

CASE UPDATE

The *Case Update* is a survey of recent state and federal court decisions which relate to high technology. Cases are included either because they introduce new substantive law in areas which are important to a technology law practice, or because they illustrate a new application of other areas of law to technology. The cases are organized below under appropriate headings. As many of the cases we report are quite complex or ongoing, the decisions reported herein are not necessarily final dispositions.

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ANTITRUST/UNFAIR COMPETITION

Competitors May Share Patent Rights Without Violating Antitrust Laws

Polysius Corp. v. Fuller Co., 709 F. Supp. 560 (E.D. Pa. 1989).

Dr. Klaus Schonert held a U.S. patent for a method of reducing the size of brittle minerals. Polysius Corporation, a German corporation, held a license granted by Schonert for this patent. In 1979, Schonert attempted to obtain a German patent, but was opposed by the German firm of Klockner-Humboldt-Deutz ("Klockner"). Six years later, in 1985, Schonert, Polysius, and Klockner settled their differences. Klockner withdrew its opposition, and in exchange, Schonert agreed to obtain permission from Polysius and Klockner before issuing further licenses. Polysius and Klockner agreed to share expenses related to enforcing the patent. Shortly thereafter, Polysius refused to allow Schonert to grant a license to Fuller Co. Fuller subsequently developed its own equipment to carry out the Schonert process. Polysius and Schonert brought this patent infringement action against Fuller, who counterclaimed against Schonert, Polysius, and Klockner for antitrust violations and unfair competition.

After finding that Fuller had infringed the patent, the court dismissed Fuller's antitrust claims. The court first found that Polysius' control of the sale of the equipment used for the Schonert process did not make it guilty of antitrust violations or patent misuse: the equipment is not a staple article of commerce because its cost is prohibitive if not used for the patented process. The court also found that Fuller did not present any evidence that Polysius and Klockner had agreed to fix prices, allocate markets or engage in predatory pricing, and the fact that Klockner and Polysius had contracted to share the rights and expenses related to the patent was insufficient to trigger a *per se* violation of the Sherman Act.

District Court Enunciates Factors Required to Recover Damages for Unfair Use of an Invalid Patent to Preserve a Monopoly Position

Conceptual Eng'g v. Aelectronic Bonding, Inc., 714 F. Supp. 1262 (D.R.I. 1989).

Conceptual Engineering ("CE") held a patent for welding jewelry. This patent was found invalid by a lower court as CE had failed to name Joe Mallett, a defendant, as co-inventor. Defendants now seek damages

for lost sales and harm to their reputations, claiming that CE used this invalid patent to preserve a monopoly position.

The criteria used to determine if a Sherman Act violation has occurred in such a situation are: (1) clear and convincing evidence of bad faith prosecution of a patent suit; (2) specific intent to monopolize; (3) dangerous probability of successful monopolization; and (4) damages clearly attributable to the patentee's actions.

The court held for defendants. The court indicated that there are two ways to show bad-faith prosecution of a patent suit: obtaining a patent through willful misrepresentation to the Patent Office, and maintaining or enforcing a patent with knowledge of its invalidity. In this case, CE was necessarily aware of the co-inventors of the patented process and willfully misrepresented this fact to the Patent Office.

The court then found that the facts of the case clearly indicated CE's intent to monopolize. CE not only excluded its co-inventor from the patent, but also tried to drive defendants out of business by publishing advertisements that falsely accused them of patent infringement. In fact, CE threatened defendants' potential customers with lawsuits.

Finally, the court found that CE was likely to have been successful in monopolizing the market. The court thus held that the harm to defendants was attributable to CE's actions and awarded damages accordingly.

CIVIL PROCEDURE

Standing To Sue May Be Assigned Along With Other Rights Relating to Computer Programs

Barrett Computer Services v. PDA, Inc., 884 F.2d 214 (5th Cir. 1989).

In the spring of 1983, PDA, Inc. contracted to design software for American Excel Corp., a corporation owned and controlled by Gene Barrett. In October 1983, Barrett created Barrett Computer Services, Inc. ("BCS"), and requested that PDA resubmit all programming bills and past invoices to BCS. In August 1984, Barrett sold his interest in American Excel Corp. At the closing, he repurchased the computer programs written by PDA. The rights to these programs were later transferred to BCS.

BCS sued PDA on several counts relating to the original software design contract. PDA filed a summary judgment motion claiming that BCS lacked standing to sue due to lack of privity with PDA. Barrett claimed that when he purchased the PDA computer programs and conveyed them to BCS, he also purchased and conveyed all rights relating

to them, including all causes of action. The district court did not agree and granted PDA's motion for summary judgment.

The Fifth Circuit Court of Appeals however, giving BCS the benefit of all reasonable factual inferences, held that the issue of BCS' standing was a triable issue of fact under the circumstances. The appellate court thus remanded the case for an evidentiary hearing on that issue.

"National Contacts" Test Used to Find Jurisdiction Over Japanese Company in Antitrust Suit Involving Dual-deck VCR

Go-Video, Inc. v. Akai Elec, Co., 885 F.2d 1406 (9th Cir. 1989).

Go-Video, a Delaware corporation with its principal place of business in Arizona, holds the U.S. patent for the "VCR-2," a dual-deck video cassette recorder. Go-Video filed suit against various foreign electronics manufacturers, alleging their participation in an agreement to prevent the marketing of dual-deck video cassette recorders. The foreign defendants were served under the long-arm provision of Section 12 of the Clayton Act, 15 U.S.C. § 22. The foreign defendants moved to dismiss for lack of personal jurisdiction.

The Court of Appeals for the Ninth Circuit held that the special venue provisions of the Clayton Act did not preempt the more liberal provisions of the Alien Venue Act, 28 U.S.C. § 1391(d), and that venue properly lay in Arizona.

The court of appeals also affirmed the district court's application of the "national contacts test" in establishing personal jurisdiction over the defendants. This test "authorizes the exercise of personal jurisdiction over an alien corporation . . . so long as the corporation had sufficient minimum contacts with the United States at large." 885 F.2d at 1413. The court of appeals went on to state that "[i]f there is something peculiarly oppressive about litigating in Arizona, appellants are free to avail themselves of the venue transfer statute. . . ." 885 F.2d at 1417.

Ninth Circuit Refuses To Uphold Rule 11 Sanctions Against Attorney Who Filed Complaint After Incorrect Factual Conclusion that Computer Hardware Was Defective

Jensen Electric Co. v. Moore, Caldwell, Rowland & Dodd, Inc., 873 F.2d 1327 (9th Cir. 1989).

In May 1989 the United States Court of Appeals for the Ninth Circuit reversed a district court order imposing Rule 11 sanctions against a third party complainant's attorney. The court of appeals found that the attorney had made a reasonable inquiry into the facts before filing the third-party complaint.

The original action was between Jensen Electric Co. and Dynacom Systems, Inc. for breach of contract. The breach stemmed from a contract to design and build a computer-based facilities management alarm system for Jensen's new hotel. Gregory Osborn, an electrical engineer, was hired by Dynacom as an independent contractor to design and implement the computer's hardware programs. Dynacom was subsequently purchased by Qualcorp, Inc., who took over the Jensen contract but never completed the project. Jensen ordered Qualcorp to cease work and brought suit for breach of contract.

Qualcorp counterclaimed for unreimbursed expenses and simultaneously filed a third party complaint against Osborne, who had terminated his work with Qualcorp and accepted employment with Jensen. Qualcorp alleged that Osborne was responsible for the computer hardware programs. All but Rule 11 issues were submitted to an arbitrator who denied recovery to all parties.

Osborne sought to recover costs and attorney's fees from Harry L. Styron, Qualcorp's counsel. The district court imposed Rule 11 sanctions on Styron. Per Styron's appeal, the court of appeals considered whether Qualcorp's third party complaint was frivolous. Osborne alleged that Qualcorp and Styron did not have any reason to suspect Osborne's work because at the time Jensen terminated the contract, the hardware programs had been performing satisfactorily. Further, because Qualcorp had not yet been found liable, Qualcorp should not have filed a third-party complaint premised on indemnity.

Styron responded 1) that Osborne had failed to perform field testing of the hardware with such variables as temperature, humidity, and electric currents and 2) that other potential indemnitors were not impleaded because Osborne's hardware appeared to be the basis for Jensen's complaint. Styron said he filed the third-party complaint only after meeting with his clients for eleven hours, reviewing Osborne's blueprints, and concluding that if something was wrong with the system, it was due to Osborne's hardware.

The appellate court concluded that Styron's complaint presented an arguable claim for Osborne's liability to Qualcorp and was thus not frivolous. The court noted that even if Styron was incorrect about Osborne's liability, it was reluctant to impose sanctions for factual errors, especially errors filed after a reasonable inquiry and before an opportunity for discovery.

Federal Circuit Court Is a Co-Equal Member of 13 Circuits and Cannot Review Decisions of Other Circuit Courts

In re Roberts, 846 F.2d 1360 (Fed. Cir. 1988).

Roberts received a patent entitled "quick release for socket wrenches" on September 28, 1965. The patent was assigned to Roberts' employer, Sears, Roebuck & Company. In 1969, Roberts filed the first of four suits against Sears alleging fraud, breach of confidential relationship, and negligent misrepresentation. After several appeals, Roberts was awarded all patent rights from January 20, 1977 until the expiration of the patent in 1982. Three suits followed (Robert II through IV) resulting in a new trial granted by the Seventh Circuit sitting en banc. After the district court determined that no additional grounds warranted a new trial, Roberts filed a petition for writ of mandamus.

The Court of Appeals for the Federal Circuit dismissed the petition for lack of jurisdiction, stating that it is a "co-equal member" of the thirteen appellate courts and therefore could not review and reverse the judgment of an appellate court. Further, there is no independent basis for jurisdiction over writs of mandamus, since the mandamus statute, 28 U.S.C. § 1651, is not a grant of jurisdiction.

California District Applies Per Se Jurisdiction Test For Foreign Corporations That Sell Goods Through State Based Subsidiary

Meyers v. ASICS Corp., 711 F. Supp. 1001 (C.D. Cal. 1989).

ASICS Corp., a Japanese manufacturer of sports shoes distributes shoes in the United States through its wholly-owned subsidiary, Tiger Corp., a California corporation. ASICS also maintains a "liaison" office in California which monitors the United States shoe market. Meyers, a holder of a patent for a special sole and insole, filed a patent infringement suit against ASICS in the Central District of California.

