

CASE UPDATE

INTRODUCTION

Case Update is a survey of recent state and federal court decisions relating to various aspects of high technology. The survey contains brief summaries of 1987 and 1988 decisions. These decisions are not necessarily final dispositions of the cases. The summaries are grouped under appropriate topic headings.

Case Update includes a broad selection of recent state and federal court decisions, however, it is not intended to be comprehensive. In addition, the summaries do not mention aspects of the decisions that are of limited significance to *High Technology Law Journal* readers.

I. CRIMES

People v. Versaggi, 136 Misc.2d 361, 518 N.Y.S.2d 553 (1987).

Computer technician was convicted of second degree computer tampering under N.Y. statute (Penal Law 156.20) on the basis of circumstantial evidence. Commands issued to the computer system, accessible to a small group of technicians, had caused telephone lines run by the computer to shut down. Defendant, one of this small group, accessed computer from his home at the same times that illegal commands were issued, according to evidence from a monitor that captured these commands. Evidence of defendant's intent was provided by the fact that warnings appeared on the computer screen before such illegal commands could be executed. The court found this circumstantial evidence sufficient to prove defendant intentionally issued illegal commands.

In response to a defense argument that interruption of the computer operation did not alter the computer program, the court stated that issuing commands that changed instructions to hardware was "altering" within the meaning of the statute. The court also held that both temporary and permanent alteration was punishable under the statute. Defendant argued that there was no resultant physical or

financial damage. The court found that none was required for a misdemeanor conviction under this statute.

II. HIGH TECHNOLOGY EVIDENCE

U.S. v. Hutson, 821 F.2d 1015 (5th Cir. 1987).

Defendant, vice president of a Texas bank, was convicted of embezzling funds by tampering with computer entries and cashing invalid checks.

Defendant's appeal was based, in part, on the alleged inadmissibility of the computer records. The court held that the computer records were admissible under Federal Rule of Evidence 803(6) as they were business records and not accumulations of hearsay. The court found that computer evidence printed out even eight months after the business transaction took place was evidence "made at or near the time" of the original business transaction under rule 803(6), because the printout displayed the date of transaction. The trustworthiness of the computer printouts was upheld, because access to the computer in question was restricted by use of a special code.

State v. Ortega, 418 N.W.2d 57 (Iowa 1988).

Defendant was observed using a computer at the University of Iowa to make blank driver's license forms. He was later arrested in possession of a computer printout containing ten blank Oregon driver's license forms and was charged with falsifying public documents. The district court dismissed the charge and the state appealed. The state Supreme Court held that blank computer printed forms have no legal efficacy and are void on their face. In their uncompleted form the printout and computer disk could not be considered public documents within the meaning of the statute prohibiting falsification of public documents (Iowa Code section 718.5).

III. TRADE SECRETS

Hekimian Laboratories v. Domain Systems, 664 F.Supp. 493 (S.D. Fla. 1987).

Defendant Boyer was employed by Hekimian Laboratories ("HLI") as Director of Systems Engineering. HLI performs computerized remote access testing of telecommunications lines. In his initial employment contract Boyer signed an agreement that, for one year after terminating his position with HLI, he would not work for any HLI competitor, solicit HLI customers, or disclose proprietary information about the company. Boyer later announced to HLI that he was

leaving to work for Domain Systems, HLI's main competitor. This suit was filed to enjoin Boyer from working for Domain for a period of one year, and to enforce other obligations of his initial employment contract. The court granted the injunction. It found that the noncompetition covenant was supported by adequate consideration, since Boyer was to receive half of his salary for the duration of the one-year noncompetition period. The court also found that the duration was reasonably necessary for the protection of the employer. Finally the court held that, under Maryland law, a noncompetition clause was enforceable absent a specific geographic limitation where twenty companies competed on a worldwide basis for HLI's business.

Lane v. Commonwealth, 401 Mass. 549, 517 N.E.2d 1281 (1988).

