
TECHNOLOGY LAW

Section Newsletter, State Bar of Georgia

Winter 2003

18 TH ANNUAL TECHNOLOGY LAW INSTITUTE - The Technology Law Section's premier annual CLE Event was held on October 8-9, 2003, at Georgia Tech's Global Learning Center at Technology Square.

The following are photos of the event, provided by Suellen Bergman, Section Secretary.



Doug Isenberg speaking on Internet Licensing



Andrew Flake and Peter Wellborn



Gary Nichols, John Hutchins and Doug Isenberg



Gary Nichols, John Hutchins, Doug Isenberg, Peter Wellborn (Panelists) and Guanming Fang (Module Chair)

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EDITOR'S NOTES *By Michael K. Stewart*

Greetings, and welcome to the Winter 2003 Issue of the Technology Law Section Newsletter.

The onset of the holiday season is always a good time to look back at the preceding year, and a perusal of this, the last issue of the Newsletter for calendar year 2003, demonstrates that 2003 was a busy year not only for the Section, but for legal developments impacting technology practitioners as well.

In 2003, the Section hosted several informative seminars for technology practitioners, including lunchtime Quarterly Meetings and the recent, well-received 18th Annual Technology Law Institute. In addition, the Section was active, as always, in increasing the level of technology-awareness, both in the state's legal environment (for example, via legislative efforts spearheaded by Section members), and in the community at large (via participation in technology-related charitable organizations such as Tech Corps Georgia).

Similarly, 2003 saw several interesting developments in the law which directly impacted how certain technology claims may be litigated in the future. In this issue, Joshua Tropper looks at the recent California case of *Intel v. Hamidi* (which imposed certain limits on the "trespass to chattels" theory with respect to computer networks), and takes a practical look at what Georgia law may have to say on the subject. In addition, Benjamin Fink and Steven Wagner provide an overview of a significant recent development in the law regarding personal jurisdiction established by contacts over the Internet, while John Livingstone provides an informative article on recent case law regarding cost allocation issues in discovery of electronic evidence. In a similar vein, Steve Hardy provides an overview of various issues implicated in the discovery and use of evidence in electronic form.

And, as always, this issue contains very useful articles from our regular contributors, including Scott Petty's update on the European Directive on the Patentability of Computer-Implemented Inventions, and Dennis Gerschick's look at the changes sweeping the venture capital industry.

Lastly, we have some news regarding future contributions to the Newsletter. The Newsletter has always been the lucky recipient of fine contributions from Section members and non-members alike. In recognition of that fact, the Executive Committee of the Section has decided to nominate one article from each issue for publication in the Georgia Bar Journal, starting with this issue of the Newsletter. The Executive Committee congratulates John Livingstone of Finnegan, Henderson, Farabow, Garrett & Dunner LLP, whose article in this issue, "Alleviating the Pain of Electronic Discovery - Minimizing Electronic Data Discovery Headaches: Prospective Consideration of the Zubulake Factors," is the first such article to be nominated.

Until next time, thanks and best regards. *MKS*

Michael K. Stewart is an Associate with Friend, Hudak & Harris, LLP, where he advises clients on technology, intellectual property and E-commerce-related issues. Mr. Stewart earned his J.D., magna cum laude, from the University of Georgia in 1998, and he earned a B.A. in History from Emory University in 1990. Mr. Stewart may be reached at (770) 399-9500 or via e-mail at mstewart@fh2.com.



FROM THE CHAIR

By Ann K. Moceyunas

Consider the computer monitor. The typical seventeen inch cathode ray tube computer monitor contains up to eight percent lead as percentage of overall weight. Mercury is contained within the fluorescent tubes that provide light in the LCD computer monitor. U.S. Environmental Protection Agency, Life-cycle Assessment of Desktop Computer Displays: Summary of Results, March 2002 (<http://www.epa.gov/oppt/dfe/pubs/comp-dic/lca-sum/index.htm>). As of 2002, there were estimated to be over 4.2 million personal computers in use in just the state of Georgia. Those computers and monitors represent 8,390 tons of lead and 105,000 tons of solid waste that could end up in a landfill in a few years. Georgia Department of Natural Resources, Pollution Prevention Assistance Division, Biennial Report 2001 - 2002 (available at http://www.dnr.state.ga.us/dnr/p2ad/2002biennial_report.html).

Interested in contributing an article?
Do you have ideas for focus topics?
Comments or suggestions?

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Important Note

Commencing with the Winter 2003 issue, the Executive Committee will nominate one article from each issue of the Newsletter for submission to the Georgia Bar Journal for publication. As such, contributing an article to the Newsletter is a not only great opportunity to get your name in front of other members of the Technology Law Section, but may also result in your article being read by practitioners of all types throughout the State of Georgia and beyond.

Are you getting a new computer? Is your law firm switching out all those old Pentium II's for a faster processor and slimmer monitor? Have your clients eked out as much out of those computers they bought in anticipation of the Year 2002 bug? If so, what are you (or they) doing with those old computers and CRT monitors? Do not, I repeat, do not consider leaving them at the curb. Consider, instead, either having an environmentally responsible recycler pick them up or donating working computer equipment to a charity.