The district court upheld personal jurisdiction over ASICS under the standard set in *United States v. Toyota Motor Corp.*, 561 F. Supp. 354 (C.D. Cal. 1983). The court stated "[t]hrough mere ownership of a domestic subsidiary may not automatically confer jurisdiction over the parent, . . . there is no obstacle to jurisdiction over a parent if it uses its subsidiary as a marketing conduit." 711 F. Supp. at 1004 (quoting *Toyota Motor* 561 F. Supp. at 359). This holding seems to indicate a per se jurisdiction test.

German Plaintiff Must Abide by Federal Rules and Produce Former Employees Residing in Germany to Testify in Patent Case

In re Nifedipine Capsule Patent Litig., 13 U.S.P.Q.2d 1574 (S.D.N.Y. 1989).

In connection with a patent infringement action, Siegfried AG and Siegfried Pharmaceuticals requested that plaintiff Bayer AG, a German corporation, make four inventors named on the patent available for deposition. The four inventors reside in Germany and no longer work for Bayer. Bayer claimed that it could not compel the inventors to be deposed and suggested that Siegfried request Letters Rogatory pursuant to German law and the Hague Convention.

As Siegfried demonstrated its need to depose the inventors, the district court required that Bayer make the inventors available for deposition. The court noted that the inventors had entered into a written assignment with Bayer in which they agreed to testify in any legal proceedings whenever requested. This assignment did not invoke German law or set an expiration date for the inventors' obligation to testify.

Further, the court found that Bayer's reluctance to produce the inventors was not "reasonable cooperation." As a United States plaintiff in a United States court asserting a United States patent, Bayer must, in the interests of justice, proceed according to the Federal Rules of Civil Procedure.

CONSTITUTIONAL LAW

Federal Patent Laws Preempt Florida Statute Protecting Unpatented Vessel Hulls

Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 109 S. Ct. 971 (1989).

In 1983, after plaintiff, Bonito Boats, Inc., had made its unpatented boat hull design available to the public for six years, the Florida legislature enacted Fla. Stat. § 559.94, which made it "unlawful . . . to use the direct molding process to duplicate for the purpose of sale any manufactured vessel hull . . . made by another without the written permission of that other person." 109 S. Ct. at 974 (quoting Fla. Stat. § 559.94(2)). Plaintiff brought suit under the statute to enjoin duplication of its hull by Thunder Craft Boats, Inc. (Thunder Craft), of Tennessee.

The Florida Supreme Court upheld the trial court's dismissal of the case. The court ruled that the Florida statute conflicted with federal patent law and was therefore invalid under the Supremacy Clause of the Constitution. Dissenting judges argued that an anti-direct molding

statute prohibited only one method of copying the unpatented hull and not the copying of an unpatented item. The Supreme Court granted certiorari to resolve the conflict.

The Supreme Court affirmed the Florida Supreme Court's ruling, relying largely on *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), and on *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). In the aforementioned cases the Court found that an unpatented, publicly-known design occupied essentially the same position as the subject matter of an expired patent. Impeding the copying of such articles freely available to the public impermissibly "interfere[s] with the federal policy . . . of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain." 109 S. Ct. at 979 (quoting *Compco*, 376 U.S. at 237). Although the Florida statute prevented only a single method of production of a boat hull, it was "evidently the most efficient manner available," and thus it unfairly restricted competition. *Id.* at 981.

The Court discussed at length numerous policy considerations embodied in the federal system of patent laws, noting that "the ultimate goal of the patent system is to bring new designs and technologies into the public domain through disclosure. . . . To a limited extent the federal patent laws must determine not only what is protected, but also what is free for all to use." *Id.* at 978. The court also discussed the danger of undermining the patent system if the fifty states were allowed to legislate on most aspects of technology protection.

At the same time, the Court reaffirmed two areas in which states could permissibly regulate "patentable subject matter" without violating the Supremacy Clause. First, "states may place limited regulations on the circumstances in which . . . [trade dress] designs are used in order to prevent consumer confusion as to source." Such protection is limited to "nonfunctional aspects of consumer products which have acquired secondary meaning such that they operate as a designation of source." *Id.* at 1001. Secondly, "state protection of trade secrets did not operate to frustrate the achievement of the congressional objectives served by the patent laws." *Id.* at 996. But, of course, such regulation does not forbid the public from discovering and exploiting the trade secret "through reverse engineering of products in the public domain or by independent creation." *Id.* at 997.

States Have 11th Amendment Immunity From Suits Brought Under the Federal Copyright Act

Richard Anderson Photography v. Brown, 852 F.2d 114 (4th Cir. 1988), *cert. denied*, 109 S. Ct. 1171 (1989).

Radford University, a state school, contracted with a graphic design firm to produce a student prospectus. The firm hired defendant photographer to provide photographs for use in the prospectus. Defendant argued that the university later used copyrighted photographs from its prospectus without his consent and sued for injunctive and monetary relief. The district court dismissed the suit ruling that the Copyright Act did not abrogate the state's eleventh amendment immunity.

The Court of Appeals for the Fourth Circuit found that Congress did not intend the Copyright Act to abrogate states' immunity with respect to copyright issues. The court noted that Congress may abrogate state immunity "only by making its intention unmistakably clear in the language of the statute." 852 F.2d at 117. Applying this test to the language of the Copyright Act revealed that Congress never unequivocally expressed its intention in the Act to usurp sovereign immunity.

In reaching this conclusion, the court rejected the plaintiff's argument that Congressional intent to abrogate immunity was illustrated by exceptions found in different sections of the statute. Specifically the court found that replacement of "any person" with "anyone" in the 1976 revision of Section 501 was not specific enough to indicate an intent to abrogate state immunity. Further, explicit exemptions for government bodies found in Sections 110(2), 110(6), 110(8), 111(a), 112, and 118(d)(3) were dismissed by the court as too ambiguously worded to imply that states were not generally immune to the Act's protection. The court noted that the phrase government body could refer to local governments or government officials as well as states. The court also ruled that the state did not waive its immunity by participating in federally regulated conduct through its own copyright activities.

Finally, the court reversed the dismissal of the claim against the state official in her individual capacity because state law does not provide such immunity.

Cordless Telephone Communication is not Protected by the Wiretap Act or the Fourth Amendment

Tyler v. Berodt, 877 F.2d 705 (8th Cir. 1989), *cert. denied*, 110 S. Ct. 723 (1990).

At the urging of local law enforcement officials, the Berodts had used their own cordless telephone to monitor and record the cordless telephone conversations of their neighbor, Scott Tyler. In Tyler's

criminal trial, the state court had excluded the recordings as having been obtained in violation of the Wiretap Act. Tyler then brought this civil action against the Berodts and the law enforcement officials for the "willful interception" of his "wire" and "oral" communications in violation of the Wiretap Act and the fourth amendment.

The district court held, and the Eighth Circuit affirmed, that the cordless telephone transmissions were not "wire communications" protected by the Wiretap Act, but instead were merely "oral communications," protectable only if there was a justifiable expectation of privacy as defined by the Supreme Court. The court of appeals found, after reviewing other circuit courts' treatment of this issue, that speakers who were aware that their conversation was being transmitted by cordless telephone had no justifiable expectation of privacy. The Supreme Court denied certiorari.

Federal Patent Law Does Not Preempt State Law Compelling Equitable Relief From Contractual Termination Clauses

Power Lift, Inc., v. Weatherford Nipple-Up Sys., 871 F.2d 1082 (Fed. Cir. 1989).

In March 1986, Power Lift granted Weatherford a non-exclusive license in a Settlement Agreement providing for monthly royalties. Power Lift could terminate the license if royalties were not paid. Weatherford paid the royalties on a quarterly basis, according to the terms of a draft agreement.

In July 1987, Power Lift terminated Weatherford's license for failure to pay the royalties. Weatherford tendered the deficient royalty payments, plus interest, and continued practice of Power Lift's invention in violation of an injunction. In December 1987, Power Lift applied for an order of civil contempt.

The District Court found that the Settlement Agreement was governed by Oklahoma law. In Oklahoma, contract termination clauses are enforceable, but compelling equitable circumstances may justify relief from forfeiture. The court found that equitable circumstances prevailed here and relieved defendant from forfeiture.

Power Lift appealed, claiming that federal patent law conflicts with, and thus preempts, the Oklahoma law. The court of appeals disagreed, finding under *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), that federal law does not preempt state contract law so as to preclude enforcement of the contract. The appellate court thus held that the federal patent laws do not preclude re-reinstatement of a license contract when equitable circumstances so dictate.

CONTRACTS

Sophistication of Computer Buyer with Respect to Both Computers and Contracts Important for Determining Enforcability of Contractual Disclaimers

Sierra Diesel Injection Service, Inc. v. Burroughs Corp., 874 F.2d 653 (9th Cir. 1989).

This case involved a suit brought by Sierra Diesel Injection Service, Inc. against Burroughs Corporation, a computer company, on grounds that Burroughs misrepresented the capabilities of its computers. Sierra initially wanted to purchase a posting machine from Burroughs. Burroughs salespeople suggested, both orally and in writing, that Sierra instead buy the Burroughs model B-80 computer because of its supposed inventory and accounting capabilities. Sierra bought the B-80 and signed various purchase and maintenance contracts. The computer did not perform the promised functions and suffered several breakdowns. Burroughs attempted to repair the system but ultimately advised Sierra to buy a Burroughs model B-91 computer, which Sierra did. The second computer also failed to perform the promised functions. An independent computer consultant advised Sierra that Burroughs equipment was incapable of performing the desired functions.

The trial court entered a judgment for Sierra, finding that the contract was not fully integrated and that the warranty exclusion clause was not sufficiently conspicuous. The court of appeals affirmed.

The appellate court found the relative sophistication of the parties, with respect to both computers and contracts, as an important factor in determining integration. Sierra's owner had little knowledge of computers or contractual concepts such as "marketability." As such, he had reasonably understood Burroughs' written claims concerning the computer's capabilities to be part of the contract. Burroughs on the other hand, was aware of Sierra's needs and purpose in buying computer equipment, and further, had unilaterally drafted the long contract with little input from Sierra. Thus, the court did not find the presence of a merger clause to be conclusive evidence of the parties' intent to integrate.

