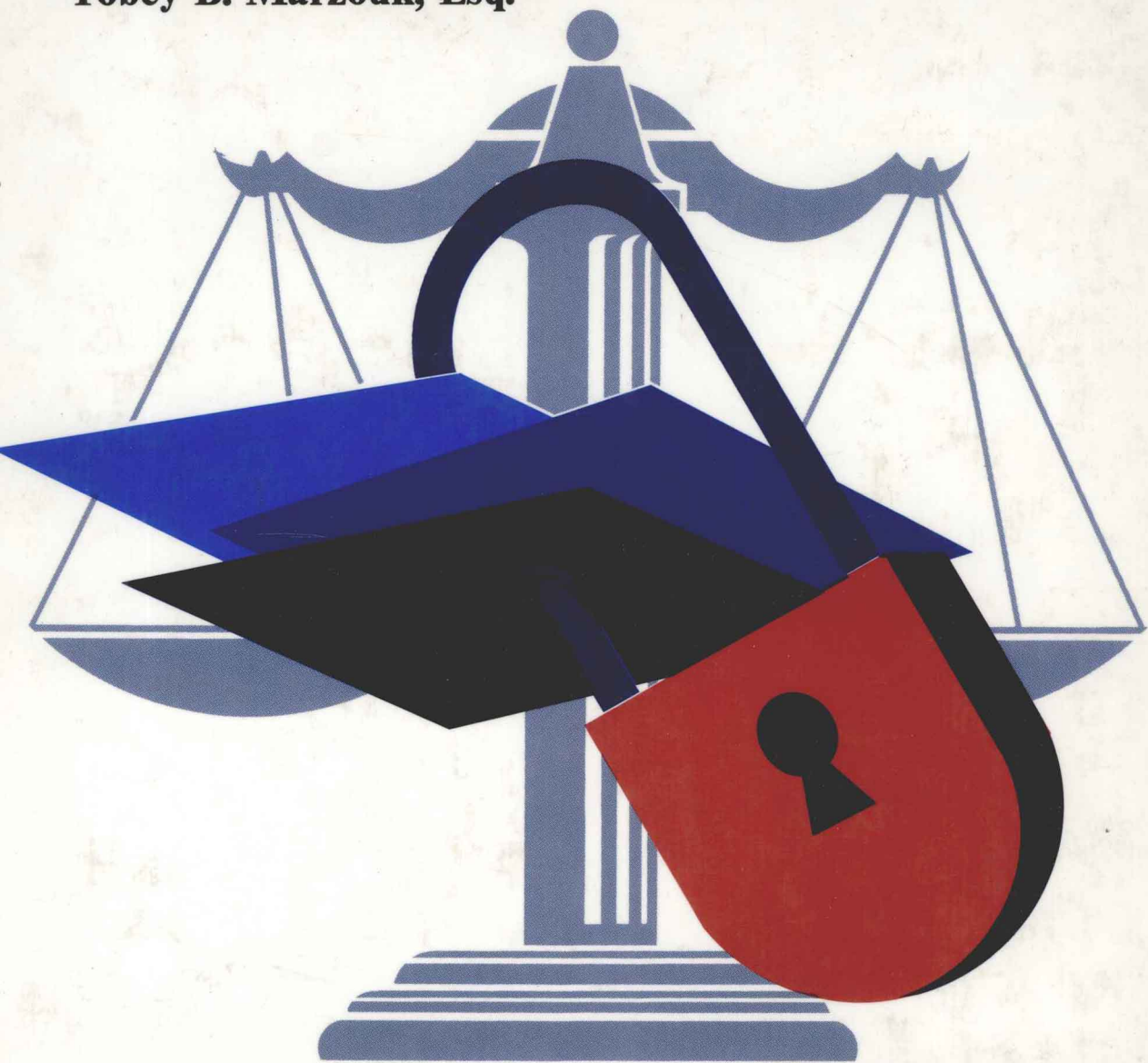


# Protecting Your Proprietary Rights in the Computer and High Technology Industries

**Tobey B. Marzouk, Esq.**



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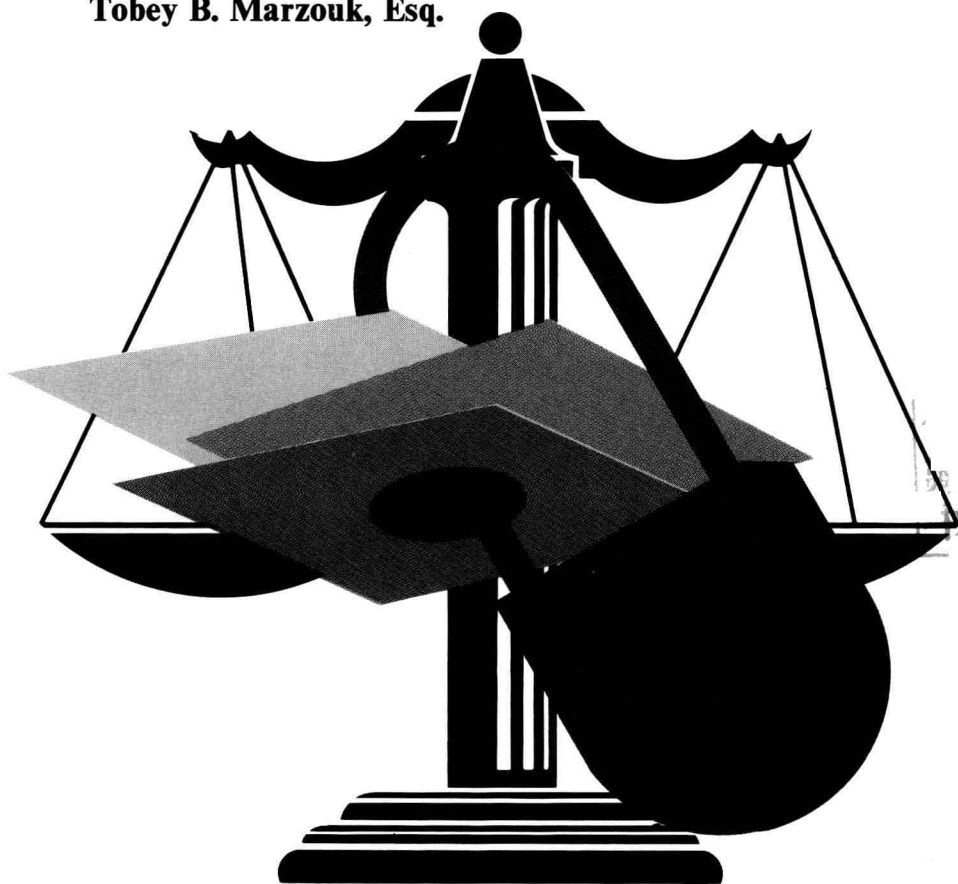


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# **PROTECTING YOUR PROPRIETARY RIGHTS IN THE COMPUTER AND HIGH TECHNOLOGY INDUSTRIES**

## **SECTION 1 INTRODUCTION**



## Section 1: Introduction

The computer and high technology industries have undergone revolutionary changes in recent years. These changes, in turn, have resulted in significant developments in the rapidly growing field of computer law. Among the most important questions facing computer and high technology firms is how they can best protect their proprietary rights in software and hardware without unduly hampering their business development and competitive abilities.

This monograph is an attempt to acquaint the reader with the fundamental elements of proprietary rights protection in the computer and high technology industries and begins with a discussion of three basic methods of asserting proprietary rights in software and hardware: trade secret, copyright, and patent. The scope and application of each method are summarized and applied to computer firms.

Second, a discussion is given of how high technology employment contracts can be used to maintain computer trade secrets and confidential information, as well as employee allegiance and support. Specifically, the reader is provided with suggestions in negotiating, drafting, executing, and enforcing employment contracts.

The next section of this monograph discusses how computer firms can protect their proprietary rights when they market their products. Among the topics discussed are: (1) licensing agreements for software authors, as well as publishers and manufacturers of mass-produced and custom software; (2) trademark protection; (3) trade name and trade dress protection; and (4) antitrust considerations in computer marketing activities.

