

# **EXHIBIT 47**



LEXSEE 1993 U.S. DIST. LEXIS 16459



Caution

As of: Mar 29, 2010

**NLFC, Inc., Plaintiff, v. DEVCOM MID-AMERICA, Inc., Defendant.****93 C 0609****UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF  
ILLINOIS, EASTERN DIVISION***1993 U.S. Dist. LEXIS 16459***November 16, 1993, Decided****JUDGES:** [\*1] GUZMAN**OPINION BY:** RONALD A. GUZMAN**OPINION****REPORT AND RECOMMENDATION of  
Magistrate Judge Ronald A. Guzman**

Plaintiff NLFC Inc. ("NLFC") is a corporation which designs and licenses use of software. In December 1987 and November 1989 respectively, NLFC entered into nonexclusive licensing agreements with two medical facilities, Cabrini Medical Center ("Cabrini") and Franciscan Shared Laboratory ("FSL"), for use of its software ("NLFC Software"). As permitted under these agreements, both Cabrini and FSL contracted with defendant Devcom America, Inc. ("Devcom") to modify and enhance the NLFC Software in their possession for the purposes of removing bugs in the software and enabling the software to run on their computers.

NLFC brings this copyright action against Devcom, charging that Devcom obtained copies of NLFC's

software from licensees, modified and enhanced the software, and then unlawfully marketed the modifications and enhancements. NLFC had been developing its software for several years, although it did not register its copyright in the software until January 12, 1993.

On January 29, 1993, NLFC filed its original complaint. On February 23, 1993, Judge George Lindberg dismissed the original [\*2] complaint on the basis that the complaint contained allegations solely based on information and belief. NLFC filed its First Amended Complaint on March 3, 1993. NLFC's four-count complaint alleges that Devcom infringed its copyrights in NLFC Software (Count I), misappropriated its trade secrets (Count II), tortiously interfered with its contractual relationships (Count III), and Devcom engaged in unfair competition (Count IV).

On March 15, 1993, Devcom moved to dismiss the complaint under *Fed. R. Civ. P. 12(b)(1), 12(b)(6), and 12(b)(7)*. On April 13, 1993, Judge Lindberg referred this case to these chambers for a ruling on Devcom's motion to dismiss. On April 14, 1993, NLFC filed its response, and one week later Devcom filed its reply. On April 27, 1993, NLFC moved to strike Devcom's reply because

Devcom had attached various exhibits to the reply and had requested the court to consider the reply as a motion under *Fed. R. Civ. P. 56* for summary judgment. On April 29, 1993, this court granted NLFC's motion to strike Devcom's reply, and Devcom withdrew its motion to dismiss.

On May 3, Devcom filed its motion for summary judgment and its motion to dismiss the complaint under *Fed. R. Civ. P. 11* and *12(b)*. On May 17, NLFC filed its response to these motions, and on May 28, Devcom filed its reply. The case is now fully briefed and ready for disposition. For the reasons presented below, Devcom's motion for summary judgment should be granted. In light of this recommendation, this court will not address Devcom's motion to dismiss here.

## FACTUAL BACKGROUND

The following statement of facts is based upon the parties Local Rule 12(m) and 12(n) Statements and supporting materials.<sup>1</sup>

1 NLFC's Statement of Contested Facts, which follows its Local Rule 12(n) Statement, does not comply with the requirement under Rule 12(n) that the statement consist of "additional . . . material facts." Rather than identifying specific disputed material facts, NLFC's statement raises conclusory allegations, legal conclusions, and misleading characterizations of the record. For instance, NLFC asserts:

1. Devcom copied and/or reproduced NLFC's software, in violation of NLFC's rights under Title 17 of the United States Code. Devcom's employee, Jon Kristofferson, Devcom's Director of Software Development, during his deposition of April 22, 1993 admitted that Devcom copied NLFC's software. . . .

The first sentence in this paragraph is inappropriate because it states a legal conclusion. The second sentence is not borne out in the record at all: Mr. Kristofferson never "admitted that Devcom copied NLFC's software"; he merely testified that a Lab Force program was printed out at a Devcom office. NLFC's four remaining

assertions consist of inappropriate legal conclusions concerning misappropriation of trade secrets, tortious interference with contractual relationships, unfair competition, and rightful acquisition of trial. Because these assertions fail to present any "material facts," they will not be considered by this court.

[\*4] NLFC is a Delaware corporation having its principal place of business in Dallas, Texas. NLFC is a successor in interest to the assets of a Texas corporation, known as Lab Force, Inc. ("Lab Force"), whose assets were all acquired by NLFC.<sup>2</sup> Although Lab Force began developing the NLFC Software in 1978, not until the "past few years" did NLFC work on the software. (Am. Compl. P 5.). Devcom is an Illinois corporation with its principal place of business in Oak Brook, Illinois.

2 The complaint does not provide any date for this acquisition.

On December 29, 1987, Lab Force entered into an agreement ("Cabrini Agreement") with Cabrini to, among other things, license Cabrini to use the NLFC Software. (Agreement for Sale of Computer Hardware and Licenses of Computer Software, Ex. B to Devcom's Rule 12(m) Statement.) Sections 6.2.2, 6.2.4, and 6.2.7 of the Cabrini Agreement specifically permitted Cabrini to copy, modify, maintain, integrate, and enhance the NLFC Software. (Defendant's Rule 12(m) Statement, P 17; Plaintiff's [\*5] Rule 12(n) Statement, P 17.) On November 9, 1989, Lab entered into a settlement agreement with the FSL, amended on July 6, 1990 ("FSL Agreement"), to, among other things, license FSL to use the NLFC Software. Section 6 of the FSL Agreement specifically permitted FSL to use the services of a third party to maintain and support the NLFC Software. (Defendant's Rule 12(m) Statement, P 18; Plaintiff's Rule 12(n) Statement, P 18.)