The court also found that, in light of Sierra's unsophistication, Burroughs had failed to sufficiently draw attention to the warranty exclusion clauses in the contract. The disclaimers were not printed in large type, and had been inconspicuously placed within the body of the contract.

Limited Patent Waiver and Non-Disclosure Agreements Do Not Require Consideration Beyond At-Will Employment

MAI Basic Four, Inc. v. Basis, Inc., 880 F.2d 286 (10th Cir. 1989).

MAI Basic Four, Inc., a computer software company, required several of its at-will employees to sign two agreements: (1) a Patent Waiver Agreement, which required them to assign any developments or inventions made or conceived during their employment, or within ninety days thereafter, to MAI, and (2) a Confidentiality and Non-Disclosure Agreement, which required them to treat as confidential, all information disclosed to them as a result of their employment with MAI.

While working for MAI, certain employees participated in developing a software product known as "BB/M." In November 1984, MAI closed down part of its operation and terminated these employees. In January 1985, these employees started their own software company, Basis, Inc.

Later that year, Basis began marketing two software products, "BBx" and "Comm 72." MAI alleged that these products were markedly similar to "BB/M," and were developed either during, or within ninety days following, the employees' employment with MAI. MAI subsequently brought an action in district court for breach of the Patent Waiver and Confidentiality Agreements. The district court found these agreements to be restrictive covenants, analogous to "agreements not to compete." Thus, some consideration beyond continued at-will employment was required. The court found no consideration and granted summary judgment in favor of Basis.

The Court of Appeals for the Tenth Circuit reversed, holding that the two agreements required no additional consideration beyond continued at-will employment. The appellate court found that the agreements were clearly *not* covenants not to compete—defendants were "free to work for whomever they wish, wherever they wish, and at whatever they wished, subject only to the prohibition against misusing plaintiff's proprietary information, and [to the limited patent assignment provision]." 880 F.2d at 288. The court found that such agreements "are necessary to insure the commercial viability of companies competing in the development of technology, and both are properly characterized as necessary incidents to a contract for employment in that field." *Id.* The case was remanded to the trial court for a determination of whether defendants had breached the agreements.

In Light of Prior Dealings With Same Form Contract, Party Is Bound By All Contract Terms Although Second Page Not Faxed

American Multimedia, Inc. v. Dalton Packaging, Inc., 143 Misc. 2d. 295, 540 N.Y.S.2d 410 (Sup. Ct. 1989).

In a dispute over an arbitration clause, American Multimedia, Inc. ("AMI") sought a stay of arbitration, alleging that it received only the first page of an order form sent, via fax machine, from Dalton Packaging, Inc. ("Dalton"). The reverse-side second page, containing a provision for arbitration, was not faxed. The New York County Supreme Court denied a petition for stay of arbitration in April, 1989.

The first page of the order form clearly referred to "terms and conditions as set forth on the reverse side." This same order form was used by Dalton in over 100 orders placed with, and filled by AMI during the previous three years. Pursuant to the fax order, AMI delivered goods which Dalton found to be defective. Dalton sent a demand for arbitration to AMI, who petitioned the court for a stay after the 20-day period allowed for filing for stays of arbitration in New York. AMI alleged that it never agreed to arbitration, per acceptance of the second page clause, and therefore could not be required to submit to arbitration after failing to seek a stay within the statutory period.

The court asserted that doubts as to parties' intent should be resolved in favor of arbitration unless there is a clear intent that an arbitration clause does not apply. By filling in the faxed order, the court held that AMI had accepted the terms and conditions to which the first page clearly referred, and about which they knew through their prior dealings with Dalton. The court directed the parties to proceed to arbitration.

COPYRIGHT**Copyright to Works Created by Independent Contractor Vests in That Individual Unless Otherwise Agreed**

Community for Creative Non-Violence v. Reid, 109 S. Ct. 2166 (1989).

The Supreme Court upheld a lower court ruling that copyright ownership vested in an independent contractor rather than the agency commissioning the work. Community for Creative Non-Violence ("CCNV"), argued unsuccessfully that Reid was an "employee" of petitioner under the Copyright Act of 1976, 17 U.S.C. § 101 and that as a result, the copyright to a sculpture prepared for CCNV by Reid vested in CCNV according to Section 201(b) of that Act.

The Court construed the term "employee" in Section 101 to have its agency law meaning and enunciated the following twelve criteria by which a court could determine whether a business relationship constituted an employee-employer relationship under Section 101: (1) the skill required in the performance of the task; (2) the source of the instrumentalities and tools; (3) the location of the work; (4) the duration of the relationship between the parties; (5) whether the hiring party has the right to assign additional projects to the hired party; (6) the extent of the hired party's discretion over when and how long to work; (7) the method of payment; (8) the hired party's role in hiring and paying assistants; (9) whether the work is part of the regular business of the hiring party; (10) whether the hiring party is in business; (11) the provision of employee benefits; and (12) the tax treatment of the hired party.

The Supreme Court also affirmed the court of appeals remand of the case to the district court for determination of whether CCNV and Reid prepared the work "with the intention that their contributions be merged into inseparable or independent parts of a unitary whole" such that the parties hold the copyright jointly. 109 S. Ct. at 2180.

Joint Authorship of Prior Work Does Not Automatically Make Joint Authors Co-owners of Subsequent Derivative Works

Weissmann v. Freeman, 868 F.2d 1313 (2d Cir. 1989), cert. denied, 110 S. Ct. 219 (1989).

Dr. Heidi Weissmann and Dr. Leonard Freeman worked together for seven years, during which time they researched and co-authored a number of papers on nuclear medicine. In 1985, Dr. Weissmann published an article which named her as its sole author. This article was based on previous papers written jointly by the two parties, and included portions which were taken verbatim from these earlier works. It contained the following new elements: photographic illustrations and captions, references to recent literature, textual additions, and reorganization of previous material. In 1987, Dr. Freeman decided to use this article in connection with a course he was teaching. He replaced Weissmann's name with his own, added three words to the title, and made 50 copies for his class. Dr. Weissmann learned of this and requested that the revised article not be circulated. She then brought this action for copyright infringement.

The court found that the article was not a joint derivative work. Joint authorship of prior existing works does not necessarily make these joint authors co-owners of a subsequent derivative work. In order for a joint work to exist, each author must have intended to contribute to the work at the time his or her alleged contribution is made. Since Dr.

Freeman did not collaborate in any way in the preparation of this derivative article, he retained only his rights in the previous works which were used in this work.

The court also found that the article was protected as a derivative work because the new additions and rearrangement of preexisting works made the article sufficiently original. Finally, the court emphasized that Dr. Freeman's use did not constitute fair use as the copyright laws protect recognition for scientific achievement, the principal reward for publications such as this article.

When Works Are "Strikingly Similar," Copying May Be Found With Minimal Evidence of Access

Gaste v. Kaiserman, 863 F.2d 1061 (2d Cir. 1988).

Gaste, a French composer, wrote the music to a song called "Pour Toi" as part of the score of a film released in France in 1956. He registered the sheet music with the U.S. Copyright Office in 1957. In 1973, Brazilian singer and songwriter, Morris Kaiserman, recorded the song "Feelings," which became an international success. Gaste contended that Kaiserman had access to and copied the obscure "Pour Toi" through Kaiserman's publisher, Fermata International Melodies, which had contact with Gaste and his personal publishing company in the 1950s.

The jury found that Kaiserman had infringed the copyright in "Pour Toi" and awarded damages of \$268,000 against Fermata and \$233,000 against Kaiserman. The trial court reduced the damages against Kaiserman to \$135,140 after deducting the profits attributable to foreign performance.

On appeal, the court rejected Kaiserman's contention that Gaste's song was originally "published" in a movie that lacked the formal copyright notice required by the Copyright Act of 1909 (then in force) rendering the subsequent registration of the song with the U.S. Copyright Office invalid. The court held instead that "Gaste's certificate of copyright registration created a presumption of validity" that was not rebutted at trial. 863 F.2d at 1064.

The court also found the district court properly to have instructed the jury that Kaiserman need only have had a 'reasonable opportunity' to gain access to Gaste's song to satisfy the 'access' prong of the test for copying. The test for proof of the access, however, is even less rigorous in cases of striking similarity. The jury is permitted to infer access from "striking similarity." That inference, however, "must be reasonable in light of all the evidence." *Id.* at 1068.

"First Sale" Doctrine Does Not Extinguish the Right of "Public Performance"

Red Baron-Franklin Park, Inc. v. Taito Corp., 883 F.2d 275 (4th Cir. 1989).

Taito Corp., holder of a copyright for the video game Double Dragon, had granted an exclusive license in that copyright to its subsidiary, Taito America. Red Baron, a video game arcade operator, bought used Double Dragon circuit boards from a third party purchaser in Japan and used the circuit boards to install Double Dragon in its U.S. arcades. Taito brought suit for infringement in U.S. District Court. The district court held that under the "first sale" doctrine, the initial sale of the circuit boards in Japan extinguished all of Taito's rights to Double Dragon under the copyright laws, including the right of public performance. *See* 17 U.S.C. §§ 109(a), 106(3), 106(4). As a result, the court found no infringement. Taito appealed.

On appeal, Taito did not challenge Red Baron's right to buy, import, and/or sell Double Dragon circuit boards without its consent. Taito argued only that it had a separate right to "perform" Double Dragon, which it had not granted to Red Baron. The court of appeals agreed and reversed the district court's holding.

The appellate court first found, after considering the definitions of "performance" and "public" in 17 U.S.C. § 101, that a video game's exhibition of sequential images constitutes a "performance" of an audiovisual work. Further, the "performance" of a video game in an arcade was "public."

The court then held that the first sale doctrine limited only the right of distribution, granted to the owner of a copyright by 17 U.S.C. § 106. According to the court, this doctrine does not affect the other four rights of a copyright owner, one of which is the right to perform a copyrighted work publicly. Since Taito had not granted any performance license to Red Baron, the latter had infringed Taito's copyright.

"Structural" Aspects of Computer Software May Be Protectable Expression

Johnson Controls, Inc. v. Phoenix Control Sys., 886 F.2d 1173 (9th Cir. 1989).

Johnson Controls, Inc. had developed a computer program to control wastewater treatment. Phoenix Control Systems, a competing company, was founded by former Johnson employees. Believing that Phoenix infringed its copyright to the wastewater treatment program, Johnson sued in district court. The district court granted Johnson's motion for a preliminary injunction, and this ruling was upheld by the court of appeals.

