Survey of Computer - Related Decisions, A Recent Decisions

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RECENT DECISIONS

A SURVEY OF COMPUTER-RELATED DECISIONS

Gary Rinkerman*

The following survey summarizes and categorizes computer-related opinions drawn from the Supreme Court Reporter, Federal Reporter 2d, Federal Supplement, and the West system of regional reporters. The cases in the survey contain legal principles or factual situations that involve computers or computer-related activities.

The case summaries have been given descriptive headings and classified under various categories. It should be noted, however, that the headings and categories should be used only as a convenient index rather than as a limitation of a case's applicability. The following table lists the categories:

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* 1983 by Gary Rinkerman
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Antitrust Action Against Philips Fails; Court Allows Narrow Reading of Dealer’s Agreement Not to Sell Competing Products—General Business Systems v. North American Philips Corp., 699 F.2d 965 (9th Cir. 1983).

General Business Systems (GBS), a former North American Philips (Philips) small business computer distributor, charged Philips and affiliated companies with: (1) monopolization or attempted monopolization, in violation of section 2 of the Sherman Act, of the market or the submarket for the Philips-compatible magnetic ledger cards (mlcs) that served as the stored memory devices for Philips’ P300 and P350 series; (2) violation of section 1 of the Sherman Act by conspiracy to fix prices and allocate markets and refusal to deal; and (3) violation of section 3 of the Clayton Act by tying computer service and warranty protection to Philips’ mlcs.

Based principally on GBS’s incorporation of a separate entity, Shasta, to market Xerox Corp.’s Diablo computers and supplies, Philips counterclaimed, inter alia, that: (1) GBS and other defendants conspired to eliminate Philips from the U.S. computer market; (2) GBS breached its distributorship agreement by selling items that directly competed with Philips’ products; and (3) the defendants tortiously interfered with Philips’ relationships with customers.

GBS’s Claims

In rejecting GBS’s charge that Philips monopolized or attempted to monopolize a Philips-compatible mlcs market or submarket, the court found that “the market for Philips-compatible mlcs was not insulated from the competitive struggle between computer systems.” The market for such mlcs was not an independent market in which Philips could exercise monopoly power. The court concurred with the lower court’s view that “Philips had little or no power to raise the price of its mlcs without reducing its profits because any such increase would reduce the sales of its computer system. . . .” The court also found that “mlcs were sold separately from computers because of dynamics of use, not market differentiation.”

GBS contended that Philips’ customers were “locked-in”
to the purchase of Philips-compatible mlcs and that this gave Philips power over a distinct mlcs market, particularly after Philips ceased selling computers in the U.S. but continued to sell the mlcs. The court found that there was no financial or technical barrier preventing competitors from entering the Philips-compatible mlcs market and that the “lock-in” theory led to unacceptable results.

The court held that GBS did not present sufficient evidence to support price-fixing and market allocation charges based on Philips’ relationship with the only manufacturers of Philips-compatible mlcs. Similarly, the court found that Philips’ exclusive purchase agreement with these two suppliers, who were disallowed from selling directly to Philips dealers, did not violate antitrust laws. The court also rejected GBS’s charge that Philips tied its mlcs to its service and warranty protection, which would be withheld if a Philips computer owner used another brand of mlcs. In the court’s view, GBS did not show that Philips had sufficient economic power in the tying market to impose restrictions in the tied product market.

*Philips’ Counterclaims*

Based on GBS’s incorporation of a separate entity, Shasta, to sell Xerox Corp.’s Diablo computer systems, Philips unsuccessfully alleged that GBS, Shasta and Xerox illegally sought to drive Philips from the U.S. small business computer market. The court found that Xerox put no pressure on GBS to cease selling Philips computers and that GBS continued to sell Philips products and actually attempted to persuade Philips to update its obsolete product line.

As to the charge that GBS breached its agreement not to market items that were “directly competitive” with Philips equipment, the court found that the disk/CRT Diablo computers and the Philips mlcs computer did not directly compete because the former was such an advance over the latter. “‘Direct competition’ within the meaning of the contract, appropriately should embrace only computers of approximately the same technological generation.”

Philips’ tortious interference claims were similarly defeated: “inasmuch as [Shasta’s] customers were offered a new and better computer, no claim of tortious interference with
Philips' customer relationships is made out."

**IBM's Actions In Plug-Compatible Market Did Not Incur Antitrust Liability—** *Transamerica Computer Co. v. International Business Machines Corp.*, 698 F.2d 1377 (9th Cir. 1983).

Transamerica Computer Co. (Transamerica) unsuccess-fully charged that International Business Machines (IBM) vi-olated section 2 of the Sherman Act when IBM responded to competition, supplied in part by Transamerica, in the "plug-compatible" peripherals market. The allegedly impermissible responses were: (1) institution of a discount fixed-term peripherals lease plan; (2) design changes in the CPU-peripherals interfaces in various IBM machines so that non-IBM peripherals would no longer be compatible with IBM CPUs; and (3) predatory pricing of "new" peripherals that were basically repackaged versions of prior IBM peripheral models.

The court stated that its decision in this case was largely controlled by two previous cases involving substantially the same charges against IBM: *California Computer Products, Inc. v. IBM*, 613 F.2d 727 (9th Cir. 1979), and *Memorex Corp. v. IBM*, 636 F.2d 1188 (9th Cir. 1980). The court found that the lease plans and several interface changes did not unreasonably restrain competition. While the court found that design changes in IBM's System 370 Models 115 and 125 did unreasonably restrict competition, it also found that Transamerica suffered no damages attributable to these changes.

As to the predatory pricing claim, the court found that IBM's prices were above average total cost, and that "Transamerica's evidence of predatory pricing falls far short of the type of clear and convincing evidence that would permit a trier of fact to find predatory pricing when prices are above average total cost."


NCR brought an action alleging, inter alia, breach of employment agreement and fiduciary duty as well as misappropriation of computer programs against Arnett, a former NCR employee now competing with NCR in the market for computerized financial systems for use by banks. Arnett counter-claimed that NCR's institution of the suit was motivated only
by an effort to force Arnett out of business, and was known by NCR to be baseless and violative of section 2 of the Sherman Act. NCR moved to dismiss the counterclaim with the argument that, under the Noerr-Pennington doctrine, the institution of one suit rather than a “pattern” of suits cannot constitute an antitrust violation.

The court disagreed with NCR, stating:

In the instant case, NCR, a long established corporation, has sued a fledgling company seeking to prevent its profiting from the only product it offers. A victory for NCR would put the defendant out of business, thus eliminating a competitor from the marketplace. Defendant claims that the technical proof will show that NCR must have realized that the programs or systems allegedly misappropriated were significantly different from NCR's. If the defendant can prove that assertion, then the conclusion might be drawn that NCR acted with no intent other than to “monopolize part of the trade or commerce among the several states.”


The court rejected Apple's motion for summary judgment in an action by O.S.C. Corp., under the Sherman Act, 15 U.S.C. section 1, to enjoin Apple from enforcing a prohibition against the mail order sale of Apple products. The court found evidence that dealers had complained to Apple about price erosion due to competition from mail order sales of Apple products, and that Apple had responded to these complaints. The court further found some evidence that Apple intended to raise the product prices by imposing a mail order prohibition.

While the court said that O.S.C. Corp. failed to establish that Apple's mail order ban adversely affected competition, “[n]onetheless, summary judgment for Apple is inappropriate because plaintiffs allege price fixing, a per se violation of section 1 that, if true, does not require actual proof of a harmful impact on competition.”
Electronic Funds Transfer Act Construed—Kashanchi v. Texas Commerce Medical Bank, 703 F.2d 936 (5th Cir. 1983).

Kashanchi brought an action under the Electronic Fund Transfer Act (EFTA) alleging that the Texas Commerce Medical Bank (Bank) had transferred funds from her account pursuant to a telephone call made by an unknown person who was not an owner of the account and had no right to order such a transfer. The court held that Kashanchi had no action under EFTA because "Congress intended to exclude from the Act's coverage any transfer of funds initiated by a phone conversation between any natural person and an officer or employee of a financial institution, which was not made pursuant to a prearranged plan and under which periodic and recurring transfers were not contemplated." The court discussed various aspects of the computer automation of banking as well as Congress' intent to have EFTA apply in situations where the lack of personal contact that accompanies automation increases the system's vulnerability to "fraud, embezzlement, and unauthorized use."