Devcom has provided an affidavit from its president, Ronald Diener, who asserts that Devcom was initially approached by FSL to remove "time-bombs" from the NLFC Software.<sup>3</sup> These "time-bombs," Diener explains, are internal programs created by NLFC that would at a predetermined time in the future make the NLFC Software totally inoperable and thus endanger patients of hospitals serviced by FSL. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, P 5.) According to Diener, FSL subsequently asked Devcom to remove numerous bugs in the NLFC Software that NLFC was

unwilling and/or unable to remove. Thereafter, Diener states, FSL asked Devcom to take over the enhancement of the NLFC Software in their possession. (*Id.*) Alec Stapleton asserts that FSL [\*6] has not had any dealing with NLFC or its predecessor since 1990 and has no current intention to resume any further business. (Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, P 5.)

3 Diener does not specify when FSL approached Devcom.

Devcom was then approached by Cabrini. According to Diener, Cabrini made this contact based on a referral from FSL. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, P 6.)<sup>4</sup> Cabrini employed Devcom to modify the NLFC Software in Cabrini's possession for the purpose of removing the bugs in the NLFC Software because NLFC was unwilling or unable to perform such a task, Jeffrey Kessler asserts. (Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, P 7.) This sequence of events, Kessler observes, left Cabrini extremely dissatisfied with NLFC's performance. (*Id.*)

4 Again, Diener does not mention any date for this contact.

[\*7] Devcom has, on behalf of its clients Cabrini and FSL, modified and enhanced the NLFC Software in its clients' possession for the purpose of removing the bugs in the NLFC Software and to enable the NLFC Software to be run on the clients' computers. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, P 4; Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, P 6; Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, at P 4.) This was done using telephone lines, dedicated telephone lines, and on-site efforts. (*Id.*)<sup>5</sup>

5 NLFC responds in paragraph 21 of its Rule 12(n) Statement that it cannot assess the veracity of the statements contained in paragraph 21 of Devcom's Rule 12(m) Statement because "insufficient discovery has been conducted at this time to make such a determination." Such a response is inadequate under the local rules. Local Rule 12(n) requires the nonmoving party to respond to each numbered paragraph in the moving party's 12(m) Statement, and in the case of any disagreement, to support its position through specific references to affidavits, parts of

the record, and other supporting materials relied upon. All material facts set forth in the moving party's Rule 12(m) Statement "will be deemed to be admitted unless controverted by the statement of the opposing party." (Local Rule 12(n).) Accordingly, Devcom's statements in paragraph 21 of its 12(m) Statement are deemed admitted. Devcom has made no motion to stay either the briefing of this motion or its consideration and determination for purposes of conducting further discovery.

[\*8] Mr. Diener denies that Devcom ever obtained a copy of the NLFC Software or that Devcom ever marketed any modifications or enhancements of the NLFC Software. He asserts in his affidavit that Devcom (1) has never obtained a copy of the NLFC Software (except a viewable print-out necessarily required for modification purposes), (2) has never marketed, offered to sell or sold any copies, modifications or enhancements of the NLFC Software, (3) has never copied the NLFC Software (except to create a viewable print-out necessarily required for modification purposes) and (4) has never marketed, offered to sell or sold the UNIX-modified software to any person or entity. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, P 3.)

Devcom also submits affidavits from representatives of both Cabrini and FSL denying that either of their institutions ever provided a copy of the NLFC Software to Devcom. The Director of Information Services at Cabrini, Jeffrey Kessler, asserts in his affidavit that Cabrini has never delivered a copy of the NLFC Software to Devcom. (Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, P 5.) Finally, Alec J. Stapleton, Laboratory Information [\*9] Systems Manager of FSL, states that FSL has never delivered a copy of the Lab Force software to Devcom. He adds that Devcom has never made a copy of the Lab Force software (except a viewable printout required for modification purposes); marketed, offered to sell or sold any copies of the Lab Force software to any person or entity; or made any modifications or enhancements of the Lab Force software for FSL except as provided below. (Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, at P 3.)

According to Diener, Devcom has been approached by the executives of NLFC to both provide maintenance

and support for the NLFC Software, and to act as a distributor of the NLFC Software. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, P 7.) Diener explains that Devcom declined both invitations on the basis that Devcom's reputation would be adversely affected if it became known that the products of NLFC -- the NLFC Software -- were being marketed by Devcom. (*Id.*) Diener adds that Devcom has never modified and/or enhanced the NLFC Software for any other licensee of NLFC or for any other entity or person whatsoever other than Cabrini and FSL. (*Id.* at P 8.)

[\*10] On January 12, 1993, NLFC filed an Application for Copyright ("Application") with the U.S. Copyright Office to obtain copyright registration of its software entitled "NLFC HYBRID Lab Information System Computer Program." Section 4 of the Application states that NLFC claims ownership to the NLFC Software as the result of being "successor to author," or, Lab Force. Section 5 of the Application states that there has been no earlier registration made for either the NLFC Software or any earlier version of that software.

#### **Allegations of the Complaint**

NLFC resells computer hardware manufactured by others, as well as develops and licenses its own computer software. NLFC developed the design, modifications, source code and object code, and unique business procedures for this software. NLFC alleges that these practices constitute valuable trade secrets which give NLFC a competitive advantage. (Am. Compl. P 4) NLFC is a successor in interest to the assets of a Texas corporation known as Lab Force, Inc., which filed for bankruptcy under Chapter 7 of the Federal Bankruptcy Act. NLFC acquired the company's assets after they had been foreclosed and transferred to Lab Force's secured creditors. [\*11] Since 1978, NLFC and Lab Force designed, developed, manufactured, and maintained computer software products for use in medical pathology laboratories. (*Id.* P 5.)