The Technology Law Section of the State Bar of Georgia has been supporting TECH CORPS Georgia for over four years. TECH CORPS Georgia, through its Free Bytes Recycling and Reuse Program, located in Buckhead, accepts donations of used, but working, computers and monitors. The computers are refurbished (sometimes by our own Section members on our quarterly volunteer day) to be redeployed in the community to low-income kids, their families, or other non-profits. For more information, go to (www.techcorpsga.org and www.freebytes.org).

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TRESPASS TO (COMPUTER) CHATTELS IN INTEL V. HAMIDI - A DIFFERENT RESULT UNDER GEORGIA LAW? *By Joshua Tropper*

California led the way, in *eBay, Inc. v. Bidder's Edge, Inc.*,¹ in allowing the use of trespass to chattels as a weapon for defending computer networks from unwanted intrusion. On June 30, 2003, in *Intel Corp. v. Hamidi*,² a divided Supreme Court of California slammed on the brakes. What would have happened if the case had arisen in Georgia?

What Happened in California

On six occasions over almost two years, Hamidi, a former Intel employee, sent e-mails criticizing Intel's employment practices to thousands of current employees on Intel's e-mail system, without breaching any computer security barriers. He offered to, and did, remove from his mailing list any recipient who so wished. Hamidi's communications caused neither physical damage nor functional disruption to Intel's computers, and did not at any time deprive Intel of the use of its computers.

¹ *eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058 (N.D.Cal. 2000).

² *Intel Corp. v. Hamidi*, 30 Cal.4th 1342, 71 P.3d 296 (2003).

When Hamidi refused a written demand from Intel to stop sending such messages, and Intel's security department was unable to block or otherwise end Hamidi's mass e-mails, Intel sued. The trial court issued a permanent injunction stopping the campaign, on a theory of trespass to chattels, and a divided appellate court affirmed.

The California Supreme Court reversed, holding that a trespass to chattels is not actionable without some injury to the chattel itself. A variety of theories of damages suffered by Intel were considered, but all were rejected on the ground that the chattel subject to the trespass (the e-mail system) was not itself injured.³ Intel's argument that it sought only equitable relief was rejected on the ground that the courts could not enjoin conduct that did not threaten actual harm to the chattel.

What Would Have Happened in Georgia?

Georgia may be more willing than California to lend equitable aid to victims of hit-and-run electronic trespassers. A general rule against enjoining trespasses is inapplicable where "the injury is irreparable in damages, or the trespasser is insolvent, or other circumstances exist which, in the discretion of the court, render the interposition of the writ necessary and proper." O.C.G.A., § 9-5-4.

"Irreparable harm" has been interpreted broadly enough to encompass any harm which "cannot be measured by any certain pecuniary standard."⁴ Irreparable harm is "the species of injury, whether great or small, that ought not to be submitted to on the one hand or inflicted on the other, and which, because it is so large on the one hand or so small on the other, is of such constant and frequent recurrence that no fair or reasonable redress can be had therefor in a court of law."⁵

Thus, under Georgia law, an argument could be made that the continuing nature of the trespass, combined with the difficulty of attaching a dollar amount to the harm done, would be enough to obtain an injunction, assuming that the conduct in question qualifies as a trespass in the first place.

Does Georgia, like California, require special damages to establish an action for trespass to personalty?⁶ One early case suggested that the invasion itself was sufficient basis for the remedy, regardless of damages, "where there has been a direct invasion of personal rights, or the rights of property."⁷ That case, however, involved a trespass to land, so its apparent distinction between personal rights and property rights was dictum. Although cases authorizing nominal damages all involved real property,⁸ and other cases have referred to damage to the property as an essential element of a trespass,⁹ the definitions of trespass never seem to be part of the actual holdings of the cases.

Georgia's statutory definition of trespass is, "Any unlawful abuse of or damage done to the personal property of another constitutes a trespass for which damages may be recovered."¹⁰ If the conduct in question does not "damage" the victim's e-mail system, can it still qualify as an "unlawful abuse?" For that phrase to be meaningful, it must be distinct from "damage." Perhaps, irreparable harm would be enough to constitute "unlawful abuse."

In Georgia, there is a more direct way of establishing whether or not a particular form of abuse is unlawful. The Georgia Computer Systems Protection Act defines a crime of "computer trespass":

- (b) Computer Trespass. Any person who uses a computer or computer network with knowledge that such use is without authority and with the intention of:
 - (1) Deleting or in any way removing, either temporarily or permanently, any computer program or data from a computer or computer network;

³ 30 Cal. 4th at 1350-1352.

⁴ *Camp v. Dixon, Mitchell & Co.*, 112 Ga. 872, 876 (1901).

⁵ *Central of G. R. Co. v. Americus Const. Co.*, 133 Ga. 392, 398 (1909).

⁶ Both states readily allow injunctive relief or nominal damages only for trespasses to land.

⁷ *Hendrick v. Cook*, 4 Ga. 241, 261 (1848).

⁸ *E.g., Price v. High Shoals Mfg. Co.*, 132 Ga. 246, 252 (1909), and cases collected there.

⁹ *E.g., Md. Casualty Ins. Co. v. Welchel*, 257 Ga. 259, 260 (1987) ("the idea of damage to the property itself...is inseparable from trespass"); *Duncan v. Ellis*, 63 Ga. App. 687, 689 (1940) ("gist of such an action of trespass is the injury done to the possession of the property").

¹⁰ O.C.G.A. § 51-10-3.