On December 1, 1978, Crocker National Bank's Item Processing Department received a check made payable to Nautilus Leasing Services, Inc. to be drawn on an account serviced by Crocker. Crocker's IBM Reader/Sorter system stamped "paid" on the check, and on December 2, 1978 the system posted the check to the appropriate account. On the next business day, Crocker exercised a set-off against the account and returned the check to Nautilus as drawn on an account with insufficient funds. Crocker had totally depleted the account with its set-off.

The court held that the stamping of the check as "paid" did not constitute acceptance or payment of the check by Crocker. Further, the court held that the posting of the check to the proper account did not constitute payment. In the court's analysis, the exercise of the set-off by Crocker was le-

In explaining why it decided to quash an order enjoining a bank from disposing of funds in a certain savings account, the court noted that damages at law, simple restoration of the money, provided an adequate remedy and that “[b]ank accounts are primarily debtor-creditor, bookkeeping relationships which can be wiped out or restored by a single entry or direction to a computer.” The court reasoned that the bank’s basic position as debtor to its depositors would not be altered by administrative manipulations of the account. Thus, the bank’s liabilities and responsibilities as debtor would remain despite an injunction or lack of one.


Under Oregon banking regulations a payor bank is liable to pay a worthless check if the bank, after the check has been “presented and received,” does not either settle for, pay, return or send notice of dishonor after midnight of the next banking day. The issue in this case was whether worthless checks were “presented and received” by a bank branch or when they were received by the bank’s data processing center. An Idaho court had held that presentation and receipt did not occur until the checks were physically received by a bank branch, Idah-Best, Inc. v. First Security Bank of Idaho, 584 P.2d 1242 (1978); an Alabama court had held that presentation and receipt were accomplished upon receipt by the data processing center, Central Bank of Alabama v. Peoples National Bank of Huntsville, 401 So. 2d 14 (1981).

The Oregon court held that the data processing center is an integral part of the bank branch and explained that “to hold otherwise would be to distinguish between banks which perform essential bookkeeping and accounting functions on-premise and banks which perform such functions off-pre-
mise.” Thus, the court held that presentation and receipt occurred when the checks were received by the bank’s data processing center.


In a case involving a conviction for unlawful issuance of checks, the defendant unsuccessfully claimed that the trial court erred in admitting the bank’s computer records of his account transactions. Two bank officials, the supervisor of customer services and an operations officer, offered testimony to provide a foundation for the admission of the hearsay records. The court accepted the witnesses’ testimony as to how the records were created because the witnesses could be regarded as custodians of the records even though neither had created or supervised the creation of the computer records, understood how the records were assembled at the computer center or had ever been to the computer center. Although defendant also claimed that the records contained hearsay that went to the heart of the issue at trial, the court held that the records merely documented transactions and did not directly prove knowledge of insufficient funds or intent to defraud.

CONTRACT


Chelsea Industries, Inc. (Chelsea) entered into a computer lease with Accuray Leasing Corp. In the “package” containing the lease document was a letter stating that it was Accuray’s policy to allow a lessee to purchase the leased equipment during the lease term at a price determined by a formula contained in the letter. When Chelsea sought to exercise its purchase option, Accuray responded that the letter was a policy statement only, not an addendum to the lease or a binding contract term, and that Accuray would independently determine the price at which it would sell the computer to Chelsea. The court held that Chelsea reasonably believed that it was getting a purchase option, and the court
noted that if Accuray had intended the letter to be viewed as nothing more than a statement of policy subject to change, "it would have been simple to add the universally familiar caveat: 'This policy is subject to change without notice.'"

The court viewed Accuray's use of the package unfavorably:

Defendant wished to be able to deposit the lease with a bank as collateral for a loan, and it was best that the bank be assured of the continuance of plaintiff's obligation. . . . A buyout, particularly if it might be at a reduced price, could reduce the value of the security. From the defendant's standpoint . . . the lease should not contain an option. At the same time, plaintiff, who feared the equipment might become obsolete, expressed a strong desire for an option—its second choice after defendant refused it a right for outright termination due to obsolescence. This dilemma defendant solved by leaving the lease clear, and giving plaintiff a letter which it intended plaintiff to believe to be an option.

**CRT Distributor Brings Contract and Tort Actions Against Manufacturer**— *Consolidated Data Terminals v. Applied Digital Data Systems, Inc.*, 708 F.2d 385 (9th Cir. 1983).

Consolidated Data Terminals (CDT) entered into an agreement to act as a distributor of Applied Digital Data Systems (ADDS) cathode-ray computer terminals (CRTs). Upon ADDS's representations that its "Regent 100" CRTs would operate at a speed of 19,200 baud and were inherently reliable, CDT sold Regent 100's to its customers. However, the Regent 100 model was plagued by design errors and, even after a year of remedial efforts, ADDS could not get the Regent 100's sold by CDT to perform to the original specifications.

After discontinuing its sales of Regent 100's for a while, CDT then successfully bid on a contract to sell Intel Corporation 127 Regent 100's. However, upon learning of CDT's successful bid to Intel, ADDS submitted a lower price and received Intel's order. CDT then began selling terminals which competed with ADDS's products. CDT also sued ADDS, alleging breach of warranty contract, breach of an implied covenant of good faith and fair dealing, unlawful interference with prospective business advantage, fraud in the inducement to enter into the distributorship agreement and fraud and neglig-
gence in its sale of Regent 100's.

The court held that: (1) ADDS breached the warranty created by its representations that the Regent 100 would perform at a speed of 19,200 baud even though ADDS's contract of sale disclaimed all warranties other than a 90-day guarantee on parts and labor; (2) ADDS's limitation of CDT's remedies to only repair of the Regents was not per se or in fact unconscionable; (3) ADDS's contractual limitation of remedy to repair was defeated by ADDS's inability to repair the terminals; and (4) ADDS's contractual limitation of consequential damages incurred "in connection with the use of or the inability to use" the terminals was inapplicable since CDT's consequential damages were based on loss of customer goodwill, not on problems on CDT's part with the use of the terminals.

Because its profits from the sale of terminals other than ADDS's CRTs more than offset the profits CDT could have made had it continued as an ADDS distributor, the court held that CDT could not recover as consequential damages the profits it could have made had it continued to deal exclusively in ADDS's products. The court also reversed and remanded the lower court's findings of fraud and interference because CDT had added these charges late in the trial and ADDS had not had a fair opportunity to contest them.

**Court Enforces Minimum Charge Provision in Computer Services Agreement—** *ADP-Financial Computer Services v. First National Bank of Cobb County*, 703 F.2d 1261 (11th Cir. 1983).

ADP entered into a three-year contract with First National Bank of Cobb County (the Bank) whereby ADP would provide the Bank with five types of data processing services at a charge based on actual use. Alternatively, if the use in any month fell below the average use for the preceding six months, the Bank would pay a monthly charge equal to eighty percent of the average monthly charge for the services during the immediately preceding six month period.

The Bank's new president and chief operating officer determined that substantial financial benefits would accrue to him personally if he moved the Bank's data processing "in house", purchased a computer and related equipment, and then leased the computer to the Bank. When the Bank's in-house capabilities caused it to decrease its level of use of three
of the five services for which it had contracted with ADP, the Bank paid only for its use of the remaining two services and refused to honor the minimum monthly charge contract provision regarding the other three. ADP successfully sued for eighty percent of the monthly charge due for the remainder of the contract term as well as for ADP’s attorney’s fees and litigation costs.

On appeal, the Bank’s primary contentions were: (1) the minimum monthly charge provision constituted an unenforceable penalty and ADP should be forced to show actual damages; (2) the Bank’s payment for the two services it continued to use constituted an accord and satisfaction for the entire contract; and (3) the jury’s award of ADP’s attorney’s fees and litigation costs was unsupported by the evidence. The Bank’s appeal was unsuccessful.

The court found that: (1) rather than being a penalty or liquidated damage clause, the minimum monthly charge was, in the absence of a contract termination, a charge for the availability of the services; (2) there was no “meeting of the minds” concerning an accord and satisfaction; and (3) there was sufficient evidence of bad faith to support the award of costs and fees. Also, the court held that the trial judge did not abuse his discretion in disallowing the Bank’s request to introduce surveys of ADP’s customers for the purpose of showing deficiencies in ADP’s services.