NLFC licenses use and possession of its software to operate on certain computer hardware manufactured by other companies. One such software version ("Prime Version of NLFC Software") runs on the hardware manufactured by a company known as Prime Computers. NLFC has also developed software ("UNIX Version of NLFC Software") to operate in conjunction with the UNIX system developed by Bell Labs in the 1960s. Because the UNIX operating system works on many

different hardware products, the UNIX Version of NLFC also functions on different hardware -- in contrast to the Prime Version of NLFC Software, which runs only on a Prime Computer. (*Id.*) NLFC's licensing agreements protect NLFC Software as both trade secrets and copyrighted works. (*Id.* P 6.)

In Count I of its four-count complaint, NLFC charges Devcom with copyright infringement under the Copyright Act of 1976, 17 U.S.C. § 501 *et seq.* NLFC alleges that its software contains original, copyrightable material. NLFC or its predecessor, [\*12] Lab Force, has been the sole owner of all right, title, and interest in and to the NLFC Software, in all its versions, since the first versions were created. NLFC and its predecessor, Lab Force, have complied with the provisions of the 1976 Copyright Act and all other laws governing copyright to secure the exclusive rights in, and privileges to, the copyrights of the NLFC Software. In January, 1993 NLFC registered the copyright in the NLFC Software in the U.S. Copyright Office. Since 1978, only NLFC or Lab Force has legally produced or marketed the NLFC Software. (*Id.* P 12.) NLFC alleges that Devcom infringed NLFC's copyrights in the NLFC Software by preparing derivative works based on the NLFC Software and by marketing enhancements and adaptations of the NLFC Software. (*Id.*)

In Count II, NLFC alleges that Devcom misappropriated NLFC's trade secrets under Texas law, or in the alternative under Illinois law. NLFC or its predecessor, Lab Force, has been the sole owner of all right, title, and interest in and to the NLFC Software and the NLFC Trade Secrets. NLFC and Lab Force have complied with the trade secret common law of Texas and the Illinois Trade Secrets Act. (*Id.* [\*13] PP 17-19.) According to NLFC, Devcom has undertaken a campaign to acquire and utilize NLFC's trade secrets for Devcom's commercial and private advantage to the detriment of NLFC's exclusive right, title, and interest in its products and trade secrets. NLFC alleges that Devcom maliciously, knowingly, and with willful intent misappropriated NLFC's trade secrets. (*Id.* P 20.)

In Count III, NLFC alleges that Devcom tortiously interfered with contractual relationships entered into between NLFC and its customers. Specifically, NLFC alleges that Devcom induced NLFC's customers to provide it with NLFC's products and trade secrets, in violation of contractual provisions those customers had

with NLFC. (*Id.* P 27.)

Finally, in Count IV, NLFC charges Devcom with engaging in unfair competition with NLFC, to NLFC's detriment. (*Id.* P 29.)

Devcom has moved for summary judgment regarding Count I of the complaint on the grounds that there is no dispute that it did not copy the NLFC Software. Devcom has also moved for summary judgment with regard to the rest of the complaint because NLFC did not join Cabrini and FSL as indispensable parties pursuant to *Fed. R. Civ. P. 19*. In addition, Devcom [\*14] contends that NLFC is not entitled to statutory damages and attorney's fees under *17 U.S.C. § 412* because NLFC did not register its copyright until after the alleged infringement. Finally, Devcom urges this court to dismiss NLFC's remaining three state law counts (Counts II-IV) on the ground that pendent claim jurisdiction no longer exists once the federal copyright action is dismissed.

## DISCUSSION

Summary judgment will be granted only if there is no genuine issue of material fact and the plaintiff is entitled to judgment as a matter of law. *Bourne Co. v. Hunter Country Club Inc.*, 990 F.2d 934, 938 (7th Cir.), cert. denied, 1993 U.S. LEXIS 6380 (1993). The moving party bears the initial burden of demonstrating that there is no genuine issue of material fact in dispute. *Celotex Corp. v. Catrett*, 477 U.S. 317, 324, 91 L. Ed. 2d 265, 106 S. Ct. 2548 (1986). Once the moving party has stated that a fact is not in question, the burden shifts to the nonmoving party to demonstrate through affidavits or depositions that there is some genuine issue for trial. *Id.* at 325. [\*15] Where the nonmoving party fails to make a showing sufficient to establish the existence of an essential element on which it would bear the burden of proof at trial, summary judgment should be entered against it. *Fitzpatrick v. Catholic Bishop of Chicago*, 916 F.2d 1254, 1256 (7th Cir. 1990). The moving party is not required to negate its opponent's claim. *Id.*

### I. Copyright Infringement

In Count I of its complaint, NLFC charges Devcom with copyright infringement under the Copyright Act of 1976, *17 U.S.C. § 501 et seq.* Under *§ 501(a)* of the Act, any action that is inconsistent with a copyright owner's exclusive rights constitutes infringement. A copyright

holder has the exclusive rights of reproduction, preparation of derivative works,<sup>6</sup> distribution, performance, and display. *17 U.S.C. § 106* (1977 & West Supp. 1993).

6 "Derivative works" are defined to include translations and any form in which a work may be recast, transformed or adapted. *17 U.S.C. § 101*.

[\*16]

To prevail on its claim of copyright infringement, NLFC must prove ownership of a copyright and a "copying" of protectable expression" beyond the scope of a license. *Mai Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 (9th Cir. 1993) (quoting *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir. 1989)). NLFC has established the first prong of the test for copyright infringement. A certificate of registration, if timely obtained, constitutes prima facie evidence of the validity of the copyright and of the facts stated in the certificate. *17 U.S.C. § 410(c)*.<sup>7</sup> Devcom does not dispute that NLFC owns a valid copyright in and to the NLFC Software, having an effective date of January 12, 1993. (Defendant's Rule 12(m) Statement, P 14; Defendant's Reply, at 3.)

7 The fact that NLFC apparently did not register this copyright until after Devcom's alleged infringement does not preclude NLFC from recovering for infringement of these copyrights occurring before the date of registration. *Eden Toys, Inc. v. Florelee Undergarment Co.*, 697 F.2d 27, 33 (2nd Cir. 1982); 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright § 12.08*, at 12-113 (1992).