- (2) Obstructing, interrupting, or in any way interfering with the use of a computer program or data; or
- (3) Altering, damaging, or in any way causing the malfunction of a computer, computer network, or computer program, regardless of how long the alteration, damage, or malfunction persists shall be guilty of the crime of computer trespass.

Hamidi did not, apparently, intend to delete any data, or otherwise alter or damage Intel's system, or cause any malfunction, so sections (b)(1) and (b)(3) will not apply. Section (b)(2) presents a more interesting question. Did Hamidi intend to obstruct, interrupt or interfere with the use of a program or data? Here, the answer might be "yes." Every time an Intel employee hit "delete" there was some momentary interruption, but did Hamidi intend that sort of interruption? Surely not. His express intent was to communicate with Intel's employees, which means his conduct could reasonably be understood as intended to cause Intel's employees to interrupt whatever they were doing to read his communications, and to act on them in some way. Under Georgia law, if the trespass was intended to cause an interruption in the use of the system (not just in its operation), it is unlawful, and satisfies the statutory definition of trespass to personalty.

Conclusion and Recommendations

There is no substitute in law or equity for a showing of injury, however broad the definition of "injury" may be in the applicable context. Still, there is room in Georgia law to seek injunctive relief from the sort of continuing trespass described in *Intel v. Hamidi*. In light of the sparseness of Georgia authority, and the antiquity of many of the cases reviewed for this article, anyone representing either a plaintiff or defendant in such a case would find it well worth while to study the majority and dissenting opinions in *Intel* to gain a more thorough understanding of the creative theories being developed on both sides.

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ALLEVIATING THE PAIN OF ELECTRONIC DISCOVERY - PROSPECTIVE CONSIDERATION OF THE ZUBULAKE FACTORS

By John Livingstone

The use of computers has created a new universe of discoverable documents. Businesses now use computers to create and store documents, send emails, and make business deals. Not surprisingly, litigants are becoming increasingly aware of the information hiding in electronic documents and the treasures to be found there. But because of the potential amount of electronic data, responding to a request for electronic data can be costly, time consuming, and difficult for the responding party, begging the question, "Who should pay for all of this?" With the advent of electronic data discovery, the answer to this question dwells in an evolving body of law, which tries to

identify instances where the costs of electronic discovery requests should be shifted from the responder to the requestor. Arguably, nowhere has this issue attracted more attention than in a string of recent cases in the United States District Court for the Southern District of New York, captioned *Zubulake v. UBS Warburg LLC*, 217 F.R.D. 309 (S.D.N.Y. May 13, 2003), and *Zubulake v. UBS Warburg LLC*, 216 F.R.D. 280 (S.D.N.Y. July 24, 2003).

In *Zubulake*, Zubulake sued UBS for gender discrimination, failure to promote, and retaliation under federal, state, and city law. To support her claim, she sought discovery of

¹¹ O.C.G.A., § 16-9-93(b) defines the crime; § 16-9-93(g) provides the civil remedy.

electronic data only accessible through data retrieval of UBS's backup tapes. UBS argued that Zubulake should pay for the costs incurred in restoring and producing these tapes. Using the facts in *Zubulake* as a "textbook example of the difficulty in balancing the competing needs of broad discovery and manageable costs,"¹ the court created a framework that identifies (1) when a court should consider cost-shifting, and (2) when the allocation of electronic discovery costs should shift from the respondent to the requesting party.

When to Consider Cost-Shifting?

Under the traditional presumption, the responding party bears the expense of complying with discovery requests. FRCP 26(c), however, provides that a responding party may request a protective order for discovery requests that run afoul of FRCP 26(b)(2), which places limitations on the scope of discovery. A protective order may condition discovery on the requesting party's payment of some or all of the discovery costs. Thus, the first question in any cost-shifting analysis is whether to consider cost-shifting at all; that is, is the discovery request unduly burdensome or cost prohibitive?

Whether responding to the requested electronic discovery is unduly burdensome or prohibitively expensive turns primarily on whether the electronic data is kept in an accessible or inaccessible format. The court described five categories of electronic data: (1) active, online data, (2) near-line data, (3) offline storage/archives, (4) backup tapes, and (5) erased, fragmented, or damaged data.² The first three categories of data are typically considered accessible, while categories (4) and (5) are typically considered inaccessible.³ Because electronic data in categories (4) and (5) is not readily useable, production of the data is potentially burdensome and expensive. Thus, the court found that cost-shifting may be considered only when inaccessible data, such as back up tapes and erased, fragmented, or damaged data, is sought.⁴

When Is Cost-Shifting Appropriate?

After deciding that cost-shifting may be considered, the court then created a seven-factor test to determine whether cost-shifting is appropriate. This seven-factor test is "designed to simplify application of the Rule 26(b)(2) proportionality test in the context of electronic data and to reinforce the traditional presumptive allocation of costs."⁵ The following seven factors should be considered, "weighted more-or-less in the following order":

1. The extent to which the request is specifically tailored to discover relevant information;
2. The availability of such information from other sources;
3. The total cost of production, compared to the amount in controversy;
4. The total cost of production, compared to the resources available to each party;
5. The relative ability of each party to control costs and its incentive to do so;
6. The importance of the issues at stake in the litigation; and
7. The relative benefits to the parties of obtaining the information.⁶

The first two factors together constitute the "marginal utility test" and indicate how useful the discovery will be to deciding the issues in the case. These two factors are weighted the most heavily in the cost-shifting analysis, because they address the relevance of the requested discovery.⁷ The more likely it is that the requested information contains information relevant to a claim or defense, the more fair it is that the responding party search at its own expense, and vice versa.