In an action involving, according to plaintiff, the basic issue of “whether computer companies, like other manufacturers of sophisticated equipment, owe a duty of fair disclosure as to the performance of their computer hardware equipment and their software programs to be used in the computer,” the court refused to hold a computer system developer liable for the failure of a system to perform as desired by the purchaser.

Georgetown School of Science and Arts (GSSA) brought the action against Microsystems Engineering Corporation (MEC), a computer system developer, alleging that MEC: (1) failed to satisfy its contractual obligation to develop a custom-
ized business management system for GSSA; (2) failed to provide hardware eligible for warranty maintenance; (3) was liable for payment for work done by GSSA employees in the development project; (4) breached an oral contract to provide a satisfactory payroll and accounting system; and (5) engaged in misrepresentation and fraud regarding the capabilities of the hardware as well as the capabilities and operation of the software to be provided to GSSA. MEC's president was also alleged to be personally liable for his direct involvement in MEC's dealings with GSSA.

The court found that the dealings between MEC and GSSA were characterized by a lack of specificity regarding programming needs and goals, and that there was no meeting of the minds or definiteness in the terms of the agreements sufficient to form a basis for a development contract, which GSSA had attempted to show by a series of written letters. In the court's words, there were two deficiencies in the "letter agreement" offered to show the contract: (1) "there was no listing of what programs the parties had actually agreed upon;" and (2) there were no specifications in the purported contract documents of the programs' specific requirements.

As to the oral contract charges, the court found that the programming errors were "minor," and that the problems with the programs' performance were probably due to inputting errors by GSSA personnel. Allegations of fraud and misrepresentation regarding the brand of computer components supplied were not, in the court's view, substantiated. The court found that the supply of components other than those specified by GSSA were found to have caused no damage to GSSA and any misrepresentations by MEC were not material misrepresentations. Further, the court found that there was insufficient evidence to establish that MEC contemplated at the outset that GSSA personnel would become involved in programming tasks to the extent that actually occurred during the course of the project.

An interesting facet of the court's opinion was its finding that an agreement by a developer to a delay in receiving payment, when programming activities were promptly undertaken, is inconsistent with an intent to defraud.

**Purchaser's Reliance on Vendor's Representation that Corrected or Operable System Will Be Provided Does Not Toll Statute of Limitations in Filing of Tort**
Actions; Applicability of UCC to Software at Issue—


On March 31, 1978, Hartford Insurance Company entered into a license agreement whereby Hartford purchased a program package called Policy Management System (PMS) from Seibels, Bruce and Company (Siebels). In May, 1978, Hartford received version 5.1.2 of PMS, and in October received a more advanced version designated Release 5.3. In May, 1981, Hartford sought by letter to Seibels to rescind the agreement because of alleged defects in the PMS system. In March, 1982, Hartford filed an action against Seibels alleging: (1) breach of express warranties; (2) breach of the implied warranty of merchantability under the Uniform Commercial Code (UCC); (3) breach of the implied warranty of fitness for a particular purpose under the UCC; (4) breach of contract; (5) negligent misrepresentation; and (6) fraud in the inducement.

The court decided, in considering Seibel's motion for summary judgment and to strike, that the law of South Carolina applied to the contract actions by virtue of the contract's choice-of-law provision. However, the law of Maryland, the forum State, applied to the tort claims of misrepresentation and fraud.

Hartford's tort claims failed as a matter of law because they had not been filed within the three-year period provided by Maryland's statute of limitations. Maryland law provides that a cause of action accrues when the wrong is discovered. Hartford admitted that it knew of the system's problems when it was delivered and that its employee learned at a June, 1978, training session that a fully operable system, the 5.3 version, had not yet been developed. However, as the court noted, "plaintiff, understandably, appeared to adopt a 'wait and see' attitude regarding the functioning of the system." Hartford had relied on Seibel's representations that Release 5.3 would be a thoroughly tested, fully operable product.

This "understandable" action by Hartford, however, did not dissuade the court from holding that Hartford's tort claims were barred by the statute of limitations. The court stated: "Because plaintiff's tort claims accrued in June of 1978, and this action was not filed until March of 1982, plaintiff's tort claims are barred. . . . Attempts do not toll the statute of limitations."
Hartford claimed that its contract actions were governed by the six-year statute of limitations in South Carolina's UCC. Because the court found that material facts were in dispute as to whether the computer programs delivered to Hartford are goods covered by the UCC or services which are not covered, summary judgment on the contract statute of limitations issue was denied.

As to Seibel's motion to strike Hartford's claim for actual and consequential damages, the court found that: (1) a factual dispute existed as to whether the agreement's limitation of Hartford's remedies to correction or replacement failed in its essential purpose due to Seibel's alleged inability to correct PMS or to provide a workable system; (2) it was ambiguous as to whether the license agreement's preclusion of consequential damages applied only to suits by third parties; and (3) a factual dispute existed as to whether the totality of circumstances in the case made the preclusion of consequential damages unconscionable. Thus, Seibel's motion to strike was denied.


Based on Honeywell's representation concerning the capabilities and reliability of its "Level 6" hardware and "TL-6" operating system software, Accusystems entered into agreements with Honeywell to enable Accusystems to: (1) serve as an OEM for Honeywell, and (2) use the Honeywell systems in Accusystems' operations as an independent service bureau for small businesses.

The agreements, entered into on November 21, 1977, limited Accusystems' remedy concerning defective equipment to repair or replacement of the equipment; Accusystems' remedy regarding software was limited to 10% of the charges for the software or $5,000, whichever was less. The Level 6 equipment was delivered and installed in February, 1978, and the TL-6 software was delivered in March, 1978. In February, 1978, Honeywell issued a document, which Accusystems received, describing the Level 6 equipment and TL-6 software as complete and thoroughly tested. The document also described the multi-tasking capabilities of the system.

After it experienced numerous difficulties with the system
and was subsequently forced to go out of business, Accusystems sued Honeywell for breach of contract, fraud, and negligence. Accusystems alleged that Honeywell had negligently carried out its service obligations and that Honeywell's provision of advice and assistance to Accusystems placed a special duty of care on Honeywell separate and apart from the agreements.

The court found that although there was insufficient evidence that Honeywell had negligently carried out its service obligations, there was no special relationship between Accusystems and Honeywell, only a vendor-purchaser relationship. As to the allegation of fraudulent misrepresentation by Honeywell prior to the agreements and in the descriptive document of February, 1978, the court found that Honeywell had made the representations with knowledge of their falsity or with recklessness in not knowing whether they were true or false.

Among the evidence that supported this finding was the fact that “no recorded tests of the TL-6 [had been] conducted by Honeywell until more than a year after the sale to Accusystems and . . . when these tests were conducted, they established that the TL-6 ran at a high risk and produced below average quality with mixed mode, multi-user transactions.”


Textron obtained a temporary restraining order and a preliminary injunction against competitive use by Teleoperator Systems Corporation (TS) of robotics technology developed by TS during the course of a product development project for Textron. TS had never expressly agreed to terms in Textron’s letter of intent and in other materials indicating that Textron owned the proprietary rights to developments that occurred in the course of the project, while TS would maintain a right to use the developments in noncompetitive contexts. Nonetheless, the court held that TS’s failure to object, and its undertaking and continuance of work on the project, constituted a binding assent to the terms. However, the court found that the parties had not agreed to limit TS to noncompetitive use of developments made by TS prior to the project, but used in the project.

The court enjoined TS from use of the technology devel-
oped during the project finding that Textron would have otherwise been deprived of valuable "lead time" in the pertinent sector of the robotics market.


_Suntogs_, a clothing manufacturer, purchased a B700 computer system from Burroughs to operate with a software package entitled the "Silton Apparel Package." After experiencing problems with the system, Suntogs brought an action alleging breach of contract and warranties, negligent performance and fraud.

Burroughs' contract provided that actions on the contract must be brought within two years of the occurrence and that the law of Michigan, Burroughs' home state, would apply. The court held that, in light of Florida's strong public policy against contract provisions that seek to impose a limitation-of-action period that is shorter than that provided by the applicable statute of limitations, Burroughs' limitation-of-action term would not be enforced. The court took this position even though Michigan law would have upheld the limitation-of-action term in Burroughs' contract.

The court also held that Suntogs could seek discovery from Burroughs regarding a previous sale of a B700/Silton software system to another clothing manufacturer. The court reasoned that such discovery might shed light on whether Burroughs knew of problems with the system before the sale and allegedly false representations to Suntogs.