To establish copyright infringement, Johnson was required to prove the copying of a protected *expression*. Source and object codes are clearly protected by a copyright on the program. Further, the non-literal components of the program, such as the structure, sequence and organization, and the user interface, are protected to the extent that they qualify as an expression of an idea within a specific program. In this case, the lower court could properly find these elements to be protected expression, as they were individualized for specific users and contained the unusual use of point type.

Infringement can be shown by circumstantial evidence of access to the copyrighted work, and by substantial similarity to the work in both ideas and expression. Here, access was demonstrated by showing that some of Phoenix's employees had previously been employed by Johnson. The court also found that a reasonable person in the intended audience could find an unlawful appropriation by Phoenix which captured the "total concept and feel" of Johnson's work. The district court's injunction was thus not clearly erroneous.

Modification of Copyrighted Programs May Exceed Scope of Use-Only License

S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081 (9th Cir. 1989).

This case involved a dispute between S.O.S., Inc. ("SOS"), a corporation which furnishes hardware and software, and Payday, Inc., a corporation which provides financial and payroll services to the entertainment industry. SOS had licensed some software to Payday under a contract which stated that "Payday is acquiring the right to use [the programs, and] S.O.S. retains all rights of ownership." 886 F.2d at 1083. In the course of a subsequent dispute, Payday obtained, without authorization from SOS, an unprotected copy of the software program and had it modified to suit its needs.

SOS then sued for infringement of copyright, and brought pendent state law claims for breach of contract and misappropriation of trade secrets. The district court, applying California law, held that a contract should be interpreted against the drafter. Under this standard, SOS was deemed to have granted Payday any right which it did not expressly retain. Since the contract did not mention the terms "copyright" or "trade secret," the court granted summary judgment against SOS on these claims.

The court of appeals reversed, finding that although the court may apply state law to construe a contract, a license must ultimately be construed in accordance with the purposes underlying federal copyright law. The district court's construction of the contract contravened federal

copyright policy, under which copyright licenses are assumed to prohibit any use which is not specifically authorized. There was thus a triable issue of fact as to whether Payday had infringed SOS' copyright when it copied and prepared a modified version of the programs without SOS' permission.

The court of appeals further held that whether Payday's rights under the agreement included the right to possess an unprotected copy of the software was also a triable issue of fact. The court stated that the district court should have focused on how Payday acquired a copy of the unprotected source code for the program (it was surreptitiously copied by consultants to Payday). If Payday was not authorized to have an unprotected copy of the program, the trade secret claim should be found valid.

Courts Provide Guidelines on Protectability of "Look and Feel"

The following three cases illustrate different courts' approaches to the evolving "look and feel" doctrine.

Data East USA, Inc. v. Epyx, Inc., 862 F.2d 204 (9th Cir. 1988).

Data East USA and Epyx are corporations involved in the development and distribution of audio-visual works for home computers. Data East designed and distributed an arcade and home video game called "Karate Champ." Two years later, Epyx began distributing "World Karate Championship," a competing home video game. Data East sued Epyx for copyright infringement, alleging that Epyx had copied the overall appearance, compilation, and sequence of the audio-visual display of its game.

The district court granted plaintiff's motion for a permanent injunction against Epyx based on its findings that the products were substantially similar. The appellate court reversed and remanded, on grounds that the district court erred in determining the scope of the copyright protection.

The district court's finding of substantial similarity was based on the facts that the combatants in both games made the same motions, wore the same colored outfits, and were supervised by a referee whose rulings were expressed in a similar fashion. Both games also used similar scoring techniques, provided bonus rounds, and displayed the matches against changing geographical backgrounds.

The appellate court held that such similarities were inherent to the sport of karate and to limitations imposed by the computer. Accordingly, they were not protected forms of expression.

Telemarketing Resources v. Symantec Corp., 12 U.S.P.Q.2d 1991 (N.D. Cal. 1989).

This case involves a copyright dispute over two outlining programs developed by John L. Friend: "PC-Outline" and "Grandview." Friend developed PC-Outline first and sold the rights to plaintiff, Brown Bag Software. Subsequently, Friend developed Grandview for Symantec Corp. Plaintiffs alleged that Grandview was substantially similar to PC-Outline and thus constituted an infringing derivative work of the copyrighted program.

The district court found that the majority of the "similarities" pertain to features that are unprotectable "ideas" rather than protectable "expression." These features included: accessing files, editing and printing, pulldown menus, and background colors.

Having made this finding, the court focused on whether the *expression* of these features, through screen displays, was substantially similar. It concluded that there was no copyright violation since the expression between the two screen displays was significantly different, and granted plaintiff's motion for summary judgment.

Manufacturers Technologies v. Cams, Inc., 706 F. Supp. 984 (D. Conn. 1989).

Manufacturers Technologies, Inc. ("MTI") makes and sells a computer software program entitled "Costimator," which enables the user to estimate the cost of machining a manufactured part. MTI sued Cams, Inc. ("Cams") for copyright infringement of its program after Cams began to sell a competing cost estimation program called "Quick Cost." The court granted MTI permanent injunctive relief on the grounds that Cams copied two elements of the screen displays of MTI's "Costimator."

The court began by noting the unsettled state of the law regarding the extent of copyright protection of computer program display elements. The court then elected to follow a recent decision of the Copyright Office, holding that the registration of a computer program protects screen displays as well as the literal elements such as source and object codes. The court held that the single registration should be construed as two separate registrations for copyright purposes, reasoning that the *program* is designed to organize and direct the computer to perform particular tasks, while the *display* is designed to communicate with the user to facilitate use of the program.

In so ruling, the court rejected the defendant's claim that the screen displays are necessarily and solely dictated by the functional considerations of a program. Furthermore, the court noted that if protection were granted to the codes alone, plaintiffs could not seek redress against de-

defendants who did not have access to their codes, but copied screen displays through reverse engineering.

In response to MTI's claims over particular display elements, the court applied the rule that only those elements whose expression is not dictated solely by functional imperatives are worthy of protection. In the instant case, the court found the sequencing and flow of plaintiff's computer screen displays, and its selection and arrangement of terms, to be copyrightable and infringed.

Party Licensed to Use Visual Displays of a Software Program Is Not Limited to the Use of the Displays as a Whole, and May Use Them Separately

Apple Computer v. Microsoft Corp., 717 F. Supp. 1428 (N.D. Cal. 1989).

Apple brought an action against Microsoft and Hewlett-Packard alleging copyright infringement by Microsoft's "Windows 2.03," and Hewlett-Packard's "NewWave." Apple had previously entered into a license agreement allowing Microsoft "to use the visual displays in Windows 1.0 and the named applications programs in current and future software products." 717 F. Supp. at 1429. Microsoft and Hewlett-Packard claim that this license agreement (the "Agreement") is a partial defense to Apple's infringement claim.

Apple claimed that the Agreement only authorized the use of the visual displays of the interface of Windows 1.0 *as a whole*. The district court disagreed, holding that the Agreement, which clearly distinguishes between the interface and the discrete visual displays, authorized use of the visual displays separately. The court thus granted partial summary judgment to Microsoft and Hewlett-Packard insofar as Apple's infringement claim was based on the defendants' use of visual displays that were in Windows 1.0. This ruling applied to all visual displays in Windows 2.03 except the use of overlapping application windows and the use of the icons.

A Synergy of Unprotectable Elements May Be Protectable

Stillman v. Leo Burnett Co., 720 F. Supp. 1353 (N.D. Ill. 1989).

Stillman, an advertising consultant, created and owned the rights to a commercial for Eastern Airlines, which used silence to attract viewer attention. The commercial, which aired in Canada in 1982 and 1983, was quite successful, but was never aired in the United States. Stillman wrote two letters to United Airlines to solicit the company's interest in employing him to produce silent commercials for United's American market. He also sent United the storyboards from the Eastern commercial and suggestions for a silent United commercial.

United did not hire Stillman, but it did air a silent commercial in 1987. Like the Eastern commercials, the first eight screens were in black and white and the last screen was in color. Stillman received a United States copyright for his commercial in 1988. He then sued Leo Burnett, the creator and producer of the United commercial, for copyright infringement, false designation of origin under the Lanham Act, and unfair competition under Illinois state law.

Burnett conceded that Stillman held a valid copyright and that he copied ideas, procedures, and concepts from the Eastern commercial, but he contended that these elements were not protectable under the copyright laws.

The district court denied Burnett's motions for summary judgment and dismissal finding that plaintiff could protect the "creative arrangement and interaction of the techniques composing the expression" of his ideas. 720 F. Supp. at 1360. It held that although the ideas (a first screen announcing that the commercial was silent, use of black and white screens, and the final color screen) used by Stillman in his original commercial were unprotectable, the synergy of such elements was protectable. The court's logic was that Stillman's arrangement of the elements was not dictated by the idea of a silent commercial. If a jury found that both commercials evoked similar responses in ordinary viewers, the court could find that Burnett had copied protectable material.

Enhancements to Computer Programs Do Not Violate Copyright If Not Sold

Foresight Resources Corp. v. Pfortmiller, 719 F. Supp. 1006 (D. Kan. 1989).

Foresight Resources sought a preliminary injunction prohibiting Pfortmiller from altering and distributing versions of "Drafix 1+," a computer program for which Foresight held a copyright. Pfortmiller added five of his own files to Foresight's product to produce the "HK Digitizer" for Hall-Kimbrell, an asbestos removal consulting firm. Hall-Kimbrell was a lawful owner of a copy of Drafix 1+ and had not sold or attempted to sell the HK Digitizer. Approximately ninety percent of the text strings from Drafix 1+ and the HK Digitizer were found to be identical.

Under Section 117 of the Copyright Act, "it is not an infringement for the owner of a computer program to make . . . another copy or adaptation of that computer program provided: (1) that such new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or (2) that such new copy or adaptation is for archival

purposes only and that all archival copies are destroyed in the event that the possession of the computer program should cease to be rightful." 719 F. Supp. at 1008 (*quoting* Section 117 of the Copyright Act). Adaptations prepared under these provisions are transferable only with the authorization of the copyright owner.

The district court found that Foresight failed to demonstrate a likelihood of success on the merits of its claim that the HK Digitizer violated its copyright or licensing agreement, but did enjoin Pfortmiller from selling the enhancements of Drafix 1+ to any other entities.