¹ *Zubulake*, 217 F.R.D. at 311.

² *Id.* at 318-19.

³ *Id.* at 319-20.

⁴ *Zubulake*, 216 F.R.D. at 284.

⁵ *Id.* The court modified an 8 factor test articulated in *Rowe Entertainment, Inc. v. William Morris Agency, Inc.*, 205 F.R.D. 421 (S.D.N.Y. 2002), to comport with the FRCP presumption that the responding party bear the costs of responding to a discovery request. The court felt, as had commentators, that the *Rowe* test improperly favored the responding party, resulting in an allocation of costs to the requesting party. *Zubulake*, 216 F.R.D. at 284.

⁶ *Zubulake*, 217 F.R.D. at 322.

⁷ *Id.* at 323.

The second group of factors includes factors (3), (4), and (5) and addresses cost issues. The second group of factors asks the questions: "How expensive will this production be?" and, "Who can handle that expense?"⁸ Factor (6) addresses the importance of the issues and "will only rarely come into play,"⁹ while factor (7) is the least important, as "it is fair to presume that the response to a discovery request generally benefits the requesting party."¹⁰

While these factors may be tallied mathematically, they are merely a guide to allocating discovery costs. The "precise allocation is a matter of judgment and fairness rather than a mathematical consequence of the seven factors discussed above. Nonetheless, the analysis of those factors does inform the exercise of discretion."¹¹

Practice Guidelines

The seven-factor test articulated in *Zubulake* appears well-reasoned. While not controlling in the Eleventh Circuit, courts within our circuit will, at the very least, likely find *Zubulake* instructive and consider applying the *Zubulake* factors, especially factors 1-5, in any cost-shifting test. Accordingly, practitioners should consider the guidelines provided by *Zubulake* in requesting and responding to discovery requests for electronic data.

If you are the requesting party, some strategies will help you reduce your chances of picking up part of the discovery tab (*Zubulake* picked up 25% of the discovery tab, totaling over \$40,000¹²). For example, narrowly tailor your discovery request to target only relevant information. Initially, request only forms of accessible data, for which cost-shifting is inappropriate. Use this data to demonstrate the relevance and

importance of obtaining inaccessible data. Make an effort to keep the costs of responding to your production request low as compared with the amount in controversy. Do not waste your time requesting costs associated with reviewing the data once it is in accessible form, because once the data has been restored to an accessible format and responsive documents located, cost-shifting is no longer appropriate.

The responding party is not without strategies either. For example, as the respondent, argue that the requested electronic data lacks relevance and the information is available from accessible sources. Demonstrate that you have not run up production costs. If the amount of the requested data is large, request that a small sample be restored.¹³ Then try to demonstrate, from within the sample, the lack of relevant information, the high costs associated with restoring the electronic data, and the availability of the data from other, accessible sources. Lastly, argue that if any of the seven factors weighs towards cost-shifting, at least 25% of the costs should be shifted, as in *Zubulake*.

Consideration of the *Zubulake* factors before initiating discovery requests for electronic data can alleviate the headache of potential discovery disputes and reduce the costs of discovery for both parties.

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⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Zubulake*, 216 F.R.D. at 289. In fact, in *Zubulake*, factors one through four weighed against cost-shifting, factors five and six were neutral, and factor seven favored cost-shifting. Despite the majority of factors weighing against cost shifting, *Zubulake* was required to pay for a portion of UBS's discovery costs. The court found that, because the seven factor test indicated that UBS should pay the lions share, the percentage assigned to *Zubulake* must be less than fifty percent. However, because the success of the discovery request is somewhat speculative, any cost that can fairly be assigned to *Zubulake* is appropriate and ensures that UBS's expenses will not be unduly burdensome. The court found that a twenty-five percent assignment of electronic discovery related costs to *Zubulake* was appropriate in these circumstances. *Id.*

¹² *Id.* at 289-90.

¹³ In *Zubulake*, UBS identified 94 back up tapes to be restored. The court ordered 5 of the 94 tapes restored and then performed the seven-factor test based on this smaller sample. *Zubulake*, 217 F.R.D. at 324.

LEGISLATIVE UPDATE *By Ronald V. Jackson*

Introduction During 2003 — the first year of the current biennial session of the Georgia General Assembly — several pieces of legislation related to, or directly affecting, the technology or telecommunications industries were introduced but not enacted into law. As a result, when the 2004 session convenes in January, several technology-related bills, including those addressing such diverse topics as tax incentives for technology and biotechnology companies, and prohibitions regarding adult-oriented spam, will already be pending in various House and Senate committees.

Tax Incentive Legislation Several bills pending before the House Ways and Means Committee seek to strengthen and expand the state's technology economy and infrastructure by granting income tax credits or sales and use tax exemptions to telecommunications and technology companies that deploy additional facilities and services in the state, or create new jobs by locating or expanding their business operations in Georgia.