[\*17]

A plaintiff may prove the second element of the test, i.e., copying, either by direct evidence or by establishing that the defendant had access to the plaintiff's copyrighted work and that the defendant's work is substantially similar to the copyrightable material. *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832, 837-38 (*Fed. Cir.* 1992).

### A. Devcom's Alleged Copying of the NLFC Software

NLFC alleges that Devcom infringed NLFC's copyrights in the NLFC Software by preparing derivative

works based on the NLFC Software and by marketing enhancements and adaptations of the NLFC Software. (Am. Compl. P 12) Specifically, NLFC alleges that Devcom obtained a copy of its Software from licensees, modified and enhanced that software to run on UNIX, and then marketed the modified software to licensees of NLFC software. (*Id.* P 7.)

Devcom vehemently denies these allegations. It has furnished an affidavit from its president Ronald G. Diener, denying that Devcom has ever obtained a copy of the NLFC Software; marketed, offered to sell, or sold any copies, modifications, or enhancements of the NLFC Software; copied the NLFC Software; or marketed, [\*18] offered to sell, or sold the UNIX-modified software to any person or entity. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, P 3.) Devcom has also supplied the affidavit of Jeffrey Kessler, Cabrini's Director of Information Services, who asserts that Cabrini never delivered a copy of the NLFC Software to Devcom. (Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, P 5.) Finally, Devcom provides the affidavit of Alec J. Stapleton, FSL's Laboratory Information Systems Manager, who asserts that FSL has never delivered a copy of the Lab Force software to Devcom. He adds that Devcom has never made a copy of the Lab Force software (except a viewable printout required for modification purposes); marketed, offered to sell or sold any copies of the Lab Force software to any person or entity; or made an modifications or enhancements of the Lab Force software for FSL. (Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, at P 3.)

Although NLFC characterizes the testimony from these affidavits as simply "not true" (Plaintiff's Rule 12(n) Statement, P 20), NLFC does not supply any affidavits of its own contesting Devcom's affidavit testimony. NLFC [\*19] asserts that "Devcom has at least two copies of plaintiff's software, one copy on the computer and one copy in hard copy form" (*id.*), but in support provides only a single page from the deposition of Jon Kristofferson, Devcom's Director of Software Development. As the following exchange illustrates, Kristofferson did not in fact testify that Devcom had two copies of the software:

Q: You still have Exhibit No. 1 there in front of you, and am I wrong, isn't that a Lab Force program?

A: It says Lab Force.

Q: It also says Devcom. Does that mean it was printed out at Devcom's offices?

A: Yeah, I would say it was.

Q: Do you know where that particular program . . . came from?

A: No.

Q. Was it printed at Devcom's office?

A: Yes.

(Ex. A to Plaintiff's Rule 12(n) Statement, at 121.) Kristofferson merely testified that Devcom had possession of a viewable print-out.

Local Rule 12(m) provides in part that "all material facts set forth in the statement required of the moving party will be deemed admitted unless controverted by the statement of the opposing party." NLFC's citation to the Kristofferson deposition is insufficient under the local rules because it fails to contradict [\*20] DEVCOM's assertion that the only "copy" it ever had was a printout for purposes of modification. Because NLFC failed to properly contest Devcom 's facts denying any copying or marketing of NLFC Software, none of the cited assertions in the affidavits of Diener, Kessler, or Stapleton are in dispute. The facts therefore establish that the only "copy" of the software in DEVCOM's possession was a printout used for the purpose of modifying the program as allowed in the CABRINI and FSL licensing agreements. *See Bourne Co. v. Hunter Country Club, Inc.*, 990 F.2d 934, 938 (7th Cir.) (affirming summary judgment in favor of plaintiff copyright owners against defendant country club which played songs copyrighted by plaintiffs, where defendant failed to deny plaintiffs' facts setting forth a prima facie case of infringement), *cert. denied*, 1993 U.S. LEXIS 6380 (1993); *Fitzpatrick v. Catholic Bishop of Chicago*, 916 F.2d 1254, 1256-57 (7th Cir. 1990) (affirming grant of summary judgment where nonmoving party failed to "point[] [court] toward contradictory evidence as [it] must to defeat the summary judgment [\*21] motion"; "the days are gone, if they ever existed, when the nonmoving party could sit back and simply poke holes in the moving party's summary judgment motion.").

NLFC next asserts in its Rule 12(n) Statement that Devcom had been "actively marketing modifications and enhancements of plaintiff's software and conversion to Unix based systems." (Plaintiff's Rule 12(n) Statement, at P 20.) In support of this assertion, NLFC offers a letter from Kristofferson and Diener to Walter Girod of Our Lady of the Lake Regional, of Baton Rouge, Louisiana, dated November 19, 1992. NLFC does not specify what language in this three-page letter it finds particularly relevant. In the letter, Kristofferson and Diener explain that Devcom has extensive experience servicing Prime hardware, the PRIMOS operating system, the UNIX operating system, and the Lab Force system. They note that Devcom personnel has provided various forms of assistance for Lab Force customers, including the implementation and enhancement of the Lab Force system. Presumably, NLFC seeks to draw attention to the final paragraph of the letter:

All of our customers have expressed an interest in forming a Lab Users Group. Would you be [\*22] interested in attending? We would be delighted to entertain your questions in what Devcom can do for your [sic] and your organization. If you are interested in the relationships we have developed with other Lab Force customers, references are available.

(Ex. B to Plaintiff's Rule 12(n) Statement.) This letter fails to support any contention that Devcom ever had a copy of the NLFC Software or marketed modifications or enhancements of the software.<sup>8</sup>

8 Devcom's reply brief urges that further support for its position concerning the alleged marketing letter can be found in the exhibit attached to the reply. Devcom, however, does not refer to any relevant page numbers or passages in the entire exhibit -- some forty-five pages, not all sequential, of transcript from the Kristofferson deposition. It is not this court's obligation to wade through pages of deposition testimony without any citations or explicit references.