_Century Steel_ (Century) arranged to obtain a Burroughs minicomputer system through a lease arrangement with Nevada National Leasing Co. (National). In a suit arising from Century's dissatisfaction with the system and refusal to pay lease payments, Century sued Burroughs to recover the payments Century made to the leasing company and the cost of storage of the Burroughs computer system after Century had replaced it with a "Wang" system.

Burroughs argued that it had contracted with National
and that Century was barred from recovery against Burroughs because there was no privity of contract between them. The court, however, analyzed the transaction and determined that the "lease" arrangement was actually a sale of equipment to Century with National providing the financing.

Although Burroughs claimed that the problems with Century's system arose from input errors, the court accepted the testimony of a Century official who had computing experience that the problems arose from programming errors. However, the court found that Century did not submit sufficient evidence to establish the amount of storage costs; thus storage costs were not awarded.


In holding that the defense of accord and satisfaction is available in actions for payment for services where services predominate and goods are only incidental to the transaction, the court noted that, "[i]n cases where the Uniform Commercial Code is applicable, such as [in] the sale of computers, a creditor by complying with [section] 1-207 can reserve his rights although he accepts a check being conditioned as payment in full."

*Note* that the characterization of the sale of programs, for tax purposes, as services may allow this case to be interpreted as permitting the application of accord and satisfaction in a program sales dispute.

**Leasing Company's Knowledge That Leasing Party Had Not Yet Received Software Does Not Preclude Enforcement of Lease Based on Its Provision That The Goods Were Already Received and Were Acceptable— Bancorp Leasing and Financial Corp. v. Brunner, 672 P.2d 357 (Or. Ct. App. 1983).**

Brunner purchased a computer system and was to receive from the vendor special software for use in her tax consulting service. Prior to her receipt of this software, Brunner entered into a sale-lease back agreement whereby she agreed that the "property" was in good and suitable working order, received purchase money from the leasing company and agreed to pay monthly lease payments. The leasing company was aware that Brunner had not received the tax software. After Brunner re-
ceived the tax software and found it unworkable, she refused to make any more lease payments on the system.

The court rejected the leasing company’s argument that the transaction was a secured loan transaction rather than a lease contract subject to recission. In the court’s words, “the terms of the lease itself . . . rule out the acquisition of any equity in the property by the ‘lessee.’” The court held that even though the lessor’s agent knew that Brunner had not yet received the tax software, “it would be anomalous to the point of being inequitable to place the risk on the lessor-financer who does not deal in goods of the kind involved, did not select the goods, has no knowledge concerning them and expressly disclaimed any such responsibility.” Thus, the court held that the lessor had fully performed its duty under the lease to supply purchase funds, and that there was no failure of consideration as to that agreement.

COPYRIGHT


Apple Computer (Apple) charged Franklin Computer (Franklin) with copying, and thereby violating Apple’s copyright rights in fourteen of Apple’s operating system programs. Franklin did not dispute the charge of copying, but advanced, without success, several arguments against the copyrightability of operating system programs, object code and programs fixed in ROM.

As to the copyrightability of object code, the court noted that computer programs are clearly within the ambit of copyrightable subject matter, and that “the definition of ‘computer program’ adopted by Congress in the 1980 amendments [to the Copyright Act] is sets of statements or instructions to be used directly or indirectly in a computer to bring about a certain result” (emphasis added by court). The court concluded that as only object code can be used directly by a computer, programs in object code are within the coverage of the Copyright Act.

Based on White-Smith Music Publishing v. Apollo Co., 209 U.S. 1 (1908), the district court questioned whether copy-
right extends to such work as a program embodied in ROM, which may be deciphered but is not intended to be read by human beings. The court found *White* had been expressly discredited by Congress. The court further found that computer programs in object code are within the Copyright Act's definition of "literary work" because that definition encompasses expression in numerical symbols as well as in words.

**Video Game Copyright Upheld— Midway Manufacturing Co. v. Artic International, Inc., 704 F.2d 1009 (7th Cir. 1983).**

Midway owns the copyrights in the audiovisual display portion of the "Galaxian" and "Pac-Man" video games. At issue in this copyright infringement suit were two printed circuit boards sold by Artic. One board speeded up the rate of play of the Galaxian game; the other board, in the court's words, "store[d] a set of images and sounds almost identical to that stored in the circuit boards of plaintiff's 'Pac-Man' video game machine so that the video games people play on machines containing defendant's circuit board look and sound virtually the same as plaintiff's 'Pac-Man' game." Midway obtained a preliminary injunction against Artic forbidding the manufacture and sale of circuit boards that produced games substantially similar to Midway's copyrighted games.

In affirming the issuance of the injunction, the court held: (1) Midway's video games are audiovisual works protectable under the 1976 Copyright Act; this status is unaffected by the fact that the person playing a video game can vary the order in which the images stored in the game program appear on the screen; (2) the fact that a circuit board is patentable does not mitigate against the copyrightability of the work stored on the board; (3) Midway's works are protected by the 1976 Copyright Act; this protection was not affected by the passage of the 1980 amendment of section 117 of the Act; (4) even if the Japanese companies from which Midway purchased its copyrights in the games had published the games in Japan without notice, section 405(a)(2) of the Copyright Act affords a copyright owner five years to remedy such an omission, and "defendant [did] not allege that plaintiff [had] omitted to put a notice of copyright on any of the machines plaintiff [had] distributed in the United States or that its alleged infringement of plaintiff's copyrights was in reliance upon the omission of such notice from those copies originally published in Japan;"
and (5) the speeded up version of the Galaxian game constituted an infringing derivative work.


In a dispute between a program developer and a corporation that, under an unwritten license, the corporation modified and distributed the developer's programs, the court determined that, "to the extent that the program which [was] marketed by the defendant corporation incorporate[d] some or all of plaintiff's copyrighted programs, it constitute[d] a derivative work."

As to the dispute over ownership rights to the derivative work, the court held that this was irrelevant. If plaintiff owned the copyright in the underlying work, the court held that he could still halt distribution of the derivative work regardless of whether or not he had authored or owned the copyright in the new modules in the modified program.

In allowing the preliminary injunction against defendant's modified version of the program, the court found that the defendant had not presented sufficient evidence to overcome the presumption of ownership raised by plaintiff's certificate of copyright registration for the original work. The court also held that a nonexclusive copyright license was not required to be in writing by 17 U.S.C. section 204(a), and that California law would apply to determine the limits and effects of the parties' oral commitments and representations regarding the license agreement.

**Modification Kit Infringes Copyright in “Pac-Man” Program Even Though It Does Not Infringe “Pac-Man” Audiovisuals— Midway Manufacturing Co. v. Strohon, 564 F. Supp. 741 (N.D. Ill. 1983).**

Midway Manufacturing Company (Midway), owner of the copyright and trademark rights to the video game, "Pac-Man," filed a motion to find Strohon and other defendants (referred to collectively as "Strohon") in civil contempt of a preliminary injunction against infringing Midway's rights in the Pac-Man game. The contempt action arose from Strohon's advertisement of a modification kit, "Cute-See," which changed the audiovisual and certain play features of the Pac-
Man game. The kit, which contained five ROMs, also included labels that covered several, but not all, of the Pac-Man marks that appeared on the video game cabinet. As an alternative to a finding of contempt, Midway asked that the injunction be modified to specifically preclude the sale of the Cute-See modification kit.

The court held that the audiovisual display produced by the Cute-See kit did not infringe on the Pac-Man audiovisual display. However, the court found that the program embodied in the Cute-See ROMs infringed upon the program contained in the Pac-Man ROMs. The court specifically rejected the arguments that object code is not copyrightable and that ROMs are utilitarian items incapable of copyright protection.

The court explained its finding of substantial similarity, i.e., copyright infringement (access having been admitted) by noting in part that Midway had established at the hearing that 89% of the 16,000 bytes in the Pac-Man ROMs were identically reproduced in the corresponding Cute-See ROMs. In addition, Midway showed that 13,382 of the more than 16,000 bytes, contained actual sequencing instructions, as distinct from data that appears directly on the screen.

Midway had contended that because the Cute-See kit could be installed without changing the Pac-Man audiovisu- als, Strohon was guilty of contributory infringement of the audiovisual work. However, the court rejected this position in light of the fact that the Cute-See installation instructions specifically provided that the Pac-Man audiovisual ROM should be removed.