Tax Incentives for Biotechnology Companies HB 563 would provide, under certain conditions,¹ credits against payroll withholding taxes to a qualified biotechnology business that creates new full-time jobs at its Georgia facilities. A "qualified biotechnology business" would be defined as a new or existing business that uses biotechnology,² is classified under certain North American Classification system codes, receives its income from in-state research and development activities or products sold, manufactured, or produced in Georgia, and elects to forego certain other tax credits provided for under O.C.G.A. § 48-7-40 *et seq.* In order to qualify as a "full-time job", a newly created job (or an existing job transferred to a qualified technology business location in Georgia) must provide an individual with employment for a regular workweek of 30 hours or more and have no predetermined end date.

As currently drafted, a qualified technology business could claim a job tax credit of \$2,500 for each newly created full-time job with a gross weekly salary over \$1,250.00. For new full-time jobs paying a gross weekly salary in excess of \$1,538.00, the available job tax credit would be \$3,000 per job. Such credits could be taken for the first taxable year in which the new job is created and for the four (4) subsequent tax years. Eligibility for job tax credits for other newly created full-time jobs would terminate seven (7) years after the first taxable year in which the qualified biotechnology business first became eligible for such credits.

HB 567 would amend O.C.G.A. § 48-8-3 by adding an exemption from state sales and use taxes that would otherwise be imposed on the sale of certain biotechnology-related sales in the state. Biotechnology companies that present to a seller a certificate of eligibility issued by the Georgia Department of Revenue would be exempt from paying sales and use taxes on the purchase of "any machinery, equipment, tools, materials, supplies, or fuel" to be installed, consumed, or used to research, develop, or manufacture biotechnology in Georgia.³

Tax Incentives for Pharmaceutical Companies HB 993 would provide income tax credits of up to \$5,000 to pharmaceutical companies that: (i) elect not to receive certain other tax credits available under O.C.G.A. § 48-7-40 *et seq.*, and (ii) within one (1) year of withholding wages for employees in connection with the establishment, expansion, or relocation of facilities in Georgia, (a) employ at least 100 persons in full-time jobs as a result of such activity, and (b) incur within the state at least \$1 million in construction, renovation, leasing, or other costs in connection with such establishment, expansion, or relocation of facilities.

Tax Incentives for Telecommunications Companies HB 961, was introduced late in the 2003 session and thus does not seem to have attracted additional sponsors. Nevertheless this bill provides that various telecommunications and video service

¹ As currently drafted, a qualified biotechnology business would also have to elect to forego certain other tax credits provided for under O.C.G.A. § 48-7-40 *et seq.*

² Specifically, a business that uses "the application of technologies, such as recombinant DNA techniques, biochemistry, molecular and cellular biology, genetics and genetic engineering, biological cell fusion techniques, and new bioprocesses, using living organisms or parts of organisms to produce or modify products to improve plants or animals, to develop microorganisms for specific uses, to identify targets for small molecule pharmaceutical development, or to transform biological systems into useful processes and products."

³ HB 567's definition of "biotechnology" generally tracks the processes described in HB 563 (*see note 2 supra*).

providers — including cable operators, satellite providers, wireline telecommunications carriers, and wireless telecommunications carriers — would be eligible for income tax credits equal to the lesser of \$750,000 or 3% of expenditures for qualified broadband equipment that the service provider deploys in underserved communities in Georgia.

Intellectual Property

Database Protection The Senate Science and Technology Committee will again have before it SB 38 — the Georgia Database Protection and Economic Development Act — which is intended to “foster the development of an information market [in Georgia] and [the] related investment in information storage, processing, and communications systems” by providing database owners with limited protection from the unauthorized commercialization of such databases. Specifically, SB 38 would prohibit any person other than the “owner” of a database (i.e., its creator or any person who lawfully acquires the creator’s rights therein) from commercializing such database.

SB 38, however, would allow for (i) the commercialization of a database with the consent of the owner, (ii) the independent creation of the same or similar database “without extracting or copying the contents of another database”, (iii) the commercialization of a database for the purpose of “news and sports reporting” unless the database owner also does so and the commercialization would contribute to “a pattern of competition with the owner,” (iv) the commercialization of a database for science, research, or education, unless the database owner also engages in such activities and the commercialization would contribute to a pattern of competition, (v) the commercialization of a database for government authorized law enforcement or intelligence activities, and (vi) the commercialization of a database “to address, route, forward, transmit, connect, receive, or store Internet communications.”

The bill would grant Georgia courts jurisdiction over any action under the enacted law and provide for up to five (5) years imprisonment and a fine of up to \$50,000 for violations of that law. Database owners could also bring a civil suit seeking actual damages, exemplary damages, attorney’s fees and court costs, as well as equitable or declaratory relief. Finally, SB 38 is not intended to affect any other right, limitation, or remedy under federal or state law.

Computer Software HB 533 would redefine the term “computer software” set forth at O.C.G.A. § 48-1-84 to expressly exclude from that term “any programs or routines which are not intended to be purchased separately from the computer or pieces of computer related peripheral equipment on an unmounted or uninstalled medium.” During the 2003 session, this bill was ordered “engrossed” which means that the bill may not be amended during committee or floor consideration.

Regulation and Use of Communication Services Several bills pending at the General Assembly seek to address when or how persons may legally access and use various video, Internet, and communications services. Other bills introduced last session seek to add or revise regulations attaching to service providers operating in Georgia.