Next, import and export protection for computer products are discussed. The reader will learn how to avail himself of international protection afforded by the International Trade Commission, U.S. Customs Service, federal courts, and international treaties.

Proprietary rights protection in the highly lucrative and growing field of federal government contract procurement of computer products and services is then discussed. Finally, the problem of computer crime is discussed, and the reader is introduced to a sample statute aimed at stemming the growing tide of criminal activities in the computer industry.

The following material does not pretend to be a substitute for competent legal counsel. Rather, the material merely summarizes the basic legal principles underlying computer and high technology proprietary rights. The summary will allow the computer/high technology firm to appreciate the high stakes involved in protecting its intellectual property rights and to take appropriate legal steps in acquiring such protection.



# **PROTECTING YOUR PROPRIETARY RIGHTS IN THE COMPUTER AND HIGH TECHNOLOGY INDUSTRIES**

## **SECTION 2 TRADE SECRET PROTECTION FOR SOFTWARE AND HARDWARE**



## Section 2: Trade Secret Protection for Software and Hardware

Trade secret protection, if properly maintained, represents an effective means of safeguarding proprietary rights in software and hardware. A computer firm seeking such protection, however, must first understand the basis and purpose of trade secret protection as well as its attendant requirements and limitations. The following section discusses the elements of a trade secret, the means of establishing trade secret protection for software and hardware, and the advantages and disadvantages of such protection. (For additional information regarding trade secret protection, the reader is referred to Appendix A.)