The court also held that the Pac-Man markings that remained on the game even after application of the Cute-See labels gave rise to a likelihood that customers would conclude that the Cute-See kit “emanate[d] from Midway,” and that this likelihood of confusion violated section 43(a) of the Lanham Act.

The court refused to find Strohon in contempt because no Cute-See kits had been sold, although the court modified the injunction to restrain Strohon from marketing the kit.


The owner of exclusive rights to manufacture and distribute recordings of certain musical artists charged a maker
and seller of unauthorized recordings with felony theft of exclusive rights in sound recording. The court cited Illinois Rev. Stat. 1981, ch. 38, which includes "computer programs, prototypes or models thereof," and found that the exclusive right in question was not a property right capable of being stolen under the terms of the statute.

Note that this case, as well as federal preemption principles, would seem to prevent a theft action against a software "pirate" based on his theft of an exclusive, contract-based right to distribute copyrighted software.

CRIMINAL


In considering whether Singleton was a fugitive from justice so as to toll the statute of limitations on a Bail Reform Act charge, the court indicated the placement of Singleton's name in the National Crime Information Center computer was not sufficient to constitute a search for Singleton.

Computerized Traffic Ticket System Violates Fourth Amendment—Smith v. Oklahoma City, 696 F.2d 784 (10th Cir. 1983).

Smith, arrested on a charge of accumulated unpaid traffic tickets, successfully claimed that the arrest warrant was invalid under the fourth amendment of the United States Constitution because of infirmities in the computerized system that produced the information supporting the warrant.

Because Oklahoma law provides that a vehicle's license plates are transferred with the sale of the vehicle, the court found that the computer listing of the vehicle's current owner did not establish that the current owner was the individual who had received the unpaid tickets. The court thus held that the warrant in question had not been issued in conformance with the probable cause requirements of the Constitution.


Theft of blank checks from a community college was made possible by the fact that, due to the school's computer printer's method of operation, with each imprinting run a few
checks would pass through unimprinted or blank.

Arrest Based on Erroneous Computer File Information Held Invalid— *People v. Ramirez*, 34 Cal. 3d 541, 194 Cal. Rptr. 454 (1983).

Arrest based on police computer file’s erroneous information that there was an outstanding arrest warrant for Ramirez was unlawful even though arresting officer had good faith belief that the information was correct. The court held that police cannot benefit from their negligent maintenance of computer files, and evidence found during arrest must be suppressed.


Defendants, convicted of trafficking in marijuana, challenged, inter alia, testimony of the arresting Customs officer that information from a computer check prior to searching the airplane containing the marijuana had revealed that the airplane was outside of the United States prior to a certain date. The challenge was based on the alleged hearsay nature of the testimony. However, the court held that the testimony was allowable as “it explained the conduct of [the officer] in asking appellants for identification, and in requesting permission to look in the airplane.”


Defendant in a criminal drug case unsuccessfully challenged the reliability of a computer-assisted drug identification instrument known as a GCMS. The GCMS aids in the identification of drugs by searching its “computer library” and printing out the names of drugs that most closely match the substance being tested. Although the court noted that it would have been preferable if the state had affirmatively established more details relative to the functioning of the GCMS on the day the testing of the drug occurred, the court held that the acceptance of the GCMS result by the expert who operated it was sufficient to establish, in absence of contrary evidence, the reliability and proper functioning of the

In a criminal case where an alibi witness testified as to the whereabouts of the defendant at a particular time, a computer tape printout which recorded the time that the report of the crime in progress was received by the police was accepted to establish the time of the crime.

**DISCOVERY**

Plaintiff in Employment Discrimination Action Entitled to Information About Defendant's Computer System—*Trevino v. Celanese Corp.*, 701 F.2d 397 (5th Cir. 1983).

In an employment discrimination action, Celanese was granted a protective order which denied plaintiff access to information regarding personnel files, including “identifying characteristics of Celanese's computer facilities.” In overturning the protective order, the court of appeals noted: “While some . . . [of the information sought by plaintiff] . . . might be of questionable relevance to a simple action for failure to hire, much of it would be highly relevant in proving a continuing pattern of discrimination in an integrated enterprise’s promotion and transfer system.”


An insurance company failed to supply computer printouts relating to the sales history of a former agent who claimed that commissions were owed to him by the company. When the insurance company lost at trial, it unsuccessfully attempted to secure relief from the judgment based on its “discovery” of the allegedly misplaced sales history records.

**EMPLOYMENT**

Employer's Need to Fill Computer-Related Position Affects Immigrants Residence Status—*American In-
A company had a need to fill a permanent position for a computerized lathe operator, but was unable to find a United States citizen willing and capable of filling the position. Thus, the person who had filled the position for several years, an immigrant, was granted a permanent labor certification and sixth-preference immigrant status entitling him to file an application for permanent residence.


A case involving race discrimination in promotion policies contains an extensive discussion of the nature and use of computer-assisted econometric/statistic analyses in determining whether discrimination occurred.


A computer analysis indicating that Neches "underemployed" blacks, Hispanics, and women was the basis of the decision of the Equal Employment Opportunity Commission's Houston office to bring charges against the company under Title VII of the Civil Rights Act of 1964.


Plaintiff and her husband, Honeywell employees, formed their own computer company to sell small computers in Hawaii. Honeywell informed plaintiff and her husband that plaintiff's small computer business violated Honeywell's policy forbidding a Honeywell employee from engaging in any activity or becoming involved in any arrangement "directly or indirectly through a family member" which would conflict, or be reasonably viewed as conflicting, with his or her responsibilities at Honeywell. While plaintiff agreed to cease her involvement in the small computer business, her husband refused to do so and Honeywell discharged them both.

The court held that Honeywell did not violate either Hawaii's Employment Practices Act or Hawaii's Married Woman's Act. Essentially, the court reasoned that Honeywell's action was not predicated simply on plaintiff's marital status,
but upon a legitimate recognition that plaintiff retained an interest, through a close relative, in an enterprise that could give rise to concerns that would conflict with her responsibilities to Honeywell. Also, although Honeywell did not sell small computers in Hawaii, the court reasoned that proprietary information held by Honeywell, such as market studies, would be very attractive to a small computer business, and there would be an enhanced risk of misappropriation if an employee engaged independently in a computer business.


The court held that an employer’s failure to comply with a statute requiring that discharged employees be paid in full within three days was negligent and unreasonable because the ex-employees’ work records were “literally at the company’s fingertips on the [company’s] computers.”


Former computer systems consultant was held qualified for unemployment benefits even though she voluntarily terminated her employment. She successfully alleged that the stress inherent in her duties, which included responding to computer malfunctions, caused emotional problems that made it imperative that she quit her job.


In upholding an award of workmen’s compensation benefits to the widow of a deceased employee, the court accepted an expert’s testimony that stress from the decedent’s employment aggravated his pre-existing hyper-sensitive cardiovascular disease and contributed to his death. The court stated that “[i]n the several years prior to his death, the employee’s work responsibilities as payroll clerk had escalated dramatically by reason of the retirement of his supervisor whose duties he assumed and the computerization of the payroll office for which he was responsible.”
Computer Evidence Does Not Support ICC Action—*Chesapeake and Ohio Railroad Co. v. United States* 704 F.2d 373 (7th Cir. 1983).

In vacating an order of the Interstate Commerce Commission (Commission) allowing a railroad to cancel a large number of joint rates, the court found that the results of a “massive computer study” undertaken by the railroad had been presented to the Commission in a grossly aggregative and summary form incapable of supporting the Commission's order. The court also noted: “The Commission did not even require Conrail to make the underlying computer tapes and programs available to the petitioners until seven days before their rebuttal evidence was due. This was not enough time. . . . It is routine practice in lawsuits in which computer studies are used as evidence to give the opponent’s computer experts access to the tapes well in advance of trial.”


One of the factors relied on to support an argument that voice spectrograms should not be admitted into evidence in a criminal trial was that, “[e]ven with sophisticated voice identification systems used by companies like Texas Instruments, where speaker verifications are used as one method to prevent unauthorized access to the computers, [defendant’s expert] stated that other safeguards are also needed.”