Plaintiff brought an action against the Commonwealth claiming that employees in the Bureau of Accounts and the Department of Revenue have wrongfully and knowingly used her trade secrets in a computer software package. Lane was a computer specialist in the business of collecting public financial information and statistics and compiling computer data bases. She alleged that employees of the Commonwealth had wrongfully and knowingly used certain trade secret information to create a computer accounting system for their use at work. The court held that, although Lane could not bring such an action against the Commonwealth itself, she could request an injunction against the supervisory officials responsible for any continuing misuse of the trade secrets.

IV. TRADEMARK

In re Hutchinson Technology Incorporated, 852 F.2d 552 (Fed. Cir. 1988).

Hutchinson Technology Incorporated (Hutchinson) filed an application to register HUTCHINSON TECHNOLOGY as a trademark for several of its products. The Patent and Trademark Office Trademark Trial and Appeal Board refused registration of the trademark holding that HUTCHINSON was no more than a surname under section 2(e)(3) of the Lanham Act (15 U.S.C. § 1052(e)(3) (1982)). The Board also reasoned that "technology" was merely descriptive of the goods involved and did nothing to make the trademark less a surname. The court held that the Board erred in considering the registerability of each word separately, rather than the mark as a whole. "[T]he mark sought to be registered is not HUTCHINSON or TECHNOLOGY, but HUTCHINSON TECHNOLOGY." Additionally, the court held that the Board erred in ruling that "technology" was merely descriptive of the goods involved. Since "technology" did not convey the immediate idea of the goods involved, the term was not merely descriptive. The decision of the Board was reversed and remanded.

V. PATENT

Hemsfreet v. Spiegel, Inc., 851 F.2d 348 (Fed. Cir. 1988).

A previous patent infringement settlement order provided that royalty payments from Recognition Equipment Incorporated (REI) and Spiegel Inc. to Hemsfreet were to be made regardless of whether the patents were subsequently held unenforceable. In 1987, the patents involved were held unenforceable and REI brought this action to be relieved of its payment obligation. The court denied REI's request, emphasizing the compelling public interest in enforcing voluntary settlement agreements. The court stated that the long-standing judicial policy of upholding voluntary settlements should not be subverted by federal patent policy.

Newkirk v. Lulejian, 825 F.2d 1581 (Fed. Cir. 1987).

Newkirk claimed to have reduced to practice the claimed invention of the appellees prior to the patent filing date. The invention in question was a robot pushout arm in operative association with a glassware forming apparatus. The last clause of the patent claim specified that the program of the robotic arm be changeable. The program for Newkirk's device was stored in PROM and the apparatus had not been tested with an alternative program before the filing date of the appellees' claim. The court held that for Newkirk to have reduced to practice the device claimed by the appellees, he must "have demonstrated not only that his apparatus contained a means for altering the robot operation, but that he actually performed this step." Since Newkirk had not performed a successful change of program, the award to the appellees of priority of invention was affirmed.

IBM v. Nashua, 681 F.Supp. 1079 (S.D. N.Y. 1988).

IBM's motion for summary judgment was granted in an action to recover royalties owed by Nashua. The action arose out of Nashua's six-year-long production of floppy disks under a license for the patent governing the anti-static lining used in such disks. During this time no royalties were paid to IBM. Nashua contended that their liner prevented static charge not by virtue of the antistatic properties of the lining (admittedly covered by the patent), but rather by virtue of the "pillowing" effect of its attachment to the shell. The court found that while this "pillowing" effect creates a low frictional relationship between the liner and the disk, it does dissipate static which builds up even with this low degree of friction. The dissipation of static which is responsible for the anti-static property of the disk is covered by the patent. Two weaker arguments, that a) the disk never touches the liner, and b) the material is in fact not anti-static at all, were dismissed by the court as completely unsupported.

Tandon Corp. v. U.S. International Trade Commission, 4 U.S.P.Q.2d 1283 (1987).

Plaintiff appealed defendant's final decision of noninfringement. The International Trade Commission held that a foreign manufacturer did not infringe on Tandon's patent for certain double-sided floppy disk drives. The critical issues were factual ones involving the equivalence doctrine. The principal technological equivalency question was the degree of fixedness of the lower transducer with the disk drive. Extrinsic evidence was adduced from testimony of witnesses, reference to specifications, the prosecution history, prior art, and other claims. The defendant found the two drives to be sufficiently different to fall outside of the equivalency doctrine. The court of appeals affirmed the defendant's position.