Use of Mobile Phones - Two bills, HB 215 and SB 219, seek to address a long-running issue, that is, the use of a mobile phone while operating a motor vehicle. Both bills would amend O.C.G.A. § 40-6-241 to strike language stating that “the proper use of a radio, citizens band radio, or mobile telephone” does not constitute a failure to exercise due care while operating a motor vehicle. HB 125 would also, among other things, add O.C.G.A. § 40-6-241.1, which would prohibit the operation of a “hand-held mobile communications device” while driving, unless the driver uses a “hands-free mobile telephone.” Neither bill, however, seeks to require wireless service providers themselves to provide their subscribers with such hands-free devices.

Distribution of Offensive Material through Electronic Media – SB 5 was passed by the Senate last session and has been referred to the House Special Judiciary Committee. The bill would amend O.C.G.A. § 16-2-81, which currently prohibits the unsolicited distribution of sexual content or nudity by mail. SB 5 would amend the Georgia Code to also expressly prohibit the unsolicited

⁴ O.C.G.A. § 48-1-8(a) defines “computer software” as “any program or routine, or any set of one or more programs or routines, which are used or intended for use to cause one or more computers or pieces of computer related peripheral equipment, or any combination thereof, to perform a task or set of tasks. Without limiting the generality of the foregoing, the term ‘computer software’ shall include operating and application programs and all related documentation.”

distribution of such material by electronic mail or other electronic media unless the following statement is displayed and visible to the recipient before such nudity or sexual conduct is viewed.

The material contained herein depicts nudity or sexual conduct. If the viewing of such material could be offensive to the recipient, the recipient is advised to delete or otherwise destroy such material.

State Regulation of Cable Services - Under SB 220, the Georgia Public Service Commission (the "Georgia PSC") would obtain jurisdiction to establish and enforce customer service requirements applicable to cable television providers. Today, each local franchising authority enforces cable television customer service requirements — often those customer service requirements promulgated by the Federal Communications Commission. Thus, this bill could potentially add an additional layer of regulation to cable service providers. In contrast, video service providers not utilizing public rights-of-way, such as satellite providers, would not be subject to Georgia PSC jurisdiction.

Other Issues Other technology-related bills introduced during the 2003 session — some passed by either chamber and some with perhaps less support — will also be pending before various House or Senate Standing Committees. In the next issue, this column will examine many of those technology-related bills, particularly those receiving a great deal of attention during the 2004 session.

Ronald V. Jackson is an attorney in Atlanta. His practice includes advising clients on matters involving federal, state, and local telecommunications law, regulation and advocacy. Mr. Jackson earned his J.D. from the Emory University School of Law in 1996, and he earned a B.A. in History from Millsaps College in 1992.



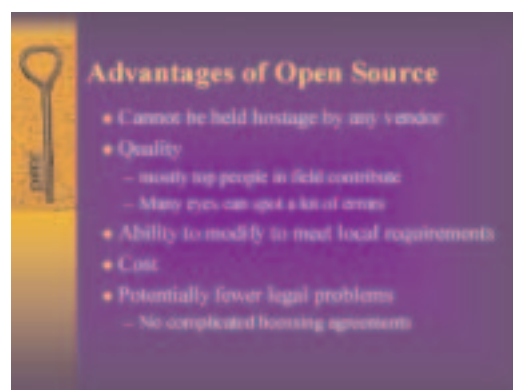
"COPYRIGHTS AND COPYLEFTS":

Report on the Quarterly Section Event.

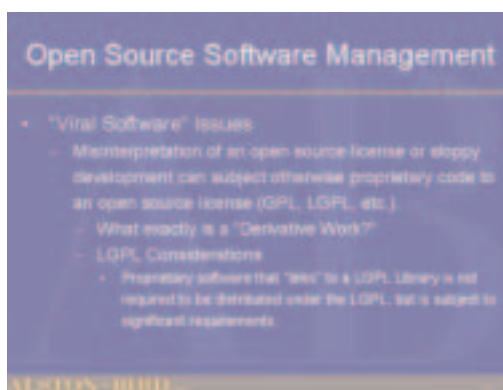
On August 21, 2003, at the offices of McKenna Long & Aldridge, LLP, a capacity crowd of technology practitioners were treated to a presentation on one of the most important, but often misunderstood, topics affecting the software industry today: open source software.

Dick Gayler, a Professor in the Department of Computer Science and Information Systems at Kennesaw State University, presented attendees with an overview of the open-source licensing structure, accompanied by a look at the history of the open-source software movement. He then demonstrated various open source software alternatives to popular, closed-source software applications.

Todd McClelland of Alston & Bird LLP summarized current legal issues surrounding open source software and the impact those issues can have in the operation of businesses utilizing the more "traditional" closed source licensing model. Specifically, Mr. McClelland outlined recent litigation arising out of open source software licensing, and issued a wake-up call to technology practitioners on the ways in which undisclosed use of open source code in software development could subject an otherwise "closed source" application to additional licensing restrictions. (For additional information on the legal implications of the open source software movement, please check back next issue for Mr. McClelland's in-depth article on open source software.)



The Section extends its sincerest thanks to Professor Gayler and Mr. McClelland for their informative commentary regarding open source software, and to McKenna Long & Aldridge, LLP for hosting the Quarterly Section Event.



PERSONAL JURISDICTION AND THE INTERNET: CHANGING THE RULES OR NOT?

By Benjamin I. Fink
and Steven A. Wagner

Despite some suggestions to the contrary, the rise of the Internet as a business tool does not portend the end of limits on personal jurisdiction. The cyber-sky is not falling.