Defendant, convicted for making obscene telephone calls, argued that the state failed to lay a proper foundation for computer printout evidence that documented the calls and their origin. In rejecting defendant’s hearsay challenge to the computer printout, the court reasoned that:

Since the computer is actually responsible for making the telephone connection, the computer can be programmed to record the source of any incoming call. . . . Therefore, the evidence in this case was generated solely by the elec-
trial and mechanical operations of the computer and telephone equipment, and was not dependent upon the observations and reporting of a human declarant.

Thus, the court held that the printout was not hearsay evidence and did not have to be qualified as a business record; the printout was a computer-generated record of the computer's operation, not simply the stored statements of a human declarant.


The court held that the questions of whether the police computer would contain a record of a request to check a vehicle's license plate, and whether this information would be indicated on a computer printout, had great bearing on the credibility of officers who claimed to have made such a request prior to approaching a vehicle with guns drawn. Therefore, an individual arrested when the officers approached the vehicle had a right to compel production of both the radio dispatcher on duty at the time and the computer operator who searched for information regarding the request.


Court held that because of the established acceptance of stationary radar speed detection, a presumption of accuracy was to be afforded to the "Visual Average Speed Computer and Recorder" (VASCAR) clocking of speed of defendant's vehicle. Thus, no expert testimony was necessary to establish the scientific reliability and accuracy of the VASCAR unit.

GOVERNMENT AFFAIRS


Massachusetts' plaintiffs brought a class action on behalf of all recipients of Aid to Families with Dependent Children who received or will receive computer-generated termination or reduction notices from the state resulting from recent changes in eligibility and benefit level standards. The court
denied plaintiffs' request for a preliminary injunction restraining reduction or termination of benefits because, in the court's view, the contents of the notices satisfied federal and state regulatory and due process requirements. The court indicated that mass mailings accompanying across-the-board benefit reductions may be subject to a lower due process standard than "where the reduction or termination of aid is on an individual basis."

**Computer Capability Defeats State's Claim That Calculations Present Burdensome Administrative Difficulty—Frazier v. Manson, 703 F.2d 30 (2d Cir. 1983).**

This case involved a Connecticut statute, which increased "good time credit" for prison inmates sentenced after October 1, 1976. Plaintiff argued that the statute violated equal protection by improperly discriminating against inmates sentenced prior to that date. The court rejected the state's argument that administrative difficulty in calculating good time credit of inmates sentenced prior to October 1, 1976, was an acceptable rationale for the failure of the statute to apply retroactively. In the court's view: "Given today's computer facilities, which Connecticut should be able to put at its disposal, we may reasonably infer that '[a]ny administrative inconvenience would be minimal.'"

**Court Allows Criminal Charges Against Computer Company—United States v. Computer Sciences Corp., 689 F.2d 1181 (4th Cir. 1982).**

In a criminal case involving a charge that Computer Science Corporation (CSC) defrauded the United States government by overbilling the General Services Administration for computer services, the court held, inter alia, that: (1) the government could use 18 U.S.C. section 287, the statute outlawing false claims against the government, 18 U.S.C. section 1341, the mail fraud statute, and 18 U.S.C. section 1343, the wire fraud statute, as simultaneous bases of prosecution; (2) the division of CSC involved in the alleged fraud was an "enterprise" within the purview of the Racketeer Influenced and Corrupt Organizations Act (RICO); and (3) because the term "enterprise", as used in RICO, is intended to "refer to a being different from, not the same as or part of, the person" to whom RICO is applied, charges based on holding CSC distinct from the corporate division involved in the alleged fraud had
to be dismissed.


The City of Zanesville, Ohio, cancelled a computer lease contract by which it received and made lease payments on a system, on the basis that the city's director of administration had not followed the procedures set out by law for the granting of a contract that creates a liability on the part of a municipal corporation. Mohawk unsuccessfully sought arbitration in accordance with the provisions of the lease agreement. Mohawk brought an action in New York, under the contract's choice of New York law provision, to secure a holding that the New York law allowing municipal corporations to enter into public contracts without bidding applied to the lease, and to estop Zanesville from challenging the validity of the contract because Mohawk had satisfactorily performed its obligations thereunder and the city had accepted the benefits of the performance.

The court held that: (1) both Ohio and New York law provide that contracts made on behalf of municipal corporations must be made pursuant to proper statutory authorization and procedure, and those contracting with municipal agents and officers bear the risk of loss where the contract arises in an unauthorized manner; (2) both Ohio and New York law provide that receipt by a municipal corporation of benefits of a contract does not estop the municipality from challenging the validity of the contract as arising from an unauthorized or unlawful act of a municipal employee; and (3) since the contract was void, its arbitration clause was unenforceable.


The Minority Chairman of the Pennsylvania Senate Appropriations Committee sought from the Governor certain personnel and fiscal information about all the lawyers on the public payroll or hired by the Executive Branch on public contract. The Executive Branch argued that the information was available by "culling it from a mass of printouts or com-
puter tape reports now submitted to the Legislature . . . or by researching it in the State Library or the State Treasury Department.” However, the court noted that the legislature and its data-processing facilities rely on information from the Executive Branch, which has basic control over the data’s format. The court held that the Executive Branch was obligated to supply the information to the Legislature as it was not feasible to require the Legislature to unearth and compile the information.

MISCELLANEOUS


In an age discrimination suit, the court reversed an award of $145.89 to the plaintiff for “Lexis” research as part of an award of costs, stating, “We believe that computer-aided research, like any other form of legal research, is a component of attorneys’ fees and cannot be independently taxed as an item of cost in addition to the attorneys’ fee award.”


The National Floor Insurers Association (NFIA) processes its policy renewal notices by computer. After several years of providing notice, NFIA failed to notify plaintiff that premiums were due, and later, that her policy had been cancelled. Plaintiff, unaware of the lapse in coverage, filed a claim for flood damage and the claim was denied. Subsequently, the court held that plaintiff had a cause of action against NFIA.


American Financial Corporation (AFC), through a lease agreement, held a perfected security interest in computer systems used by Transportation Data Communications (TDC). TDC, in turn, entered into an agreement whereby Computer Sciences Corporation (CSC), maintained and repaired the computer systems. When TDC became insolvent, CSC levied on the systems and had them sold to satisfy debts incurred by TDC under its agreement with CSC.
AFC, claiming a superior creditor's position, unsuccessfully attempted to recover against CSC by claiming that: (1) it was a third party beneficiary of the contract between TDC and CSC since the lease required that TDC enter into a maintenance agreement; (2) theories under bailment and conversion principles could be asserted by AFC against CSC; and (3) levy and sale by a junior creditor is impermissible under Delaware law. The court specifically explained that extrinsic evidence to show that parties to a contract contemplated a third party beneficiary is allowable only when the contract indicates the party so contemplated. The court strengthened its position by noting that the maintenance agreement specifically excluded conferring beneficiary status to parties other than TDC and CSC.

The court entered summary judgment against AFC on the theories discussed above, but held that issues of fact remained regarding AFC's charge that CSC had bargained in bad faith with AFC regarding one of the computers leased by TDC.


The court held that the fact that a foreign corporation accused of copyright infringement and related torts utilized the computer services of a business located in New York was not sufficient to give the New York court system personal jurisdiction over the foreign corporation. The court distinguished an earlier case where jurisdiction was based on, among other factors, the fact that the employee of a defendant installed and serviced a computer in New York that was leased from the defendant, stating: "The sale or servicing of a product in New York is plainly different from... [the]... purchase of New York companies' computer or printing services."

**Lawyers Successfully Challenge Restriction on Advertisement of Computer Expertise— Spencer v. The Honorable Justices of the Supreme Court of Pennsylvania, 579 F. Supp. 880 (E.D. Penn. 1984).**

In an attempt to further his desire to practice computer and aviation law, Spencer sought to communicate his experi-
ence as a pilot and computer programmer through general advertisements to the public and direct mailings to prospective clients. Spencer challenged the constitutionality of a Pennsylvania Disciplinary Rule that would prohibit him from advising or directing advertising to potential clients that he was an “experienced” pilot and an “experienced” computer programmer. The court however, upheld the state’s prohibition of the use of terms “which subjectively evaluate a lawyer’s credentials or the quality of his services.”