Devcom has presented affidavits from those individuals at Cabrini and FSL responsible for information [\*23] services, asserting that Devcom engaged in its debugging activities at the request of both

licensees. NLFC has not supplied any affidavits, however, which controvert Devcom's own affidavits denying any unlawful activities on the part of Devcom involving the NLFC software.

#### **B. Whether the License Agreements Permitted Devcom to Modify or Enhance the NLFC Software**

Devcom argues that its acquisition and use of the NLFC Software was not improper because it complied with the terms of the license agreements which NLFC entered into with Cabrini and FSL. Devcom contends that these agreements authorized a third party such as Devcom to debug, modify, and enhance the NLFC Software in the possession of Cabrini and FSL. The Cabrini agreement, for example, permits Cabrini to copy the NLFC Software when "reasonably necessary for licensed use and in normal backup procedures":

6.2.2 [Cabrini] agrees not to copy the COMPUTER SOFTWARE covered by this Agreement in any manner except as reasonably necessary for licensed use and in normal backup procedures, without the express written consent of LAB FORCE.

The agreement also authorized Cabrini to modify any of the software and form an updated [\*24] work:

6.2.4 [Cabrini] may modify any of the COMPUTER SOFTWARE, integrate it into other program material or form an updated work; provided, however, that the use of any portion of the COMPUTER SOFTWARE included in any modified, integrated or updated work shall only be for PURCHASER. . . .

Furthermore, the agreement permitted Cabrini to use the software source code "for the purposes of modification, maintenance, enhancement, and integration":

6.2.7 LAB FORCE shall give to [Cabrini] copies of the source code corresponding to all LICENSED SOFTWARE including but not limited to, each application, compiler, file structure, database handler and file layout corresponding thereto. [Cabrini] may use the foregoing for purposes of modification, maintenance, enhancement and integration by [Cabrini].

Finally, Section 6 of the settlement agreement between NLFC and Devcom permits FSL to secure from any source maintenance and support services which FSL deems necessary:

[Lab Force] agrees that FSL may obtain maintenance and support services from whatever source FSL deems necessary.

NLFC makes no attempt to argue that Devcom's actions contravened the terms of the license agreements. In [\*25] its Rule 12(n) Statement, in fact, NLFC admits that the Cabrini Agreement permitted Cabrini to copy, modify, maintain, integrate, and enhance the NLFC Software (Devcom's Rule 12(m) Statement, P 17; NLFC's Rule 12(n) Statement, P 17) and that the FSL Agreement allowed FSL to use the services of a third party to maintain and support the NLFC Software (Devcom's Rule 12(m) Statement, P 18; Devcom's Rule 12(n) Statement, P 18.). NLFC thus has failed to show how Devcom's actions are inconsistent with the terms of the license agreements. Because NLFC has not raised any genuine issue of material fact regarding Devcom's compliance with the Copyright Act, Devcom's motion for summary judgement on Count I should be granted.<sup>9</sup>

<sup>9</sup> Devcom's alternative argument that its actions are permitted by § 117 of the Copyright Act, 17 U.S.C. § 117(1), is insupportable. Section 117 sets forth a limitation on the exclusive rights of computer program copyright owners: the provision allows an "owner of a copy of a computer program" to make or authorize the making of another copy or adaptation of that computer program, provided that a copy is an "essential step in the utilization of the computer program in conjunction with a machine and . . . it is used in no other manner." 17 U.S.C. § 117(1). Devcom argues that § 117 does not prohibit Cabrini or FSL from using the services of a third party such as itself to modify and enhance the NLFC Software.

To show that a third party such as itself is authorized to adapt the NLFC Software, however, Devcom must first demonstrate that licensees such as Cabrini and FSL constitute "owners" of a copy of computer programs for purposes of §

117(1). Devcom cannot so demonstrate. Various courts have rejected the notion that licensees can be characterized as "owners" under the statute. See *Mai Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 n.5 (9th Cir. 1993) ("Since [plaintiff software designer] licensed its software, the [customers of defendant computer company] do not qualify as 'owners' of the software and are not eligible for protection under § 117."); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1089 n.9 (9th Cir. 1989) (citing § 117; "an owner of a copy of software has certain rights under the Copyright Act which a mere possessor does not"); *CMAX/Cleveland, Inc. v. UCR, Inc.*, 804 F. Supp. 337 (M.D. Ga. 1992) (even though licensee of copyrighted computer software system possessed source and object codes, licensee's possession of these codes did not make it an "owner" of the codes for purposes of § 117). In fact, when Congress enacted the Computer Software Copyright Act in 1980, it replaced the former Section 117 with a new version which granted "owners," as opposed to "rightful possessors," a limited right to copy and adapt their software. *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 260 n.11 (5th Cir. 1988) (reviewing legislative history).

## [\*26] II. Joinder of Cabrini or FSL

Devcom argues that it is entitled to summary judgment regarding the entire complaint because NLFC failed to join Cabrini and FSL as indispensable parties, pursuant to *Fed. R. Civ. P. 19*. A summary judgment, however, is generally deemed to be an inappropriate method of disposing a case for failure to join an indispensable party; more typically, a motion is made under Rule 12(b)(7), which specifically refers to the defense of "failure to join a party under Rule 19." 7 Charles A. Wright, Arthur R. Miller, & Mary K. Kane, *Federal Practice and Procedure: Civil 2d* § 1609, at 128, 133 (1986). A dismissal under Rule 12(b)(7) is not regarded to be on the merits. *Id.* at 133. Devcom's motion will be treated here as a motion to dismiss brought under Rule 12(b)(7).