VI. INTERNATIONAL TRADE

Burroughs Corp v. United States, 845 F.2d 321 (Fed. Cir. 1988)

Plaintiff, Burroughs, appealed a judgment of the United States Court of International Trade. The court held Burroughs' accounting, computing and data processing merchandise was properly classified by the United States Custom Service under Tariff Schedules of the United States (TSUS) item 676.15 as incorporating a calculating mechanism. Burroughs imported office machines which performed the four basic arithmetic functions, including electronic desk calculators, transaction recorders, and transaction terminals. However, since these arithmetic functions were performed by an integrated circuit and not by actual moving parts, Burroughs contended that its equipment did not contain a calculating mechanism. The court rejected this argument, holding that the definition of mechanism was not limited to articles which contained moving parts at the time the TSUS statute was enacted. Moreover, the court concluded that a calculating mechanism was defined by the results achieved (the four arithmetical functions) rather than the means by which the results were accomplished.

VII. COPYRIGHT

NEC v. Intel, No. C-84-20799 (N.D. Cal., Feb. 6, 1989), 1989 U.S. Dist. LEXIS

NEC sought a declaration invalidating Intel's copyright on the popular 8086 and 8088 microcodes. In the alternative, NEC requested a ruling of noninfringement. Intel counterclaimed that NEC had infringed their valid copyright on the 8086/8088 microcode.

The threshold issue centered on the subject matter coverage of 17 U.S.C. § 101. The court held microcode to be within the Copyright Act of 1980 definition of "computer program." As a result, a microcode has for the first time been afforded copyright protection. NEC challenged this protection on grounds that the Intel microcodes lacked originality. Following *Nimmer on Copyright* § 2.01(a), the court ruled that Intel's microcode possessed a "modicum of originality." As such, Intel's microcode passed the threshold requirement of originality and the court granted it protection.

The second major issue involved the possible forfeiture of Intel's copyright. Intel had omitted placing copyright notice stickers, on the hardware which contained their microcode as per 17 U.S.C. § 401(a). Under 17 U.S.C. § 405(a), failure to affix proper notice invalidates copyright protection unless: 1) notice is omitted from a relatively small number of copies; or 2) a reasonable effort is made to add notice to all copies once an omission is detected; or 3) the notice was omitted in violation of an express, written requirement that all copies bear the notice. Intel had omitted notice from 2,984,000 out of a total of 28,000,000 copies. The court ruled this a relatively large omission.

Further, after discovery of the omission, Intel failed to carry out adequate efforts to correct their error. The court found that Intel had taken too long to begin corrective action. Once Intel initiated corrective action, the court found that they had done substantially nothing to ensure compliance.

The third forfeiture exception was not applicable, as no express provision existed requiring fixation of notice by third parties. As a result of the foregoing, the court ruled that Intel had forfeited copyright protections on the 8086/8088 microcode.

Community For Creative Non-violence v. Reid, 846 F.2d 1485 (D.C. 1988).

In copyright ownership dispute, the plaintiff, a Washington, D.C. nonprofit organization, sued sculptor who created part of a sculpture symbolizing the plight of the homeless. Plaintiff developed the original design concepts and portions of the sculpture. Defendant sculpted the remainder of the work. Neither party mentioned copyright ownership in original negotiations.

In the face of conflicting circuit court interpretations, the court held that the fifth circuit's literal interpretation of the "work for hire" doctrine is the best interpretation of the Copyright Act of 1976. The district court held that the defendant was an independent contractor and that his copyrightable work did not fall within any "work for hire" category. The appellate court reversed the district court's holding.

According to the court, neither party was the exclusive owner of the work. Joint ownership of the work was held probable. Since there was only one copy of the sculpture, joint authors co-owning the work would be deemed tenants in common. If plaintiff owned exclusively the only tangible copy, credit might still be due to the defendant as the author. The case was remanded for further proceedings to determine whether the sculpture was a joint work and how to allocate ownership rights.

Hays v. Sony Corp. of America, 847 F.2d 415 (7th Cir. 1988).