Relying on the Commission on New Technological Uses of Copyrighted Works' interpretation of Section 117, the court found that adding new features falls within the right of adaptation, at least when the adaptation is not sold. The court reasoned that this construction serves two important goals of the copyright laws: it allows sophisticated software users the option of enhancing programs without infringing the copyright, and it preserves the market for improvements made by the copyright owner by limiting such user enhancements to in-house use.

Independent Ads Placed on Videos Are Not Trademark or Copyright Infringements

Paramount Pictures Corp. v. Video Broadcasting Sys., 724 F. Supp. 808 (D. Kan. 1989), *aff'd mem.*, No. 89-1412 (D. Kan. Dec. 15, 1989) (LEXIS, Genfed library, Dist file).

Paramount Pictures, a producer of video-movies, placed commercials at the beginning of its videocassettes. Video Broadcasting Systems ("Video"), a distributor of video-movies, placed additional "local" advertisements on the lead-in tape of these videocassettes. Paramount brought suit on several counts, including violation of copyright and trademark laws. Paramount then moved for preliminary injunction, which motion was denied by the district court.

Unauthorized use of a trademark may be an infringement under the Lanham Act if it misleads the public to believe that the user is approved or otherwise connected to the registrant. The district court held that Paramount did not sustain its burden of showing a likelihood of product or sponsorship confusion. The court did not find that the public perceives the videos to be a unit or package containing only Paramount products. Nor did it believe that consumers would likely be misled into believing that plaintiff was the source or sponsor of the defendants' advertisements. Finally, the court was skeptical as to whether viewers actually cared whether Paramount was the source or sponsor of the ads.

With respect to the copyright claim, the court held that the ads did not rise to the level of infringement as they did not amount to

"publish[ing] the protected work after making extensive, unauthorized changes *which impair the integrity of the original work.*" 724 F. Supp. at 820 (emphasis added).

Sending Signals to Local Operators for Retransmission Constitutes "Public Performance"

David v. Showtime/The Movie Channel, 697 F. Supp. 752 (S.D.N.Y. 1988).

The plaintiffs in this copyright infringement action were individual members of the American Society of Composers, Authors, and Publishers ("ASCAP"). Defendant, Showtime/The Movie Channel Inc. ("Showtime"), broadcasts television programming, mainly movies, to thousands of local cable companies who then transmit the programs to individual subscribers. Showtime had been licensed by ASCAP to transmit its copyrighted works for a limited time. After the license expired, Showtime continued to transmit those works. ASCAP consequently brought this action.

Showtime asserted various affirmative defenses, one of which was that Showtime did not "publicly perform" the copyrighted works within the meaning of the Copyright Act. Showtime argued that because its signals went to local operators for retransmission rather than directly to the viewing public, its broadcasts did not constitute a public performance of plaintiffs' works. The court granted plaintiffs' Rule 56(c) motion to dismiss this affirmative defense, holding that Showtime's transmission of plaintiffs' works "constituted 'public performance' within the meaning of the Copyright Act." 697 F. Supp. at 759.

The court concluded after examining the legislative history of the Copyright Act, that Congress intended an expansive reading of the terms "perform" and "publicly." The terms encompassed "each step in the process by which a protected work winds its way to its audience." *Id.* at 759. The court also concluded that Showtime could not claim any exemption from the Copyright Act on the theory that it was merely the passive transmitter of programs it received from another broadcaster, because Showtime selected its own programs and decided when to show them.

CRIMINAL LAW

Repeated Use of Unauthorized Software Copies Does Not Qualify as Racketeering Activity Under RICO

Management Computer Serv. v. Hawkins, Ash, Baptie & Co., 883 F.2d 48 (7th Cir. 1989).

Management Computer Services ("MCS") designs, programs, sells, and licenses computer equipment and software. Hawkins, Ash, Baptie & Co. ("HABCO") is a public accounting firm. Both companies provide accounting services to public housing authorities. MCS was originally a division of HABCO, but was separately incorporated in 1970.

Some time after this separation, MCS contracted to sell a Data General mini-computer and associated software to HABCO. MCS delivered the mini-computer to HABCO, complete with the contract software and HABCO's data. MCS also stored back-up tapes at HABCO containing the contract software as well as other non-contract software. HABCO copied the tapes.

MCS alleged that HABCO used several non-contract programs on the tapes to develop other programs. MCS also alleged that HABCO made unauthorized use of the copies by selling and licensing them to other entities. MCS sued HABCO for fraud, breach of contract, unjust enrichment, and violation of the Racketeer Influenced and Corrupt Organizations Act ("RICO").

The district court granted summary judgment for HABCO on the RICO claim. The court of appeals affirmed. Under RICO, at least two predicate acts of racketeering must occur within a ten-year period to qualify as a pattern of racketeering activity. The court of appeals disagreed with MCS's contention that each time HABCO used the copies of the software, it committed a predicate act. Instead, the court found that there were at most two predicate acts, the unauthorized copying of the contract software and the unauthorized copying of the back-up tapes. Under the facts as pleaded by MCS, HABCO stole the allegedly proprietary software when it copied the tapes. The subsequent uses were not subsequent thefts, although they could be relevant to valuing damages. The court determined that HABCO's activities did not constitute long-term criminal conduct and thus did not form a pattern of racketeering under RICO.

EVIDENCE

Hearing for Consideration of New Trial Granted to Rape Convict After Genetic Matching Test Reveals Possible Miscarriage of Justice

Dumond v. Lockhart, 885 F.2d 419 (8th Cir. 1989), *reh'g denied*, No. 89-15805 (8th Cir. Oct. 11, 1989) (en banc) (LEXIS, Genfed library, US App file).

Wayne Dumond was convicted in 1986 of kidnap and rape after being identified in a police line-up by the victim. He received consecutive sentences of life imprisonment and twenty years.

In 1987, Dumond submitted the victim's clothing containing semen deposits to Dr. Moses Schanfield, an expert in genetic testing, for performance of an immunoglobulin allotype test. Dr. Schanfield concluded that, based on the test, there was a greater than 99% probability that Dumond was not the rapist because the semen did not contain a genetic marker which Dumond possesses. This conclusion was, however, based on the assumption that vaginal fluids were not mixed with the semen sample used for the test, as such mixing would render the results inconclusive.

This evidence cast new importance on questions, only briefly explored at the trial, concerning the number of ejaculations and the location of semen. The court of appeals thus granted a hearing on the claim that Dumond was entitled to a new trial.

FAMILY LAW

Frozen Embryos Found To Be Lives in Being, Not Marital Property

Davis v. Davis, No. E-14496 (Tenn. Cir. Ct. Sept. 21, 1989) (LEXIS, States library, Tenn file).

Mr. and Mrs. Davis had produced several embryos, through in vitro fertilization, for purposes of later implantation in Mrs. Davis' womb such that she could bear a natural child. Upon the Davis' divorce, Mr. and Mrs. Davis disagreed on the fate of the embryos. Mrs. Davis wanted custody of the embryos for later implantation, whereas Mr. Davis wanted to allow the embryos to undergo a "natural death."

The court found that Mrs. Davis was entitled to the custody of frozen embryos produced by her and her husband in accordance with the best interests of the embryos. The court, relying on the testimony of a French developmental biologist, found that life begins at conception,

and that the embryos are therefore alive and not marital property as Mr. Davis had claimed.

INSURANCE

Comprehensive General Liability Insurance Policy Found Not To Cover Loss-of-Use Claim Arising from Mistaken Erasure of Computer Disk Data

Magnetic Data, Inc. v. St. Paul Fire and Marine Ins. Co., 442 N.W.2d 153 (Minn. 1989).

Magnetic Data, Inc. ("MDI") is a computer company engaged in the inspection and repair of computer disk cartridges. Disks suspected of being defective can be inspected visually, by gauge measurements, or electronically. The first two methods do not cause erasure of any information on the disk, while electronic inspection will erase all stored information. A disk is "certified" when all three inspections are made and no defect is found.

Sanger corporation arranged with Control Data Corporation ("CDC") to have 22 of their computer disk cartridges inspected by MDI to determine if any of the disks were defective. Sanger informed CDC that 10 of the cartridges were to be fully "certified" while the other 12, whose information was not backed up by other sources, were to be inspected only by visual inspection and gauge measurement. CDC delivered the 12 disks two days after they had delivered the first 10, and it is uncertain whether the CDC employee, who delivered the 12 disks, instructed MDI employees that these disks were not to be electronically tested. MDI certified all 22 computer disks, thereby erasing all of the stored information.

Sanger sued CDC and MDI for damages incurred as a result of the erasures. MDI invoked its insurance coverage by St. Paul Fire & Marine Insurance Company ("St. Paul") to defend the suit. St. Paul refused to defend, claiming the losses were not covered by the policy. MDI received summary judgment from the district court against St. Paul to defend and indemnify it against this judgment.

The judgment was upheld by the court of appeals, but reversed by the Supreme Court of Minnesota. The policy contained an exclusion clause which stated "[w]e won't cover damage to . . . [p]roperty on your premises . . . for the purpose of being worked on by you." 442 N.W.2d at 155. Since the disks were in fact on MDI's premises for the purpose of being worked on by MDI, the high court held that the exclusion clearly applied. The court thus did not need to make a determination of

whether information contained on computer disks was "tangible property."

INTERNATIONAL TRADE

Goods Held by Customs Service on U.S. Territory Qualify as "Imported Goods" for Purposes of 35 U.S.C. § 271(g)

Bristol-Myers Co. v. Erbamont Inc., 13 U.S.P.Q.2d (BNA) 1517 (D.C. Del. 1989).

In 1988, the Omnibus Trade Competitiveness Act added section 271(g) to Title 35, the patent statute. This created a new infringement cause of action for the importation of products produced using patented processes. The new legislation was to take effect six months after its passage, making its effective date February 23, 1989.

Erbamont held the patent for a process for preparing doxorubicin, a chemotherapeutic treatment for cancer. Bristol-Myers began proceedings with the Food and Drug Administration ("FDA") in 1987 for approval to import and distribute doxorubicin from a Japanese manufacturer. Prior to February 23, 1989, Bristol-Myers received shipments of doxorubicin totaling thirteen kilograms. These shipments were held by the U.S. Customs Service in Mayaguez, Puerto Rico pending FDA approval. On May 1, 1989, Bristol-Myers withdrew part of the total shipment, paid the appropriate customs duties, and entered the withdrawn amount into U.S. commerce. Bristol-Myers subsequently sought a declaratory judgment on non-infringement. Erbamont counterclaimed, alleging infringement under 35 U.S.C. § 271(g).