The court also held that the absolute ban on direct mail solicitations was: (1) unconstitutionally vague in its allowance of advertisement, but not solicitation; and (2) unconstitutionally broad in its total ban on a form of communication that can be both accurate and useful to the public. Further, the court struck down as unconstitutionally restrictive the Disciplinary Rule that provided that any statement or announcement that a lawyer’s practice is limited to one or more particular fields of law must be accompanied by a disclaimer that the lawyer is not recognized or certified as a specialist in those fields. Finally, the court held that the Disciplinary Rules prohibition of a lawyer’s representation of his background, education and experience to other lawyers who might wish to engage him as a consultant or associate was unnecessary to advance any state interest and was therefore unconstitutional.


Secretary-treasurer of franchisee manually overrode the company computer and added a fictitious amount to the inventory of a particular franchiser’s store, thus inflating the profit figure reported for the store. This error was perpetuated in the system and, when discovered, was a source of dispute between the parties.

**Company’s Computerized Customer Files Figure in Class Certification**— *Lazar v. Hertz*, 143 Cal. App. 3d 128, 191 Cal. Rptr. 849 (1983).

Car rental company’s computer records “bearing upon the identity of customers” were among the factors considered by a court in its determination that a number of allegedly overcharged customers should be granted class certification.
Cluttering of Police Computer Files Noted as a Reason to Avoid Mandatory Registration of Certain Kinds of Sex Offenders—In re Reed, 33 Cal. 3d 914, 663 P.2d 216, 191 Cal. Rptr. 658 (1983).

In holding that a mandatory permanent registration of sex offenders under a misdemeanor disorderly conduct statute violated the California Constitution’s cruel and unusual punishment provision, the court noted:

Interestingly, the Los Angeles Attorney asserts in his amicus curiae brief that in fact the mandatory registration of section 647(a) Misdemeanants as sex offenders is “dysfunctional.” When the city used its fingerprint identification computer to attempt to identify the “Hillside Strangler,” for example, the computer apparently produced the identities of “thousands” of persons convicted of indecent exposure and lewd conduct but failed to identify the “Strangler.” The city attorney explains that in addition to overloading computers with useless information (the so-called “garbage in, garbage out” effect), the registration requirement is “counterproductive” in two further respects. According to amicus, “because of the perceived draconian effect of registration” courts have limited the reach of section 647(a) to “make the crime fit the punishment.”


Insurer’s mistaken payment for insured’s hospital stay which exceeded policy limit arose from a deficiency in the insurer’s computerized filing system and, as payment was made without knowledge that the limitation had been passed, could not constitute a waiver of the limitation.


In an action where a cooperative housing corporation successfully charged a manager with withholding excessive and unauthorized management fees, the court found that, even though the manager provided the cooperative with accurate monthly accounting statements, the cooperative could not be blamed for failure to apprise itself of the management fee be-
cause the accounting statements were on lengthy complex computer printouts.

**Court Rejects Constitutional Challenge to Denial of Video Game License— Caswell v. Licensing Commission for Brockton, 444 N.E.2d 25 (Mass. 1983).**

Caswell appealed the decision of the Licensing Commission for Brockton (Commission) denying him a license to operate a video game arcade at a particular location. In rejecting Caswell’s argument that the playing of video games was a form of speech or expression protected by the United States and Massachusetts, the court concluded that Caswell “[f]ailed to demonstrate that video games import sufficient communicative, expressive or informative elements to constitute expression protected under the First Amendment to the United States Constitution or Art. 16 of the Massachusetts Declaration of Rights, as amended by Art. 77 of the Amendments.”

In rejecting Caswell’s argument that patrons of video game arcades have a right of assembly protected by the United States Constitution and the Massachusetts Declaration of Rights, the court concluded that there was no identifiable group of video game players, and that even if there was, “gathering in an amusement arcade for the purpose of playing video games would not advance the social, legal, and economic benefits of the group’s members in the way that the freedom of association contemplates.”

The court decided, however, that the Commission had to reconsider Caswell’s application for a license because it appeared that the Commission had applied an inappropriate standard.

**Address of Computerized Billing Service Used to Serve Process on User of the Service— Gabriel v. Beth Israel Medical Center, 467 N.Y.S.2d 536 (1983).**

Defendant anesthesiologists were estopped from asserting defective personal service of the summons and complaint in a malpractice action. The plaintiff effected service at the address given on defendant’s bills, which was the address of defendant’s computerized billing service. The court held that plaintiff had effected proper service because: (1) the billing, an important part of defendant’s business, was conducted at the billing service address; and (2) by failing to make clear
that the billing service address was not a business address of defendants, they "cloaked the billing service with apparent authority to receive service on behalf of themselves."

**PATENT**

**Computer-Related Patent Held Invalid— In re Kaslow, 707 F.2d 1366 (Fed. Cir. 1983).**

A patent application concerning a method of enabling computerized retail checkout systems to process product discount coupons was rejected on the bases of obviousness and failure of the specifications to support the claims. In affirming the rejection of the application, the court of appeals indicated that the collating and sorting capabilities of conventional computers would make obvious the general application of computer coordinate operations at several sites.


The CAFC affirmed a decision in which Computervision was held to infringe two of Perkin-Elmer's patents, patent numbers 3,748,015 and 3,821,763, that related to Perkin-Elmer's "Micralign" circuit design projection printer. The Micralign, which uses optics to trace a circuit design on a silicon wafer, was the first commercially successful projection printer for use in manufacturing semiconductor integrated circuits. The infringing printer sold by Computervision was called the "Cobilt CA-3000."

In addressing some of the issues that arose regarding the use of a jury at trial level, the court observed that: (1) it is advisable in patent cases tried by juries to use the special verdict and interrogatory procedures under F.R.C.P. Rules 49(a) and 49(b) respectively, and (2) contrary to the view expressed by the Ninth Circuit in Sarkisian v. Winn-Proof Corp., 688 F.2d 647 (1982), a jury verdict on obviousness is binding and not merely advisory, although directed verdict and judgment notwithstanding the verdict procedures are still available to overcome the verdict at trial level.

After a finding of validity and infringement in Perkin-Elmer's favor by the Ninth Circuit, the case was remanded, and
Computervision subsequently appealed to the CAFC. The CAFC noted that the decision of the Ninth Circuit would be accorded "great deference" under the law of the case doctrine. Further, Computervision had not made a prima facie showing of error by the Ninth Circuit sufficient to warrant CAFC review of the decision on its merits.

**Computer Program Held Patentable Subject Matter—Method of Doing Business Challenge Rejected—**


United States patent number 4,346,442 ('442), owned by Merrill Lynch, related to the data processing methodology (a computer program) and apparatus for effecting Merrill Lynch's Cash Management Account (CMA) service. CMA combined three financial services commonly offered by financial institutions and brokerage houses: (1) a brokerage security account; (2) money market funds; and (3) a charge/checking account. Paine Weber sought a declaratory judgment that, inter alia, the patent was invalid because its claims "define[d] nothing more than the combination of familiar business systems," and that methods of doing business are not within the categories of patentable subject matter listed in 34 U.S.C. section 101. Further, Paine Weber argued that even though the patent claims were drafted in a "means plus function" format, the claims were, in fact, directed to a system rather than to implementing apparatus. Essentially, Paine Weber argued that a method of doing business or other matter not within section 101 cannot be elevated to patentable subject matter by a general reference to implementing apparatus.

The court held that it "need not determine . . . whether the '442 patent claim[ed] an apparatus or a process because labels are not determinative in a section 101 analysis." As to the fact that the '442 patent related to computer programming, the court stated that computer programs are patentable if they satisfy the same requirements applicable to other types of inventions.

As to Paine Weber's argument that the '442 patent was directed to an unpatentable method of doing business, the court declined to limit its focus on the fact that financial services were the end product of the CMA program. Instead, the
court held that “the product of a computer is irrelevant, and the focus of analysis should be on the operation of the program on the computer.”


In holding patent number 3,833,005 on a remotely programmable, digitally timed and controlled pacemaker invalid because of the obviousness of the patent’s subject matter, the court noted, “Digital ciruitry had been used primarily in computer science but its use in cardiac pacing devices was being advocated and was slowly being adopted by the mid-to-late 1960’s.”


Although a code translator used for coding a textual message for transmission and encoding transmitted material to reconstruct the original message utilized mathematical formulæ, the PTO Board of Appeals reversed a patent examiner’s determination that patent claims directed to the translator recited nonstatutory subject matter. The Board applied the Supreme Court’s decision in Diamond v. Diehr, 450 U.S. 175 (1981), and found that “the mathematical formulæ or algorithm which underlies the claimed subject matter is incidental to the main thrust of the invention . . . [which] is a man-made concept . . . [that] never existed in nature.” The Board held that, because the claims related to a useful art and did not simply claim a formula in the abstract, the claims were directed to a patentable subject matter.