In determining whether to dismiss an action for failure to join an indispensable party, the court must undertake a two-step analysis under *Fed. R. Civ. P. 19*. Under Rule 19, the threshold question is whether the

person in question is "necessary," or whether:

(1) in the person's absence complete relief cannot be accorded among those already parties, or (2) the person claims an interest [\*27] relating to the subject of the action and is so situated that the disposition of the action in the person's absence may (i) as a practical matter impair or impede the person's ability to protect that interest or (ii) leave any of the persons already parties subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of the claimed interest. . .

*Fed. R. Civ. P. 19(a)*. Only if a person is deemed "necessary" under *Rule 19(a)* must the court consider the second step of the analysis. *Novacolor, Inc., v. American Film Technologies, Inc.*, No. 91 C 6213, 1992 WL 170564, at \*9 (N.D. Ill. July 16, 1992) (quoting *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 876 n.1 (*Fed. Cir.* 1991)).

If the court determines that a presently nonjoined person is necessary, then it must either "order that the person be made a party," or, if such a person is not subject to the court's jurisdiction, "the court shall determine whether in equity and good conscience the action should proceed among the parties before it, or should be dismissed. . . ." *Fed. R. Civ. P. 19(a),(b)*. In making the latter determination, [\*28] the court shall consider four factors:

First, to what extent a judgment rendered in the person's absence might be prejudicial to the person or those already parties; second, the extent to which . . . the prejudice can be lessened or avoided; third, whether a judgment rendered in the person's absence will be adequate; fourth, whether the plaintiff will have an adequate remedy if the action is dismissed for nonjoinder.

*Fed. R. Civ. P. 19(b)*. Thus only after the court has assessed both steps of the analysis -- and concluded that the case must be dismissed -- may a party properly be deemed indispensable. *Id.*; see also *Wade v. Hopper*, 993

*F.2d 1246, 1249* (7th Cir.) ("The test for an indispensable party is whether justice cannot be done unless it is joined."), *cert. denied*, 1993 U.S. LEXIS 5725 (1993).

Devcom asserts that (1) Cabrini and FSL are necessary parties to NLFC's action; (2) Cabrini and FSL have not yet been joined as parties to this suit; (3) because Cabrini and FSL are intimately connected with this lawsuit, the court's disposition -- whether it be the granting of an injunction or an order for impoundment, [\*29] destruction, or forfeiture -- would impair or impede their ability to protect their interests in the NLFC Software; and (4) Devcom risks exposure to double or multiple liability from Cabrini and FSL under the license agreements, should this court's decision render Devcom unable to modify or enhance the NLFC Software.

Without elaboration, Devcom characterizes the circumstances here as "precisely" the same as those in *Colmol Co. v. Goodman Mfg. Co.*, 132 U.S.P.Q. 126 (N.D. Ill. 1961). Devcom's discussion of that case consists solely of the following quotation from Judge Parsons' opinion: "If, however, the licensee's interests are in fact to be affected by the decree, he is a proper party, and the court may require him to be joined." (Defendant's Motion, at 7-8 (quoting *Colmol Co.*, 132 U.S.P.Q. at 128).) Devcom thus urges that under *Fed. R. Civ. P. 19*, Cabrini and FSL are indispensable parties and the complaint should be dismissed.

In *Colmol Co.*, plaintiff patent owner sought to enjoin defendant from infringing its patented invention -- machines that could be used to dig coal. Defendant challenged the validity of the patents [\*30] on the grounds that they were lacking in invention and novelty. Defendant moved to join a third party which defendant characterized as a "necessary party" -- a manufacturing company to which Colmol had granted an exclusive license to manufacture, use, and sell its machines over a five-year period.

The *Colmol* court granted the motion. While he acknowledged that a simple licensee lacks a sufficient interest to become a necessary or indispensable party in an infringement suit, Judge Parsons explained that the third-party licensee was "something greater than a simple licensee." 132 U.S.P.Q. at 128. In order for the court to reach a full determination, Judge Parsons reasoned, it was necessary for the licensee to be joined as a party plaintiff. *Id.*

Unlike the third-party licensee in *Colmol*, Cabrini and FSL are not exclusive licensees. The license agreements themselves explicitly state that Lab Force granted non-exclusive licenses to the two medical facilities.<sup>10</sup> The distinction, for purposes of Devcom's motion here, is crucial:

[A] bare or nonexclusive licensee has been viewed as neither a necessary nor even a proper party to an infringement [\*31] suit. This is because the license merely confers the right to do something that would not be permitted in its absence, but it does not guarantee that the licensee shall enjoy the benefits of the monopoly. Consequently, should the patent or copyright be infringed, the nonexclusive licensee theoretically has suffered no legal injury that justifies his participation in the action.

7 Charles A. Wright, Arthur R. Miller & Mary K. Kane, *Federal Practice and Procedure: Civil 2d* § 1614, at 214-15 (2d ed. 1986) (footnote omitted). While a nonexclusive licensee has no property interest in the patent/copyright monopoly, an exclusive licensee has the assurance of the patent/copyright owner that others shall be prevented from using the patent/copyright. *In-Tech Marketing Inc. v. Hasbro, Inc.*, 685 F. Supp. 436, 439 (D. N.J. 1988).

10 Lab Force's license agreement with Cabrini states:

6.2.1 LAB FORCE hereby grants to [Cabrini] a non-exclusive, perpetual and non-transferable license to use the COMPUTER SOFTWARE describe [sic] in Exhibits A-1, A-2, A-3, A-4 and B only in conjunction with the DESIGNATED COMPUTER. . . .

(Ex. B to Devcom's Rule 12(m) Statement (emphasis added).)

Lab Force's agreement with FSL provides:

FSL shall have and shall continue to have a perpetual,

non-exclusive, non-transferable license to use the Lab Force Software. . . , which license . . . shall extend to "WFSI Hospitals" and "Referral Laboratories".

(Ex. C to Devcom's Rule 12(m) Statement, § 4 (emphasis added).)