The district court granted Bristol-Myers' motion for summary judgment and dismissed Erbamont's counterclaim. It found that Bristol-Myers had "imported" the doxorubicin before the effective date of the new legislation. The court considered the date of "importation" to be when the shipments were initially received by the Customs Service. The court rejected Erbamont's suggestion that the lawful entry of goods into commerce constitutes "importation." It did, however, leave open the possibility that Bristol-Myers may have violated food and drug regulations, by importing the goods prior to FDA approval.

International Trade Commission Refuses Subject Matter Jurisdiction Under Tariff Act when Plaintiff Has No Process Patent Claim

In re Certain Recombinant Erythropoietin, U.S.I.T.C. Publication, May 1989, at 2186.

In conjunction with a patent infringement suit filed in district court Amgen, Inc. filed a complaint with the International Trade Commission ("ITC") claiming that importation of erythropoietin into the United States by Chugai Corporation was a violation of the Tariff Act of 1930. The Tariff Act states that "importation of an article manufactured abroad through the use of a process which, if practiced in the United States, would infringe a valid and unexpired U.S. patent is an unfair act." 19 U.S.C. § 1337(a)(1)(B)(ii).

Upon initial review, the ITC accepted subject matter jurisdiction and found that Amgen's patent was neither invalid for obviousness nor unenforceable for inequitable conduct. It then found, that since Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, only dealt with importation of products whose manufacture would violate *process* claims, the ITC was powerless under the statute to grant relief to Amgen, whose patent contained no process claims.

Although, given no choice by the language of Section 337, the court seemed unsettled by its holding, stating that its holding ignored the underlying *purpose* of Section 337, which is to protect United States industry from unfair practices used by foreign manufacturers who export goods to this country.

The review of the initial determination by the full Commission concurred with the decision, and ordered dismissal. However, instead of accepting jurisdiction and acknowledging its inability to grant relief (as the statute would seem to indicate), the Commission found that it lacked subject matter jurisdiction altogether.

PATENT LAW

Replacement of Worn Parts in Patented Equipment Constitutes Permissible Repair and Does Not Infringe Patentholder's Rights

Everpure, Inc. v. Cuno, Inc., 875 F.2d 300 (Fed. Cir. 1989), *cert. denied*, 110 S. Ct. 154 (1989).

Everpure holds a patent for water filtration equipment which contains a head and an attached filter cartridge. The removable cartridge directs fluids to a filter sealed within the cartridge. Everpure also sells replacement cartridges. Cuno, a competitor, provides a free adapter to

its customers, which allows them to attach a Cuno cartridge to an Everpure head. The Cuno adapter performs the functions of the Everpure neck. Everpure sued Cuno for contributory and induced patent infringement.

The District Court granted Cuno's motion for summary judgment. The court found that the combination of the filter unit and the head is protected, but the filter cartridge is not. Owners of the unit, therefore, are allowed to replace the unpatented cartridge component without infringement.

The Court of Appeals affirmed the summary judgment by invoking the permissible repair doctrine. This doctrine allows the lawful user of a patented combination to make repairs or replace unpatented component parts in order to maintain the combination. Everpure argued that Cuno's adapter is impermissible reconstruction rather than permissible repair because it replaces the unworn neck of Everpure's cartridge and changes the operation of the patented combination by rerouting the water flow through the cartridge.

The court, however, held that Everpure's own decision to seal its filter into its cartridge rendered the filter irreplaceable without the replacement of the entire cartridge. Thus, to replace the worn filter, unworn parts of the filter cartridge also had to be replaced. This replacement, according to the court, constitutes repair, not reconstruction. The court also found that the difference between the water channels in the two cartridges is inconsequential because "the direction of the flow is irrelevant to the nature and function of the patented combination."

Cuno's request for Rule 11 sanctions and attorney's fees was rejected because of the novelty of the case's fact pattern. In a dissenting opinion, Judge Newman contended that the adapter did not come under the permissible repair doctrine simply because it was attached to a worn part that could not easily be replaced.

A Claim Containing Algorithms Is Not Patentable Where the Non-Algorithm Steps Are Only Briefly Mentioned and Merely Provide Data for the Algorithms

In re Grams, 888 F.2d 835 (Fed. Cir. 1989).

This case involved an appeal by applicants Grams and Lezotte ("Grams") from a decision by the Board of Patent Appeals and Interferences.

Grams had invented "a method of testing a complex system to determine whether the system condition is normal or abnormal and, if it is abnormal, to determine the cause of the abnormality." 888 F.2d at

836. The method involved six steps, all but one of which were, in essence, mathematical algorithms.

Mathematical algorithms are not patentable subject matter under 35 U.S.C. § 101. However, the inclusion of an algorithm does not automatically render a claim invalid. Grams argued that the first step in his method, a diagnostic step requiring the performance of chemical laboratory tests, was a "new and useful process" within the meaning of the statute, and thus the claim as a whole was valid.

The court found the claim unpatentable noting that Grams' specification "focuses on the algorithm itself" while only briefly referring to, and not describing, the physical tests. 888 F.2d at 840. This fact, in combination with an observation that the first physical step was simply the means of generating data for the algorithm, rendered the claim unpatentable.

The court declined to hold whether Section 101 precludes patentability *in every case* where the physical step of obtaining data for the algorithm is the only other significant element in an algorithm-containing claim. "Analysis in that area," it wrote, "depends on the claims as a whole and the circumstances of each case." 888 F.2d at 840.

"Means-Plus-Function" Doctrine Allows Patenting of Apparatus Which Utilizes an Algorithm

In re Iwahashi, 888 F.2d 1370 (Fed. Cir. 1989).

The Sharp Corporation developed an auto-correlation unit used in pattern recognition. Unlike the current state-of-the-art auto-correlation units, Sharp's unit employed a new method of calculating auto-correlation coefficients that did not involve multiplication. The new calculation method, while being as fast and reliable as the original, was more cost efficient as it did not require expensive multiplication circuitry.

The patent examiner rejected Sharp's auto-correlation unit patent application on the ground that the subject matter was merely a mathematical algorithm, and therefore was not patentable subject matter. The Board of Patent Appeals and Interferences affirmed.

The Federal Circuit reversed. As many patentable processes involve algorithms, the test is not simply whether the described unit includes an algorithm, but whether issuance of a patent would wholly preempt the use of a mathematical algorithm. The court held that although Sharp's unit operated according to an algorithm, the claim as a whole defined an *apparatus*, which is patentable.

The court noted that the "means-plus-function" doctrine effectively limits the scope of protection to the functional and structural equivalents of the protected unit, and thus does not protect the algorithm itself.

The court's discussion of the "means-plus-function" doctrine in an application proceeding is significant in itself, since it had previously been considered only in the context infringement.

Patent Which Discloses as Many as 1200 Drug Combinations Will Render a Subsequent Patent for One Such Combination "Obvious"

Merck & Co. v. Biocraft Laboratories, 874 F.2d 804, (Fed. Cir. 1989), *reh'g denied*, No. 89-10106 (Fed. Cir. July 3, 1989) (en banc) (LEXIS, Genfed library, US App file), *cert. denied*, 110 S. Ct. 498 (1989).

Merck sued Biocraft Laboratories for patent infringement of a diuretic combination which contained amiloride and hydrochlorothiazide. The district court enjoined Biocraft from commercially making, using, or selling the formulation, as it had failed to prove that the patent was "invalid or unenforceable."

On appeal, Biocraft claimed that the drug combination was obvious under 35 U.S.C. § 103 and restricted its arguments to a reading of a separate patent which disclosed the aforementioned drug combination as well as over 1200 other combinations.

The court of appeals held Merck's patent invalid for obviousness, finding that no particular formulation is less obvious merely because a patent discloses a multitude of effective combinations. The court also found that medical synergism and "absolute predictability of success" were not criteria for a finding of obviousness—"all that is required [under 35 U.S.C. § 103] is a reasonable expectation of success." 874 F.2d at 818.

Design Patent Filed as a Division of an Earlier Utility Patent May Obtain Benefit of the Earlier Patent's Application Date

Racing Strollers, Inc. v. Tri Indus., 878 F.2d 1418 (Fed. Cir. 1989).

Racing Strollers filed suit against Tri Industries for infringement of a design patent for a baby stroller frame. The application for the design patent was filed on April 14, 1986 as a division of an application filed on October 22, 1984 for a utility patent. Shortly after this suit was filed, Racing Strollers applied to the court for a temporary restraining order. The district court denied the temporary restraining order and certified the following question for interlocutory appeal pursuant to 28 U.S.C. § 1292(b): "Whether an application for a design patent filed as a division of an earlier filed application for a utility patent is entitled to the benefit of the earlier filing date of the utility patent application under 35 U.S.C. § 120 and 35 U.S.C. § 121." 878 F.2d at 1419.

The court held that a design patent application can obtain the benefit of the earlier filing date of a utility patent provided that the applications comply with 35 U.S.C. §§ 120 and 112. Under 35 U.S.C. § 112, the earlier filing must specifically mention the second (design) application. Moreover, in the case of an ornamental design, the first application must contain an illustration of the design.

The court thus overruled *In re Campbell*, 41 C.C.P.A. 896, 212 F.2d 606, 101 U.S.P.Q. 406 (1954) stating that the *Campbell* decision ignored the relevant statutory law contained in 35 U.S.C. §§ 120, 121 & 112.

Federal Circuit Revitalizes Doctrine of Assignor Estoppel, Approving Its Use Where Equities Dictate

Diamond Scientific Co. v. Ambico, Inc., 848 F.2d 1220 (Fed. Cir. 1988), cert. dismissed, 109 S. Ct. 28 (1988).

Assignor estoppel may be applied to prevent an assignor, who is sued for infringement, from challenging the validity of the patents previously assigned by him in exchange for valuable consideration. As stated by the Federal Circuit, recent federal court cases "that discuss the doctrine of assignor estoppel reveal some uncertainty about the continued vitality of the doctrine." 848 F.2d at 1223. The court thus accepted this case to set forth some guidelines as to its application.