TAX


Income derived by a tax-exempt scientific research corporation from renting time on its computer to outside companies for use for their own purposes was determined by the court to be taxable as income derived from activity unrelated to that
which gave the corporation its general tax-exempt status.

**Computer System Is Not Taxable Real Property—**


After moving its computer system to a new facility, Security Data (Security) successfully sued the County of Contra Costa and the City of Walnut Creek for refund of property taxes that Security had paid on the system.

The determinative issue was whether the computer components were taxable real property fixtures or exempt personal property. The court found that none of the computer components were taxable fixtures because: (1) the components were installed in a general-purpose office building rather than in a building built for a purpose involving the use of the computer system; (2) the use and location of the computer components in the building was not materially associated or essential to the purpose for which the building was constructed and used; (3) the computer components were not intended to remain permanently in the building; (4) the computer components were on wheels and could be moved without significant difficulty and without damaging or substantially disturbing the computer room built to house them; (5) the components had been, in fact, removed from the building without substantial difficulty, expense or consumption of time; and (6) the components had not been destroyed when they were removed.

In answer to the argument advanced by the county and city that the construction of a special computer room to house the system made the system components fixtures by virtue of the principles of “constructive annexation,” the court held that the features of the computer room were improvements rather than fixtures, and that the governing principle was that the nonattached items, the components, had to be significantly associated with the purpose for which the building is used to be considered a fixture.

**Court Recognizes Competition Between Electronic and Printed Media in Tax Dispute—**


In holding that a variety of Moody’s publications fell within the exemption provided to newspapers from taxation under Illinois’ Retailer’s Occupation Tax Act and Use Tax
Act, the court was careful to avoid discrimination between printed and electronic information communication, stating that "it is a matter of common knowledge that brokerage offices today are linked to computers and other retrieval systems which furnish instant information of the type found in Moody's publications." Taxation of the printed publications would have thus made it more difficult for them to compete with computerized and other data transmission systems.


Auxton Computer Enterprises, Inc. (ACE) granted Equitable Trust Co. (Equitable) a nontransferable and nonexclusive right to use a program at a one-time price of $20,000 under an agreement that had no termination date. The court held that the transaction involved tangible personal property, namely, magnetic tapes which had been enhanced in value by copies of the program coded thereon. The court held that the "license agreement" was a taxable sales transaction. The court also refused to sever the value of the "intangible knowledge or information" that constituted the program from the mere value of the medium of storage and transmission, the tape, and held that tax would be assessed at the full price rendered for the program.


Terco, a Michigan computer leasing company, in a "casual and isolated transaction outside of its usual business activities," sold a computer to a Michigan corporate purchaser for use inside Michigan. While the sale was exempt from sales tax because it fell under the "isolated transaction" exception from sales tax, the purchaser was subject to tax for its use of the equipment in Michigan.


Statistical Tabulating Corporation (STC), a data processing service company, unsuccessfully claimed that it was im-
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proper to assess a tangible items sales tax on its transactions. STC provided payroll, accounts receivable and other business data processing services to clients along with reports and other documents, such as payroll checks.

The court found that the provision of written documents by STC was not an inconsequential part of the services-tangible items package offered by STC and that the transactions were therefore subject to sales tax. The court noted that in analyzing data processing transactions, “if the company supplied the print-outs for the customer to use in making management decisions or other purposes, the print-outs are not deemed inconsequential.”


A bank that had purchased a computer software tape for processing mortgage information unsuccessfully argued against assessment of a state compensating use tax on the purchase and use of the software. In holding that the use tax must be paid, the court stated:

It may well be that the Bank could have procured, by way of telephone or personal service, the same programming information so as to avoid a use tax. To base the tax consequences of a transaction on how it could have been structured “would require rejection of the established tax principle that a transaction is to be given its tax effect in accordance with what might have occurred.” This we will not do. The Bank must accept the consequences of its choice to purchase the program in the form of a tape.

TORT

Product Liability Case Based on Computerized Tool— Lewis v. Timco, Inc., 697 F.2d 1252 (5th Cir. 1983).

A worker injured while working with computer-controlled hydraulic tongs used on a drilling barge successfully sued, among other defendants, the manufacturer of the equipment. Because the plaintiff succeeded on a strict liability theory based on defects in design and instructions, the court held that comparative negligence could not be used to reduce plaintiff’s damage award.
Computer Calculations of Dosage Figure in Medical Products Liability Case— *Jones v. Minnesota Mining and Manufacturing Co.*, 669 P.2d 744 (N.M. Ct. App. 1983).

Products liability and breach of warranty action against the manufacturer of radioactive implant seed used in treatment of prostate cancer discussed the use of a computer program to calculate the dosage.


Tort victim’s head trauma allegedly made it impossible for him to read computer screens, thereby forcing him to abandon his major in business administration in college. The court took this into account in determining the victim’s loss of future earning capacity.

**TRADEMARK**


The owner of the registered trademark, “Tinker Toys,” for games, toys, and building blocks, opposed Morrow’s application for registration of a stylized rendering of “Thinker Toys” as a trademark for peripheral products for microcomputers, small computers, and/or data processing systems. Although Morrow did not sell video game products, the court noted that the goods listed on the application were “identified so broadly that they could include electronic components and circuit boards for computer games and video games.” Since the registration for Tinker Toys also included games, the court concluded that, “in view of the popularity of computer and video games, applicant’s electronic components and circuit boards, offered to the public under applicant’s mark, would likely to be perceived as source-related or somehow connected with opposer.” Thus, Morrow’s application for registration was refused.

**TRADE SECRET**

Former Employees Enjoined from Use of Former Employer’s Trade Secret or Confidential Information and Engaging in Other Competitive Activity— *Mohawk Data Sciences Corp. v. Digiserve, Inc.*, Civ. No. 253, 392
Mohawk Data Sciences (MDS), a manufacturer and seller of data processing systems, including Qantel computers and software, brought an action alleging, inter alia, trade secret misappropriation and unfair competition against Digiserve, Incorporated (DI), a company founded by former MDS employees that was MDS’ only competitor in the market for servicing Qantel equipment.

The trade secret or confidential information at issue in the case consisted of technical manuals, parts lists, field service bulletins, engineering change notices, and blueprints and tapes containing computer programs for operational diagnosis. Defendants’ chief contention was that the material had lost its proprietary character through disclosure to MDS customers and inadequate security precautions.

As to the argument that the information was disclosed to an extent that made it public, the court stated:

California has adopted the Restatement view that absolute secrecy is not a requirement; rather the proprietor of a trade secret may disclose it on a need to know or necessity basis to employees, customers and others if such disclosure is necessary for commercial exploitation of the information and adequate safeguards are established to prevent further disclosure.

The court found that adequate precautions had been taken by MDS in that MDS’ blueprints, manuals and other materials were stamped “confidential”. In addition, all employees and franchisers were required to sign nondisclosure agreements and were obligated to return all confidential documents, tools and equipment when their employment terminated. In answer to defendants’ argument that MDS should have used shredding and more stringent monitoring procedures to preserve confidentiality, the court stated, “[w]e have not been furnished nor have we found any authority to the effect that the proprietor of a trade secret must establish the equivalent of a corporate CIA in order to enjoy the protection of the law of trade secrets.”

The court enjoined DI from: (1) disclosing or utilizing MDS’ confidential or trade secret information; (2) servicing Qantel systems; (3) providing upgrade software for Qantel systems; and (4) attempting to induce MDS’ employees to leave.
MDS’ employ to work for DI.

Plaintiff Loses Trade Secret Action, But Defendant Found In Contempt for Violation of Injunction—Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890 (Minn. 1983).

Electro-Craft Corporation (ECC), a manufacturer of servo motors used for high technology applications such as computer disc drives and printers and industrial robots, brought a trade secret action against Controlled Motion, Incorporated (CMI), a corporation made up of former employees of ECC.

The court held that ECC failed to specify the trade secrets allegedly misappropriated by CMI with respect to one of the motor models involved. As to a second model, the court held that ECC failed to take proper precautions to protect the trade secret status of the allegedly misappropriated information. Although the court held that a previous injunction against CMI was inappropriate, it also held that CMI’s violation of the injunction provided grounds for a finding of civil contempt.