[\*32] A similar set of circumstances arose in *Ocasek v. Heggglund*, 673 F. Supp. 1084 (D. Wyo. 1987), a case not cited by either party. In *Ocasek*, plaintiff copyright owners brought an infringement action against a bar owner who allegedly permitted various songs to be performed in her establishment in violation of plaintiffs' copyrights. Defendant moved to join the American Society of Composers, Artists, and Publishers ("ASCAP"), a non-exclusive licensee of plaintiffs' copyright, as an indispensable party. The court, however, found that under *Fed. R. Civ. P. 19*, ASCAP -- which acted as the licensing agent of each plaintiff -- was not the party in interest and was not essential to the full resolution of the dispute. The court thus denied plaintiffs' motion for leave to join ASCAP as a party. *Id.* at 1087.

There is a different element in the present case not found in the above cited cases. Not only is the issue of the possible violation plaintiff's trademark rights involved, which as pointed out above, is an issue as to which Cabrini and FSL as nonexclusive licensees are not necessary parties, but also there is the question of [\*33] the interpretation of Cabrini and FSL's maintenance agreements with DEVCOM. It is by virtue of the maintenance agreement with Cabrini and FSL that DEVCOM claims its right to modify and enhance NLFC's software to the extent that it has. However, I do not see this as an issue essential to the determination of the case. The thrust of NLFC's complaint is not that Devcom has violated its rights by enhancing, maintaining or modifying the program under its contract with Cabrini and FSL, but that it has done so for the purpose of commercializing, marketing and selling the enhanced version of the program. Furthermore, if this were not the case, if Cabrini and FSL actually were "necessary" parties under *Rule 19(a)*-- that is, if their practical ability to protect their interests were at stake, and they could not be adequately represented by Devcom -- then there would in all likelihood be no need to resort to joinder, because Cabrini and FSL would be entitled to intervene as a matter of right under *Fed. R. Civ. P. 24(a)*. *See*

*Ferrofluidics Corp. v. Advanced Vacuum Components, Inc.*, 968 F.2d 1463, 1472 (1st Cir. 1992) (licensee of employer's magnetic field rotary [\*34] seal technology was not indispensable party to employer's action against former employee for breach of restrictive covenant, even though licensee was under contract to sell seals to business formed by employee to compete with employer and lawsuit had impact on licensee's ability to market those seals). Yet Cabrini and FSL have made no attempt to intervene.

### III. Statutory Damages and Attorney's Fees

NLFC argues that it is entitled to an award of statutory damages under 17 U.S.C. § 504<sup>11</sup> and attorney's fees under 17 U.S.C. § 505. (Am. Compl., Prayer for Relief, PP H, L, M.) Devcom contends that 17 U.S.C. § 412 precludes any such relief where, as is the case here, the alleged copying preceded the effective date of the registration of the copyright.

11 Under Section 504(c)(1), the court, in its discretion, may award statutory damages in a sum between \$ 500 and \$ 20,000 per infringement. See *Chi-Boy Music v. Charlie Club, Inc.*, 930 F.2d 1224, 1229 (7th Cir. 1991) (identifying factors a court may consider in awarding fees and damages).

[\*35]

Section 412 of the Copyright Act prohibits the award of statutory damages or attorneys' fees unless the plaintiff registers its copyright prior to the infringement.<sup>12</sup> Indeed, Section 412 is plainly entitled "Registration as prerequisite to certain remedies for infringement." 17 U.S.C.A. § 412 (emphasis added); *Data General Corp. v. Grumman Sys. Support Corp.*, 825 F. Supp. 361, 364 (D. Mass. 1993). Courts applying § 412 have barred recovery unless the plaintiff has shown that registration predated the infringement. See *Cable/Home Communication Corp. v. Network Productions, Inc.*, 902 F.2d 829, 850 (11th Cir. 1990) ("As a procedural matter, the plaintiff copyright owner must have registered the copyright prior to the infringement in order to obtain statutory damages."); *Evans Newton, Inc. Chicago Sys. Software*, 793 F.2d 889, 896 (7th Cir. 1986) (reversing an award of attorney's fees because § 412 prohibits such an award "unless the plaintiff registers its copyright prior to the infringement"), cert. denied, 479 U.S. 949, 93 L. Ed. 2d 383, 107 S. Ct. 434 (1986); [\*36] *Data General Corp.*,

825 F. Supp. at 364 (relying on *Cable/Home Communication Corp.* and *Evans Newton Inc.*). Thus NLFC bears the burden of demonstrating that it complied with the prerequisite of § 412.

12 Section 412 provides:

**Registration as prerequisite to certain remedies for infringement**

In any action under this title . . . no award of statutory damages or of attorney's fees as provided by sections 504 and 505, shall be made for --

(1) any infringement of copyright in an unpublished work commenced before the effective date of its registration; or

(2) any infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work.

17 U.S.C.A. § 412 (West Supp. 1993).

NLFC has failed to offer any argument as to why § 412 should not apply here. Puzzlingly, NLFC focuses instead on the interpretation [\*37] of the term "publication" under the Copyright Act.<sup>13</sup> NLFC asserts that its request for statutory damages and attorney's fees is appropriate here because "there is a genuine issue of material fact concerning when NLFC published the

software." (Plaintiff's Opposition, at 6.) NLFC provides no further elaboration.

13 NLFC's opposition brief never identifies which provisions of Title 17 Devcom has allegedly misinterpreted. For example, NLFC asserts:

Devcom has misinterpreted the portions of Title 17 of the United States Code, to which it refers. NLFC submits that the "publication" term as used in those statutes is one of the issues at the heart of the controversy before this Court.

(Plaintiff's Opposition, at 6.)