Dr. Clarence Welter, founder of Ambico, worked for Diamond Scientific Co. ("Diamond") from 1959 until 1974. During that time, he invented a vaccine against gastroenteritis in swine and filed a patent application. While making this application, Dr. Welter assigned all of the rights in the patents to Diamond Laboratories, the predecessor of Diamond, who was subsequently awarded the patents.

Dr. Welter left Diamond in 1974 and formed Ambico, which began manufacturing and selling a gastroenteritis vaccine for swine. Diamond sued for patent infringement. Ambico's answer claimed, among other defenses, three grounds of patent invalidity. The district court granted a motion to strike these defenses on grounds of assignor estoppel.

The Court of Appeals for the Federal Circuit agreed. While acknowledging the general public policy disfavoring the repression of competition by enforcing worthless patents, the court held that this case presented a circumstance in which the equities between the parties should deprive the inventor-assignor of the right to challenge patent rights which he had transferred for valuable consideration. The court found the doctrine especially justified as Dr. Welter had signed an Oath, Power of Attorney, and Petition, attesting to his belief in the validity of the patents.

The court noted the difference between assignors and licensees in that “[u]nlike the licensee, who . . . might be forced to continue to pay for a potentially invalid patent, the assignor who would challenge the patent has already been fully paid for the patent rights.” 848 F.2d at 1224.

The court also stated that it was not important that the patents were not yet granted at the time of the assignment — Dr. Welter had assigned the rights to his invention, irrespective of the particular language in claims describing the inventions when the patents were ultimately granted. However, the court did indicate that if Diamond had broadened the claims in the patent applications after the assignments, beyond what could be claimed in light of the prior art, appellants may, under the Supreme Court’s holding in *Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342 (1924), be allowed to introduce evidence of prior art to narrow the scope of the claims of the patents in suit.

Specific Intent to Infringe Unnecessary to Show That Officer of Corporation Actively Induced Corporation to Infringe a Patent

Amicus, Inc. v. Alosi, 723 F. Supp. 429 (N.D. Cal. 1989).

Amicus granted a non-exclusive license of its Lang patent to CEC Systems. Alosi, the president and sole shareholder of CEC entered into a licensing agreement for another patent made by Pattridge Post-Tension, Inc., after having been assured by Pattridge’s counsel that this patent did not did not infringe the Lang patent under a recent district court ruling.

Amicus filed suit against CEC in the Northern District of California for infringement of the Lang patent. The district court held that the Lang patent had been infringed by CEC’s use of the Pattridge process and awarded \$143,125 in damages to Amicus. When CEC was unable to pay the \$143,125 due to financial difficulties, Amicus sued Alosi as sole shareholder and president of CEC. Amicus claimed that Alosi should be liable for the infringement of the Lang patent under 35 U.S.C. § 271(b), because Alosi actively induced CEC to use the infringing patent. Alosi moved for summary judgment.

The court denied Alosi’s motion for summary judgment because he failed to show that he did not actively induce the infringement. The court held, under 35 U.S.C. § 271(b), that it is not necessary to prove specific intent to infringe in order to show that the Alosi actively induced his corporation to infringe the Lang patent.

The court also rejected the argument that Alosi should be absolved from liability because he had obtained legal advice before initiating the

infringing action. The advice from Pattridge's counsel was self-interested, and therefore, not sufficiently reliable to exonerate Alosi from liability.

No Public Comment Opportunity Required for "Interpretive" Patent Office Rule Authorizing Patentability of Multicellular Organisms

Animal Legal Defense Fund v. Quigg, 710 F. Supp. 728 (N.D. Cal. 1989).

The Animal Legal Defense Fund claimed that the Patent and Trademark Office ("PTO") violated the Administrative Procedure Act, 5 U.S.C. § 553 ("APA"), by promulgating a rule without giving notice or the opportunity for public comment, as required by that Act.

The rule stated that the PTO considers "non-naturally occurring, non-human multicellular organisms, including animals, to be patentable subject matter within the scope of 35 U.S.C. § 101 et seq." 710 F. Supp. at 731. Although notice and public comment are generally required before the promulgation of rules, the APA exempts "interpretive" rules from these requirements. The court dismissed the action for failure to state a claim, holding that the rule in question was interpretive under the criteria of the Ninth Circuit.

Unlike other circuits which use a "substantial impact" test to distinguish substantive rules, the Ninth Circuit has defined interpretive rules as those which "merely clarify or explain existing law or regulations." *Id.* (quoting *Powderly v. Schweiker*, 704 F.2d 1092, 1098 (9th Cir. 1983)). In this case, the new rule "merely synthesizes the decisional law that it cites." *Id.* The decisional law consists of two rulings by the Board of Patent Appeals and Interferences (*Ex parte Allen*, 2 U.S.P.Q.2d 1425 (B.P.A.I. 1987) and *Ex parte Hibberd*, 227 U.S.P.Q. 443 (B.P.A.I. 1985)), and a Supreme Court decision, *Diamond v. Chakrabarty*, 447 U.S. 303 (1980). As these rulings had already substantively established the patentability of multi-cellular life-forms, the court found the new PTO rule to be merely interpretive.

Scripps' Multi-Million Dollar Hemophilia Drug Patent Found Invalid on Several Grounds

Scripps Clinic & Research Found. v. Genentech, Inc., 707 F. Supp. 1547 (N.D. Cal. 1989).

Scripps held a patent for the blood-clotting factor VIII:C, produced artificially with recombinant DNA techniques. The technique produces a form of VIII:C which is superior to the naturally isolated factor in the treatment of hemophilia. Somewhat later, Genentech and Chiron Corp-

oration developed and began to produce recombinant factor VIII:C of their own. Scripps brought suit for infringement of its patent.

This case involved a summary judgment motion brought by defendants as to the validity of Scripps' patent. The district court granted this motion, finding the Scripps patent invalid on several grounds. First, it was found to have been anticipated by publication of a Ph.D. dissertation in 1979 which described the isolation of Factor VIII:C of the same potency and purity as that described in the patent. The court also found that factual assertions made without adequate data during the application process constituted inequitable conduct, independently rendering the patent invalid. The patent was found invalid on yet a third ground: that Scripps had failed to disclose the "best mode" of factor isolation by omitting reference to or description of the optimal monoclonal antibody used.

"Product" Patent Protects Against Use and Sale of Product, Regardless of Whether it Is Produced Through Recombinant or Traditional Methods

Amgen, Inc. v. Chugai Pharmaceutical Co., 706 F. Supp. 94 (D. Mass. 1989).

This case involved a dispute over the rights to manufacture and distribute recombinant erythropoietin ("EPO"), a drug used in the treatment of anemia. In June of 1987, Chugai and Genetics Institute (collectively "Chugai") obtained a patent for a nonrecombinant method of purifying EPO. They subsequently built a plant to manufacture and purify recombinant EPO and began exporting EPO to the United States. On October 27, 1987, two months after Chugai had received its patent, Amgen obtained a patent for the preliminary step of manufacturing unpurified recombinant EPO. Amgen immediately filed suit and Chugai counterclaimed.

Granting partial summary judgment, the court found Chugai's patent to be valid and infringed. It reasoned that since Chugai's patent was a *product* patent, covering EPO of a defined composition, Amgen's manufacture, sale, and use of the *identical product*, as admitted in Amgen's own publication, was literal infringement. Citing *Scripps Clinic & Research Foundation v. Genentech, Inc.*, 666 F. Supp. 1397 (N.D. Cal. 1987), the court held that "a product claim still protects the use and sale of the product, regardless of whether the product was produced by traditional or recombinant technology." 706 F. Supp. at 103-04.

Chugai claimed that Amgen's patent was invalid for obviousness, unenforceable for inequitable conduct (bad faith filing of a claim with the ITC), and that it lacked process claims. The court refused to grant

summary judgment on the first two claims, finding insufficient evidence in their support. It did, however, grant Chugai's third claim, ruling that the Amgen patent did not contain process claims. Under the court's reasoning, Amgen was estopped from claiming process claims since, during the prosecution of the patent, Amgen had dropped all process claims after they had been questioned by the Examiner.

Left unsettled after the court's partial summary judgment decision, was whether Chugai's manufacture of recombinant EPO infringed Amgen's patent.

District Court May Determine Validity of a Patent Although ITC Has Previously Found Patent To Be Invalid and Federal Circuit Has Affirmed ITC's Ruling

In re Convertible Rowing Exerciser Patent Litigation, 721 F. Supp. 596 (D. Del. 1989).

Plaintiffs filed nine separate patent infringement actions against numerous companies including Weslo, Inc. Weslo was an active participant in an earlier International Trade Commission ("ITC") case instituted by plaintiffs. Defendants, in a consolidated action, moved for a summary judgment of the infringement actions, arguing that the determination by the ITC that the patent was invalid should be given preclusive effect in the District Court. The ITC ruling was later affirmed by the Court of Appeals for the Federal Circuit. The defendants made this claim despite the fact that Congress granted the district courts original jurisdiction over patent matters in 28 U.S.C. § 133.

The court held that the Federal Circuit's upholding of the ITC's validity determination does not preclude district courts from reconsidering the validity of that patent. The court stated that the ITC determines patent validity only for the limited purpose of administering Section 337 of the Trade Reform Act of 1974, regarding unfair trade acts. The federal district courts have jurisdiction over the enforceability and infringement of patents *per se*. Other courts have recognized that ITC determinations of patent validity do not affect the federal courts' ability to determine the validity of the same patents. Further, the legislative history of the Trade Reform Act of 1974 expressly limits the ITC's determinations regarding patents vis-a-vis the federal district courts' original jurisdiction over patent disputes.

Overly Complex Jury Instructions Found Insufficient Grounds for New Trial in Patent Case

FMC Corp. v. H & K Machine, Inc., 718 F. Supp. 1403 (E.D. Wis. 1989).

FMC owns U.S. Patent No. 3,709,231 for a pea and bean thresher with a centralized beater. FMC brought suit against H & K, alleging that H & K infringed the patent by producing a similar thresher machine. The trial court found no infringement of FMC's patent. FMC motioned for, among other things, a new trial on grounds of defective jury instructions.

Specifically, FMC alleged that the jury instructions were too long and complex to be understood absent a written copy, and that they were delivered too softly and quickly to be followed. Complexity of jury instructions can often be a problem, but it is an especially relevant issue in patent cases, where both legal and factual issues are generally quite complex and unfamiliar to an average jury.