Plaintiffs, Hays and MacDonald, taught business courses at a public high school. They had prepared an operations manual for the school's DEC word processors and distributed the manual to students and faculty. In 1984, the school bought word processors from the defendant, Sony. The school asked Sony to modify the manual so that it could be used with the school's new Sony machines. Defendant complied. The revised manual was virtually identical to the original. When plaintiffs learned of this, they registered their manual with the Copyright Office and brought suit for breach of copyright. Plaintiff's first count, for breach of common law copyright, was dismissed as frivolous, since the Copyright Act of 1976 abolished common law copyright. (Before the 1976 Act, an author's unpublished work was protected by state common law principles. Upon publication, the author had to obtain a federal copyright. After the 1976 Act, federal copyright attached to a work upon its creation. After publication, the author could apply for additional federal protection.)

The second count was for breach of federal statutory copyright. The court ruled that there was no evidence of any profit made by Sony, who gave the manual to the school district as an act of goodwill. There were no actual damages, since plaintiffs offered no evidence of plans to publish the manual or evidence that Sony had ruined the market for it.

Finally, the court stated that the plaintiffs might have had a valid copyright if the manual wasn't "work for hire". If so, they could obtain an injunction against Sony's further use. However, this issue was not properly appealed.

B.V. Engineering v. University of California, Los Angeles, 858 F.2d 1394 (9th Cir. 1988).

Action for copyright infringement by BV Engineering, a software manufacturer, against the Regents of the University of California for allegedly illegally copying seven copyrighted programs. Summary judgment for defendant was appealed and upheld on the basis of immunity. The court found that the University was an instrumentality of the state and thus protected by the Eleventh Amendment. The

court followed *Atascadero State Hospital v. Scanlon*, 473 U.S. 234, 247-302 (1985), which held that federal statutes could override a presumption of sovereign immunity from prosecution only under express statutory language. In so doing, the court overruled *Mills Music, Inc. v. State of Arizona*, 591 F.2d 1278 (9th Cir. 1979), which had held that Congress' intention to override immunity in copyright cases could be inferred without explicit language.

Rejecting arguments that the language of section 501 of the Copyright Code of 1976 could be read to imply an intent to include States, the Court recognized "that our holding will allow states to violate the federal copyright laws with virtual impunity. It is for Congress, however, to remedy this problem."

Vault Corporation v. Quaid Software Limited, 847 F.2d 255 (5th Cir. 1988).

Vault Corporation, a manufacturer of a copy-protection system known as "PROLOK", brought copyright infringement action against defendant, Quaid Software Limited. Defendant manufactures software known as "Copy-Write", containing a feature called "RAMKEY" which is capable of defeating copy-protection. In affirming the Louisiana District Court's judgment for the defendant, the court of appeals held that the defendant, in copying the program into memory for the purpose of subsequent disassembly, did not violate copyright. The court also held that in advertising the "Copy-Write" program, the defendant did not contribute to infringement by others, because non-infringing usage, including permissible archiving, was possible. Also, that Quaid's use of 30 characters of Vault's "PROLOK" code (in an earlier version only) did not constitute derivative work, as the "Copy-Write" program was in no way "similar" to "PROLOK". Finally, the court held that the Louisiana Software License Enforcement Act, La. Rev. Stat. Ann. § 51:1961 *et seq.* (West 1987), is in conflict with the Federal Copyright Act, 17 U.S.C.A. § 106(2), and thus is superseded; therefore its prohibition of disassembly is unenforceable.

Atari Games Corporation v. Oman, 693 F.Supp 1204 (D.D.C. 1988).

The U.S. Register of Copyrights (defendant Oman) denied plaintiff's application to register a copyright for the video game BREAKOUT. Oman denied the copyright because the work "did not contain at least a minimum amount of original pictorial or graphic authorship, or authorship in sounds." BREAKOUT is a successful paddle and ball game. However, the court found that copyrightability is not to be determined by financial returns or popularity. The court insisted upon creativity and originality as the critical factors in copyright. It is for the U.S. Register of Copyrights to determine when a work has exceeded the requisite minimum of originality, according to the court. The court ruled that Oman did not abuse his discretion in refusing to register the game.