### A: Definition of “Trade Secret”

A trade secret is defined as:

any formula, pattern, device or compilation of information that is used in one's business, and that gives [one] an opportunity to obtain an advantage over competitors who do not know or use it.

Restatement of Torts, Sect. 757, Comment b at 5 (1939).

Trade secret law assures the trade secret owner that no one else will be able to use or otherwise benefit from this proprietary information. Before acquiring trade secret protection, however, a computer firm must demonstrate that its trade secrets meet three requirements: (1) novelty, (2) secrecy, and (3) value to business.

#### *I: Novelty*

*a: General principles of novelty under trade secret law:* Novelty is defined as an innovation, something unique, or not commonly known. Thus, “matters of public knowledge or of general knowledge in industry cannot be appropriated by one as his secret.” *Sperry Rand Corp. v. Pentronix, Inc.*, 311 F. Supp. 910, 913 (E.D. Pa. 1970). See also *Kewanee Oil Co. v. Bicron*, 416 U.S. 470, 475 (1973) (“subject of trade secret must be secret, and must not be of public knowledge or of a general knowledge in the trade or business”). For software, novelty requires the application of “new principles and concepts with unique engineering logic and coherence,” and the expenditure of time and money for the development of new software features that provide the employer a competitive advantage. *Com-Share, Inc. v. Computer Complex, Inc.*, 338 F. Supp. 1229, 1234 (E.D. Mich. 1971), *aff'd*, 458 F.2d 1341 (6th Cir. 1972). With respect to hardware, a trade secret may arise from the unique combination of hardware features that are neither new nor innovative. See *Telex Corp. v. International Business Machines Corp.*, 367 F. Supp. 258 (N.D. Ok. 1973), *modified*, 510 F.2d 1382 (10th Cir.), *cert. dismissed*, 423 U.S. 802 (1975).

Sufficient novelty exists when the information is not common knowledge to the computer industry. As a practical matter, most software will be treated as unique, since any given program will involve numerous algorithms and programming decisions that vary with each programmer and result in differences in “speed,



accuracy, cost, and commercial feasibility . . . from system to system.” *Com-Share, Inc. v. Computer Complex, Inc.*, *supra* at 1234.

One case will help exemplify how the courts evaluate novelty in the context of the computer industry. In *Sperry Rand Corp. v. Pentronix, Inc.*, 311 F. Supp. 910 (E.D. Pa. 1970), Sperry Rand developed a secret process for manufacturing magnetic memory cores. Three of Sperry Rand’s employees, who had signed employee confidentiality agreements and who had access to confidential documents that discussed the manufacturing process, left Sperry Rand to work for a competitor, Pentronix, Inc. Within two months, Pentronix announced its intention to manufacture a complete line of magnetic memory cores. Sperry Rand immediately sued to enjoin permanently Pentronix and sued the former employees.

At trial, Sperry Rand submitted expert testimony that the process for manufacturing the memory cores required seven to 12 months to develop. The evidence further showed that one former employee gained all of his knowledge about the magnetic memory cores from Sperry Rand. Sperry Rand, therefore, argued that its former employees had used its proprietary information to manufacture the memory cores for Pentronix.

Because of the time required to develop the memory core manufacturing process, the court concluded that the process was sufficiently novel to be a trade secret and that Sperry Rand’s confidential information concerning the process gave it an advantage over its competitors. The court recognized that the fact that portions of the manufacturing process were matters of general knowledge did not “conclusively negate the existence of a legally protectable trade secret.” *Id.* at 913.

The court further held that Sperry Rand’s former employees had a duty not to disclose the confidential information. The collusion between Pentronix and the former employees to duplicate the memory core manufacturing process constituted a breach of that duty and an unlawful misappropriation of Sperry Rand’s trade secrets. The court, therefore, enjoined Pentronix from further using Sperry Rand’s confidential information and held Pentronix liable to Sperry Rand for lost profits arising from its misappropriation of the trade secrets.

*b: Trade secret novelty applied to software:* In evaluating the novelty of computer software, one must look at the unique logic and coherence of the program. The following three factors should be considered: (1) whether the software represents a unique combination of generally known information, (2) whether the computer firm spent substantial time and expense on the software to create a competitive advantage, and (3) whether the application of the program is in some way unique.

1. *Whether the software represents a unique combination of generally known information:* While most software programs are based on general information in the computer industry, programmers can apply such information in new ways to create unique programs that give rise to trade secrets. For example, in *ComShare, Inc. v. Computer Complex, Inc.*, *supra*, Com-Share and Computer Complex entered into a Technical Exchange Agreement, whereby the companies agreed to exchange all information relating to the SDS 940 Time Sharing Computer System. The agreement also provided that, for 24 months after the termination or expiration of the agreement, neither company would divulge any information it received from the other company regarding software