The date of publication is not at issue. On its registration application dated January 12, 1993, NLFC had left blank the instruction for the date and nation of the first publication of the particular work. (Ex. A to First Amended Complaint.) NLFC does not dispute that section 3 of this application stated [\*38] that there had been no publication of the NLFC Software. (Plaintiff's Rule 12(n) Statement, P 12.) Yet NLFC's evidence in support of its charges of infringement focuses solely on activity prior to the date of registration. (*See* Dep. of Jon Kristofferson, Ex. A to Plaintiff's Rule 12(n) Statement; Computer Printout of 7/1/92, Ex. 1 to Plaintiff's Rule 12(n) Statement; Letter from Kristofferson and Ronald Diener to Walter Girod of 11/19/92, Ex. B to Plaintiff's Rule 12(n) Statement.) The publication date of the NLFC Software does not constitute a genuine issue of material fact.

Consequently, NLFC should not qualify for statutory damages or attorney's fees because it has shown that it registered the copyright before the alleged infringement. NLFC should be limited to recovering its actual damages and Devcom's profits, if any, for Devcom's alleged infringement under 17 U.S.C. § 504(b).

#### IV. Pendent State Law Claims

In its remaining three counts, NLFC brings pendent state claims against Devcom for misappropriation of its trade secrets (Count II), tortious interference with its contractual relationships (Count III), and unfair competition [\*39] (Count IV). In the alternative, NLFC

alleges that this court has diversity jurisdiction over these claims. Devcom has moved for summary judgment on all three counts on the ground that the court no longer retains pendent claim jurisdiction over these state law counts once the federal copyright action is dismissed. Devcom adds that in the absence of a claim for statutory damages under 17 U.S.C. § 504(c) of the Copyright Act, Counts II, III, and IV do not adequately allege damages in excess of \$ 50,000 for the application of diversity jurisdiction.

In determining whether to retain or dismiss pendent state claims, the district judge has broad discretion in making a managerial judgment on whether to allow plaintiff to bring one case in federal court or force him to litigate his state claim in state court. *Duckworth v. Franzen*, 780 F.2d 645, 656 (7th Cir. 1985), cert. denied, 479 U.S. 816, 93 L. Ed. 2d 28, 107 S. Ct. 71 (1986). When all federal claims are dismissed before trial, the district court should relinquish its pendent claim jurisdiction. *United Mine Workers v. Gibbs*, 383 U.S. 715, 16 L. Ed. 2d 218, 86 S. Ct. 1130 (1966); [\*40] *Landstrom v Illinois Dep't of Children & Family Servs.*, 892 F.2d 670, 679-80 (7th Cir. 1990); *Graf v. Elgin, Joliet and Eastern Ry. Co.*, 790 F.2d 1341, 1344 (7th Cir. 1986). Since NLFC's federal copyright action should be dismissed against Devcom, NLFC's state law claims should also be dismissed under the doctrine of pendent jurisdiction.

This court has already recommended that NLFC not be entitled to recover statutory damages. Consequently, under 17 U.S.C. § 504(b), <sup>14</sup> NLFC should only be permitted to recover actual damages and any additional profits of Devcom, if any, attributable to the alleged infringement. <sup>15</sup>

14 17 U.S.C. § 504(b), provides, as follows:

#### **Actual Damages and Profits.** --

The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross

revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

[\*41]

15 As Judge Shadur has pointed out, the statute entitles the copyright owner not to the sum of actual damages plus infringer's profits, but rather the greater of (1) its own actual damages and (2) the infringer's profits. *Respect Inc. v. Committee on Status of Women*, 821 F. Supp. 531, 532 (N.D. Ill. 1993).

NLFC, however, cannot obtain actual damages. Devcom has supplied an affidavit from its president, Ronald G. Diener, asserting that Devcom has never marketed, offered to sell, or sold any copies, modifications, or enhancements of the NLFC Software. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, P 3.) Devcom thus claims it has no lost profits to recover. (Defendant's Reply, at 14.) Although NLFC asserts in its opposition brief that "there is a great deal of money in controversy" (Plaintiff's Opposition, at 7), it has presented no evidence that it suffered any lost profits or that Devcom earned actual profits caused by the alleged infringement. Absent such a showing, NLFC should not be entitled to monetary relief. *See Hays v. Sony Corp. of America*, 847 F.2d 412, 415 (7th Cir. 1988) [\*42] (actual damages not recoverable where copyright holders of word processor manual presented no evidence showing that they intended to publish their manual for profit); 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright*, § 14.02[A], at 14-10, 14-11 (1992) ("In the absence of convincing evidence as to the volume of sales which plaintiff would have obtained but for the infringement, the measure of lost profits may be rejected as too speculative."). Because

NLFC cannot show that it sustained actual damages resulting from the alleged infringement, NLFC cannot show that \$ 50,000 in controversy exists for purposes of diversity jurisdiction. Accordingly, NLFC's pendent state claims should be dismissed.

## CONCLUSION

For the foregoing reasons, Devcom's motion for summary judgment should be granted. Because there is no genuine issue of material fact that Devcom did not copy the NLFC Software for commercial purposes and that NLFC's license agreements with Cabrini and FSL did allow Devcom to modify or enhance the NLFC Software, summary judgment should be granted in favor of Devcom on Count I. Devcom cannot show, however, that nonexclusive licensees Cabrini and FSL are essential [\*43] parties to the complete resolution of this suit; accordingly, Devcom's request that Cabrini and FSL be joined as indispensable parties should be denied. In addition, because NLFC has not shown that it registered its copyright before the alleged infringement, NLFC should not be entitled to statutory damages or attorney's fees. Further, NLFC has failed to present any evidence to show that Devcom has marketed, sold or even offered to sell copies of NLFC's software; accordingly, NLFC has not shown that it can establish an amount in controversy sufficient to maintain diversity jurisdiction. Finally, since NLFC's federal copyright claim should be dismissed, and there is no basis for diversity jurisdiction, the court can and should decline to take jurisdiction of the pendent state law claims (Counts II-IV).

Respectfully submitted

RONALD A. GUZMAN

United States Magistrate Judge

**DATE: NOVEMBER 16, 1993**