P & D International v. Halsey Publishing Co., 672 F.Supp 1429 (S.D. Fla. 1987).

Cunard N.A.C. Lines is a United Kingdom corporation that contracted with P & D, a Cayman Islands corporation, to produce a promotional videotape of the island of St. Thomas. This contract was arranged through an intermediate distribution company, Joint Marketing and Publishing Services (JMP). Defendant Halsey Publishing Co. is a Florida corporation that succeeded JMP in contractual relations with Cunard. Cunard provided Halsey with the St. Thomas film produced by P & D. Halsey then allegedly made two infringing audio-visual works.

Defendants Halsey and Cunard moved for dismissal of this suit for lack of subject matter jurisdiction. In reply, the court stated that although U.S. Copyright law has no extraterritorial effect, that U.S. Copyright law may apply to part of an act of infringement occurring within the United States, even if the act is completed in a foreign jurisdiction. Since the copying of the film was done in Florida, U.S. jurisdiction was proper.

Additionally, Cunard moved that JMP be joined as an "indispensable" party. The court ruled that the court has the discretion to decide whether or not to require joinder of a person having or claiming an interest in a copyright. The court went on to say that, where the party to be joined is merely a member of the distribution chain, the victim of the copyright infringement may sue as many or as few of the alleged wrongdoers as he chooses. Cunard's motion to dismiss was denied. Finally, Cunard's summary judgment motion failed as there was a genuine issue of material fact as to the alleged "work for hire" relationship between Cunard and JMP.

VIII. MISCELLANEOUS

Middle East Banking Co. v. State Street Banking International, 821 F.2d 897 (2d Cir. 1987).

State Street was found liable for returning funds to Citibank from a client's account without proper authorization from the client. Citibank had originally offered State Street indemnification for State Street's return of funds to Citibank, stating that it was acting in conformity with the "CIB approved guaranty format." State Street erroneously released Citibank from its offer of indemnification. State Street asserted that Citibank's offer was an improper use of Council on International Banking (CIB) Rule IV which requires a member bank to indemnify another when a payment is made in error and funds must be returned to the indemnifying bank. State Street

claimed that the rule was only applicable when funds were transferred to the wrong bank. The court held that it could not be inferred that Citibank was invoking Rule IV in its indemnification offer, as other CIB Rules include offers of indemnification. The court also stated that the use of Rule IV would not necessarily be inappropriate as Rule IV is not limited to transfers to the wrong bank, but is directed towards a wide variety of mistakes that a bank could make in sending a payment to another bank.

Blue Ridge Bank v. Veribanc, Inc., 675 F.Supp 1007 (W.D. Va. 1987).

Plaintiff sued a financial information processing service for libel when the defendant mistakenly included the bank on a list of banks in possible financial difficulty. The defendant purchased computerized data from the Federal Reserve Board, processed the data into a useful format, and sold reports based on the data to the public. The defendant failed to either verify the specific data about the plaintiff bank or to fully disclose deficiencies in calculation methods. Consequently, a newspaper financial columnist published misleading and damaging information about the bank.

The District court held that the plaintiff was a "public figure" for defamation purposes, but that the defendant acted with reckless disregard of the truth or falsity of its publication sufficient to meet the "actual malice" standard. The court affirmed the jury's award of \$600,000 and denied defendant's motions both for judgment notwithstanding the verdict and for a new trial.

Southwestern Bell Media, Inc. v. Trans Western Publishing, Inc., 670 F.Supp 899 (D. Kan 1987).

Plaintiff sought to enjoin the defendant from benefitting from copyright infringements associated with the promotion and publication of a competing yellow pages directory. The defendant copied plaintiff's directory listings and advertising layouts to assemble a promotional prototype directory. The court rejected the defendant's arguments that a) copying of the plaintiff's directory was permissible because of yellow pages industry standards; b) that copying was protected by the fair use doctrine; and c) that the defendant used only facts and data in the public domain and did not copy the plaintiff's form of expression.

In addition, the court rejected the defendant's laches, unclean hands and public interest arguments. The court prohibited the defendant's use of the prototype directory, assembled in violation of the Copyright Act. The court also enjoined the defendant from including advertisements sold based on the prototype directory in any new directory.