The court stated that a new trial may not be granted unless "considered in its totality," a trial is found to be fundamentally unfair. The court concluded that the trial as a whole was not unfair. The jury instructions were but one phase of the trial, during the course of which, the jury was exposed to repeated explanations of the facts and the law, including oral and visual presentations. Thus, the court found nothing to suggest that the jury did not understand the instructions. Furthermore, as FMC had submitted 51 of the 59 jury instructions, the court would not now let it claim such instructions were too long or complex.

U.K. Patent Law Provides Little Protection For Recombinant Biotechnology Products

Genentech, Inc. v. The Wellcome Found., 1988 R.P.C. 143 (C.A.).

A three-member panel of judges of the Civil Division of the Court of Appeals, United Kingdom, upheld the lower court's revocation of a British patent held by Genentech, Inc., for human tissue plasminogen activator ("TPA"). TPA is a protein which occurs naturally in human tissue, in very small amounts. It activates the conversion of plasminogen, a precursor found in cells, into plasmin, an enzyme capable of dissolving fibrin, the fibrous substance in blood clots. In quantity, TPA has great utility as a therapeutic agent for heart attacks and other clotting-related disorders.

In the early 1980's, at least five research teams embarked upon efforts to discover the structure of this protein, which was known to be secreted by human "Bowes melanoma" cancer cells. Genentech was the first company both to successfully discover the amino acid sequence of TPA, and to replicate the protein in quantity using recombinant DNA

technology. In 1986, Genentech obtained a patent for TPA in Britain. Other pharmaceutical firms, who had independently devised their own methods of isolating and producing TPA, disputed the validity of Genentech's patent.

The Wellcome Foundation initiated this suit in British civil court, claiming that Genentech held an unfair monopoly to produce TPA, a natural substance which several other pharmaceutical companies had successfully been able to produce in quantity. Genentech responded by claiming that its British patent, issued in 1986, gave it the exclusive right to produce isolated TPA and counterclaimed that the Wellcome Foundation was infringing its patent.

The lower court revoked Genentech's patent, and this holding was affirmed by the British Court of Appeals. The court held that Genentech's isolation and production of TPA did not constitute an "invention" under the 1977 Patent Act which required an "inventive step," as opposed to a "mere discovery."

According to the court, Genentech's work clearly did not represent the invention of a new "product," as TPA and its actions on fibrin were well known. Nor did it represent the invention of a unique and patentable "process," as Genentech isolated the TPA molecule and replicated it in pure form using cloned microorganisms through the application of known recombinant DNA techniques. Such application required no "spark of imagination" unique to any of the players of the Genentech team.

The court of appeals found the tenacity and dedication of Genentech's research team commendable, and conceded that it seemed unfair for their hard work to result only in a few months lead time in product marketing, but nonetheless held that the patent was invalid.

TORT

Illinois Denies Child Cause of Action Against Mother for Negligent Infliction of Pre-natal Injuries

Stallman v. Youngquist, 125 Ill. 2d 267, 531 N.E.2d 355 (1988).

Plaintiff, Stallman, brought an action against her mother for injuries sustained in utero, as a result of an automobile collision between the mother's automobile and another car. The lower court granted summary judgment for defendant but the appellate court overturned this ruling. The case was appealed to the Illinois Supreme Court.

The high court held that while a claim against a third party is appropriate in cases of pre-natal injury, an action against the mother is not. The court found both that the fetus is not an entirely separate entity

from its mother, and that the creation of a legal duty on the part of the mother would impose on her a duty to guarantee the mental and physical health of another never before recognized in law. Based on its finding above, the court did not reach the issue of parental immunity.

TRADE DRESS

Combination of Functional and Nonfunctional Features May Be Found "Nonfunctional" and Worthy of Protection Under Trade Dress Law

Hartford House Ltd. v. Hallmark Cards Inc., 846 F.2d 1268 (10th Cir. 1988), *cert. denied*, 109 S. Ct. 260 (1988).

Plaintiffs, doing business as Blue Mountain Arts, produce two lines of greeting cards which contain non-occasion emotional messages. These cards have a distinct and easily recognizable appearance. Hallmark produced a competing line that closely resembled Blue Mountain's lines. Blue Mountain requested a preliminary injunction on the basis of trade dress infringement. The injunction was granted by the district court, which determined that Blue Mountain's trade dress, consisting of a combination of about ten distinctive features, including lengthy free-verse poetry and watercolor or airbrushed images, was nonfunctional and therefore protected. Defendant appealed this holding.

The court of appeals upheld the injunction, stating that a combination of features may be nonfunctional and thus protectable under section 43(a) of the Lanham Act, even though the combination includes functional elements. The court held that the test for functionality is whether protecting the combination of features would hinder competition. Here, the availability of other appealing designs for non-occasion greeting cards showed that protecting Blue Mountain's trade dress would not hinder competition. The court therefore concluded the injunction should be upheld, but noted that Hallmark is free to utilize the individual features comprising the protected trade dress unless the district court determines that an individual feature is nonfunctional.

TRADE SECRETS

Overall Software Architecture Found Protectable Trade Secret Although Several Component Parts Were Within Public Domain

Integrated Cash Management Serv. v. Digital Transactions, Inc., 13 U.S.P.Q.2d 1397 (S.D.N.Y. 1989).

Plaintiff, Integrated Cash Management Services ("ICM"), designs computer software for banks. Defendants Mitsos, Newlin and Vafa of Digital Transactions, Inc. ("DTI") are former employees of ICM. Vafa and Newlin wrote ICM's "Seunimnt" utility program consisting of a generic database management system, a generic communications program, a generic menu program, and a generic report writing program. After Vafa and Newlin had worked two weeks for DTI, the company created a prototype of ICM's programs. ICM sued its former employees and DTI for misappropriation of proprietary information in breach of a nondisclosure agreement.

ICM contends that it has a "winning combination" of generic components and secret codes. This combination is not ascertainable by the public. Therefore, ICM argued, the combination should be protected as a trade secret. DTI argued that the programs are not a trade secret because several parts of the programs could be found in textbooks or other publications and several commercial packages contain the certain discrete utilities used by ICM.

The court concluded "that the architecture of the ICM system, as embodied in the source code of the several modules and in the manner in which they relate to and interact with one another, was maintained as a trade secret by ICM." 13 U.S.P.Q.2d at 1407. The court further held that the trade secret was misappropriated by defendants when they produced a system using a different code with similar architecture. The court based its conclusion on ICM's attempts to keep the source codes secret. These attempts included locking the doors to the ICM's offices, requiring employees to sign nondisclosure agreements, and ICM's practice of keeping all source codes secret.

The court also balanced the need to preserve the proprietary information with the rights of defendants to utilize their skill, experience and knowledge in a fashion that is not unduly restrictive. The court asserted that the existence of an agreement between the parties is a significant factor in determining whether defendants misappropriated the trade secret. Such an agreement put the defendants on notice of ICM's interest and shifted the burden of showing independent development to the defense.

Although the court was convinced that defendants sincerely tried to refrain from using ICM's source codes, it was also cognizant of the benefit defendants derived from ICM's work on the programs. In recognition of ICM's right to protect its trade secrets, the court enjoined DTI from using any versions of its database manager, menu, communications, and report writer programs created by Vafa or Newlin for a period of six months. The court also enjoined Vafa and Newlin from contributing to the creation of any programs for six months. The court chose six months to reflect the time ICM put creating its systems, the speed with which current hardware is available to programmers, and the need to neutralize the "head start" gained by DTI for the improper use of ICM's trade secrets.

TRADEMARK

Delay of Three Months After Constructive Knowledge of Trademark Infringement Belies Claim of Irreparable Injury Required For Preliminary Injunction

Mathematica Policy Research, Inc. v. Addison-Wesley Publishing Co., Inc., 11 U.S.P.Q.2d 1391 (Fed. Cir. 1989).

Mathematica Policy Research, Inc. ("Mathematica"), a leading policy research organization, had been using the name "Mathematica" for 14 years in connection with their consulting service, and had been using the trademark "Math," since the early 1980s, in connection with computer simulation models. In mid-July of 1988, Mathematica became aware that Addison-Wesley and Wolfram Research Inc. (collectively "Addison") were using the name "Mathematica" on software and manuals and were using "Math" as part of Wolfram's toll-free number.

Mathematica sent a cease and desist letter in October of 1988, however it did not file suit until March 1989. Addison had initially used the marks in connection with UNIX and Macintosh software. Mathematica's claim was that it did not believe it could establish infringement until March, 1989, when it learned, by reading a review, that Wolfram was using "Mathematica" in connection with *DOS-based software*. The court held that the cease and desist letter belied this contention.

The court also held that, in any event, the DOS software had been available since January of 1989, and Mathematica should have been aware of Addison's use in connection with DOS-based software long before reading the review. Its delay of three and one-half months in applying for the injunction dissipated their assertion of irreparable harm and precluded the granting of a preliminary injunction.

Search Firm Has No Proprietary Interest in Database it Helped PTO Create

Thomson & Thomson v. Quigg, 10 U.S.P.Q.2d 1741 (D.D.C. 1989).

In 1983, the Patent and Trademark Office enlisted the help of three private trademark search companies, Thomson & Thomson, CompuMark, and Trademark Computer Research Service, in its ongoing effort to create an automated trademark search system. Each of the three companies agreed to automate a different field of trademark information. In exchange, the PTO was to give the companies a list of its trademarks and agreed not to engage in "bulk" dissemination to the public of information from the database for ten years ("bulk" defined as the dissemination of more than 1000 marks to any person in a single day).

In 1986, Congress passed legislation preventing the PTO from continuing its exchange agreements with the companies. In 1987, shortly before the legislation took effect, the PTO entered into termination agreements with the companies, promising to withhold bulk dissemination to the public for three years. Later, the PTO notified the companies that it would begin bulk dissemination after only two years. The trademark search companies brought suit to enjoin the PTO from public dissemination of the data, alleging that their efforts had created a proprietary interest in the databank.

The court held that the companies' claims arose from the terms of the termination agreements, not from any proprietary interests in the database. The court noted that the PTO had relied on its own resources to create the database and that it had promised not to make the privately assembled data fields available to the public. The court also found that certain design codes used to make trademark logos machine-readable, were based on World Intellectual Property Organization design codes rather than on the work of the private firm assigned to the task. The case was dismissed for lack of jurisdiction because the claim sounds in contract and therefore falls under the jurisdiction of the U.S. Claims Court.