Rather, the courts are finding that the Internet merely provides another vehicle (albeit an electronic one) through which a party may purposely avail itself of the privilege of conducting business in a foreign state and thus subject itself to jurisdiction in that state. In some recent cases, the federal courts have analyzed the characteristics of this relatively new and expanding technology under the Supreme Court's existing personal jurisdiction precedent. Instead of changing the personal jurisdiction standard, which is grounded in the Constitution, the courts have applied the existing personal jurisdiction standards to Internet activities.

One important circuit court opinion that recently addressed the question of personal jurisdiction in the Internet context is *ALS Scan, Inc. v. Digital Service Consultants, Inc.*, 293 F.3d 707 (4th Cir. 2002), cert. denied 537 U.S. 1105 (2003). *ALS Scan* addressed whether Digital Service Consultants, Inc. ("Digital"), a Georgia-based Internet Service Provider ("ISP"), was subject to personal jurisdiction in Maryland based on purely Internet-related contacts. Digital was sued by ALS Scan, Inc. ("ALS") as an alleged contributory copyright infringer because it provided bandwidth to a co-defendant, Alternative Products, Inc. ("Alternative"), through which Alternative maintained its website. Alternative was posting photographs on its website that allegedly infringed on ALS's copyrights in those photographs. Alternative sold memberships to access its website and, in turn, the photographs, to people who had access to the Internet, including those in Maryland. In essence, ALS alleged that Digital, as the ISP, "enabled" Alternative to publish the allegedly copyrighted photographs on the Internet.

Digital had no knowledge of Alternative's activities or what Alternative was posting on its website, and it had no control over the content of Alternative's website. Digital merely provided bandwidth to Alternative and had no relationship or affiliation with Alternative except through an arms-length customer relationship. Digital also did not select the photographs to be displayed on Alternative's website, did not know the photographs were being posted on Alternative's website, and, importantly, received no income from Alternative's subscribers.

Digital did have a presence on the Internet through its own website, but this website was purely informative and did not permit a person to use the website to enter into contracts with Digital, transfer funds to Digital, or otherwise transact business with Digital. Digital also had no contacts with the state of Maryland other than through the Internet. It had no contracts with any persons or entities in Maryland, derived no income from any persons or entities in Maryland, did not advertise its business in Maryland, and owned no property in Maryland.

In the district court, Digital moved to dismiss the claims against it for lack of personal jurisdiction on the grounds that Digital did not engage in any continuous or systematic activities in the forum state. The District Court granted the motion to dismiss, and the Fourth Circuit affirmed the lower court's ruling. In doing so, the Fourth Circuit adopted and adapted a "sliding scale" approach to personal jurisdiction that is grounded in the minimum contacts analysis and was first articulated in the now-seminal case of *Zippo Manufacturing, Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997).

Prior to engaging in the jurisdictional analysis, the Fourth Circuit in *ALS Scan* acknowledged that advances in technology do not "eviscerate the Constitutional limits on the State's power to exercise jurisdiction over a defendant." *ALS Scan, Inc.*, 293 F.3d at 711. The Fourth Circuit also noted that the Supreme Court had previously addressed the effect of technological advances on the limits of personal jurisdiction in *Hanson v. Denckla*, 357 U.S. 235, 78 S. Ct. 1228 (1958), and recognized that the "limits on the State's power to exercise personal jurisdiction over non-residents must be maintained despite the growing ease with which businesses connect across state lines." *ALS Scan, Inc.*, 293 F.3d at 711.

The Fourth Circuit's jurisdictional analysis began by rejecting the "general principle that a person's act of placing information on the Internet subjects that person to personal jurisdiction in each state in which the information is accessed . . ." *ALS Scan, Inc.*, 293 F.3d at 712.¹ To hold otherwise, the Fourth Circuit reasoned, would vitiate the defense of personal jurisdiction and

¹ While the *ALS Scan* opinion touches on general jurisdiction, its focus is specific jurisdiction.

subject anyone placing information on the Internet to personal jurisdiction in every state. *Id.* The Fourth Circuit next considered whether the electronic signals of the Internet are a substitute for the person. In other words, does a person enter a state when he sends his electronic signals into that state. The Fourth Circuit rejected this argument as an overly broad interpretation of the minimum contacts requirement. Recognizing that Supreme Court precedent requires purposeful conduct directed at the state in order to subject a party to that state's jurisdiction, the Court adopted the "sliding scale" model developed in *Zippo*.

Under *Zippo*, "the likelihood that personal jurisdiction can be constitutionally exercised is directly proportionate to the nature and quality of commercial activity that an entity conducts over the Internet." *Zippo Mfg. Co.*, 952 F. Supp. at 1124. To identify the "nature and quality of commercial activity," the *Zippo* "sliding scale" model describes generally the two extreme ends of the spectrum and the gray areas in between. A court using this model will identify where along the described spectrum the facts of its case fall. At one end of the spectrum, a defendant is subject to the jurisdiction of the state when it clearly conducts business over the Internet. At the other extreme, a defendant is not subject to the jurisdiction of the Court when its Internet-related activity consists only of posting information on the Internet that may be accessed by users in the relevant jurisdiction. This is the so-called "passive website." In between these two extremes are interactive websites where a user can exchange information with the host computer. In sum, "the exercise of jurisdiction is determined by examining the level of interactivity and commercial nature of the exchange of information that occurs on the website." *Id.* In addition to the Fourth Circuit, the *Zippo* "sliding scale" model has also been adopted by the Third, Fifth, Sixth, Ninth, and Tenth Circuits. *Toys "R" Us, Inc. v. Step Two, S.A.*, 318 F.3d 446 (3rd Cir. 2003); *Revell v. Lidov*, 317 F.3d 467 (5th Cir. 2002); *Neogen Corp. v. Neo Gen Screening, Inc.*, 282 F.3d 883 (6th Cir. 2002); *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414 (9th Cir. 1997); *Soma Medical Int'l v. Standard Chartered Bank*, 196 F.3d 1292 (10th Cir. 1999).

