the foregoing complaint and based upon my familiarity of the subject matter, to the best of my knowledge, information and belief, the allegations contained in the Complaint are true.

ANDREW ALPER

Sworn to and subscribed before
me this 15th day of August, 1989.

DENNIS S. DEUTSCH
An Attorney at Law
State of New Jersey

APPENDIX B

GALLO, GEFFNER, FENSTER, TURITZ & HARRAKA
235 Main Street
Hackensack, New Jersey 07601
Phone: (201) 489-5400

Attorneys for the Plaintiff

_____X UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

MARKET LINE INTERNATIONAL, INC.
and COM-TECH RESEARCH, INC.

Plaintiff

v.

KALKI P. JOISHER and JK DATA
SYSTEMS, INC.

Defendant

_____X

HON. Dickinson R. Debevoise

Civil Action No. 89-3777(DRD)

CONSENT DECREE

The parties hereto, through their respective attorneys, wishing to resolve all disputes and claims existing between them in the most efficient and expedited manner, have agreed upon a procedure for accomplishing that end.

NOW, THEREFORE, IT IS STIPULATED AND AGREED by and between the attorneys for the respective parties that, in connection with the settlement of this action, and all other pending or potential claims by and between the parties, as follows:

1. Both parties shall place in escrow with their attorneys the source code for their respective computer programs which are

ENTERED
on
THE DOCKET
on 11-13 1989
WILLIAM T. WALSH, CLERK
By [illegible]
(Deputy Clerk)

the subject matter of this lawsuit, in magnetic media format by Friday, November 3, 1989.

2. The source code deposited by both parties shall be, as close as possible, the respective programs as they appeared and existed in February 1989.

3. The parties shall mutually select a third party expert to whom the source code and other deliverables as set forth below shall be delivered immediately after receipt of this signed Consent Order, and a selection of the third party expert by the parties.

4. The cost of the expert shall be borne equally by both parties.

5. The expert shall be directed to review the source code of each party as well as any other deliverable as set forth below.

6. The expert shall then respond to the following questions:

(a) Was the program delivered by the defendants substantially the same program capable of creating the screens and/or printouts included in the document marked PL-13 at depositions and provided to the expert? If the

answer to the foregoing is "No", then the expert must conclude that there was copying of the plaintiff's program by the defendants and report that accordingly to the Court.

(b) Was the program delivered by the plaintiffs substantially the same program capable of creating the screens and/or printouts attached to the Complaint as Exhibit E and delivered to the expert. If the answer to the foregoing is "No", then the expert must conclude that there was no copying and report that to the Court.

(c) If the answer to (a) and (b) are "Yes", then the expert shall answer whether the defendants copied plaintiffs' software program.

In making this determination, the expert, in addition to his or her own experience and expertise, shall (1) ignore any issue of copyright registration; (2) ignore any issue of access to the computer programs by the defendants; (3) be advised that both programs are intended for use by the equipment rental and party rental industry; and (4) consider the following legal standard extracted by the

attorneys for both parties from controlling case law: A finding of copying may be established if the expert finds that there has been a literal copying of the computer code, or may also be established if the expert finds that there has been a copying of the structure, sequence and organization of the plaintiffs' program.

7. If the expert should require any additional materials from the parties in order to reach his or her conclusion, the parties shall cooperate by providing the expert, as best as they possibly can, the requested material.

8. Upon reaching a conclusion of copying or not copying, the expert shall write a letter to the Court (The Honorable Dickinson R. Debevoise, U.S. Court House, Newark, New Jersey) advising the Court of his or her conclusion, a copy of that letter shall be sent to each party's attorney upon mailing to the Court. Pending a decision by the expert, no further pleadings or discovery shall be required in this matter.

9. If the expert concludes that the defendants copied plaintiffs' program, then judgment will be entered by the Court permanently enjoining the defendants, and their agents, servants, employees, and all persons acting under them, jointly

and severally, or under the defendants' direct control, permission, or license, from:

A. (i) using, authorizing the use of, reproducing, preparing derivative works based upon, distributing, performing or displaying plaintiff's copyrighted Data Rental software and/or Data Rental User's Manual, or any works derived therefrom including Rental Pro software; (ii) releasing or disclosing any confidential information and proprietary information of MLI's; (iii) misappropriating and using plaintiff's software; (iv) unfairly competing with plaintiff in any manner whatsoever.

B. directing defendants, jointly and severally, to destroy all computer programs known as "Rental-Pro", or any version, revision or modification thereof, or any derivative work based thereon.

10. The Order shall stat that the defendants have no affirmative obligation to repossses any of the infringing materials distributed to their licensees.

11. If the expert concludes that there has been no copying than an Order shall be entered by the Court dismissing the Complaint with prejudice.

12. In either event, whether there is a finding of copying or non-copying upon said finding by the expert, both parties

hereby release each other from any and all claims for monetary damages for any cause whatsoever or claim whatsoever that either may have up through and including the date of this Consent Decree.

13. The expert chosen hereto shall be under a Court order not to disclose to any third parties, excepting the attorneys involved in this litigation and the Court, any information relating to the materials provided to him or her pursuant to this Order.

DATED: _____

SO ORDERED:

_____
HON. DICKINSON R. DEBEVOISE

CONSENTED TO IN FORM AND CONTENT:

GALLO, GEFFNER, FENSTER, TURITZ & HARRAKA

BY: _____
DENNIS S. DEUTSCH, ESQ.
Attorney for the plaintiff

SCHECHNER & TARGAN

BY: _____
EDWARD WEISSLITZ, ESQ.
Attorney for the Defendant