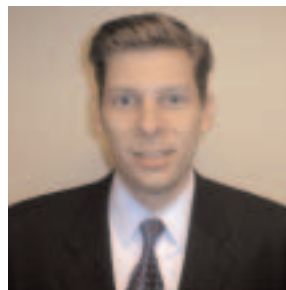
In adopting and adapting the *Zippo* "sliding scale" model, the Fourth Circuit articulated its holding as follows: The "exercise of judicial power over a person outside of the state is consistent with due process when that person (1) directs electronic activity into the state, (2) with the manifested intent of engaging in business or other interactions within the state, and (3) that activity creates, in a person within the state, a potential cause of action cognizable in the state's courts." *ALS Scan, Inc.*, 293 F.3d at 714.

A word of caution. The fact that a website is entirely passive does not guarantee that personal jurisdiction will not be found to be proper. One example is a defamation case. In *ALS Scan*, the Fourth Circuit compared its holding with *Calder v. Jones*, 465 U.S. 783, 104 S. Ct. 1482 (1984). In *Calder*, the Supreme Court held that the writing of an allegedly defamatory article in Florida that was published nationwide subjected the defendant to personal jurisdiction in California because the subject of the article was a resident of California and there was evidence that the article was targeted at her in California. If a passive website contains defamatory material, and it is purposefully directed at the forum state, the requirements of personal jurisdiction may be satisfied despite the fact that the website is passive. In fact, after its opinion in *ALS Scan*, the Fourth Circuit held in a defamation case that the purpose or motivation behind placing the information on a website, although a passive website, could give rise to specific personal jurisdiction over the defendant website owner based on the defendant's intent behind placing the information on the otherwise passive website. See *Young v. New Haven Advocate*, 315 F.3d 256 (4th Cir. 2002). In such a case, the possibility of exposing a defendant to jurisdiction everywhere in the world is likely limited by the analysis of the intent of the defendant and the location of the intended target of the defamatory material.

While it was a case of first impression in the Fourth Circuit, *ALS Scan* is consistent with both the Supreme Court's precedent and the holdings of the majority of other circuit courts that have addressed the issue of personal jurisdiction in relation to Internet activity. Although the Internet creates new and different ways in which a person or entity can enter a foreign state, the principles of personal jurisdiction and its limits remain largely unchanged.



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"SOFTWARE DIRECTIVE LIMITS PATENTABILITY OF COMPUTER-IMPLEMENTED INVENTIONS IN EUROPE"

By W. Scott Petty

In an effort to harmonize the national patent laws for European Union member countries, the European Parliament recently approved the Directive on the Patentability of Computer-implemented Inventions. In voting to approve the directive, the European Parliament made a series of amendments that limit the scope of patentability of computer software and computer-implemented technologies in Europe. For example, the amended directive confirms that a computer software program and methods for doing business are *per se* unpatentable in Europe. In contrast, the United States Patent & Trademark Office routinely grants patents covering computer-implemented inventions and business models. Consequently, the European directive, if approved by the European Commission and the Council of Ministers, will effectively widen an existing gap in the scope of patent protection available for computer technologies and business processes between Europe and the United States.

The proposed patent legislation stirred a controversial debate among European Union member countries over the merits of adopting a U.S. patent model offering a broader scope of patent protection for computer technologies. Proponents asserted that the proposed legislation would provide a clear definition for the scope of patentable subject matter in Europe. Supporters argued that businesses in Europe need a well-defined patentability standard that can be consistently applied by both the European Patent Office and the European Union member states.

On the other hand, critics alleged that the proposed legislation improperly extended patent protection to computer software innovations and represented a threat to the open source software movement and to software development in Europe.

The European Parliament approved the directive by a vote of 364 in favor and 153 against, with 33 abstentions. The directive gained the support of a majority of the European Parliament, however, only after it was amended to include a number of amendments supported by critics. The approved directive features amendments that arguably eliminate patent protection for computer software, including business applications enabled by computer software. Another amendment provides that a patent can not be used by the patent owner to restrict interoperability. For example, a party would not be liable for infringement of a patented file format if that a computing device must read that format to access the content of the file.

The directive, as amended, states that "[a] patent claim to a computer program, either on its own or on a carrier, shall not be allowed." The amended directive further states (new language highlighted in italics): *"In order to be patentable, inventions in general and computer-implemented inventions in particular must be susceptible of industrial application, new and involve an inventive step. In order to involve an inventive step, computer implemented inventions must in addition make a new technical contribution to the state of the art, in order to distinguish them from pure software."* (Amendment 84, Recital 11) *"However, the mere implementation of an otherwise unpatentable method on an apparatus such as a computer is not in itself sufficient to warrant a finding that a technical contribution is present. Accordingly, a computer-implemented business method, data processing method or other method in which the only contribution to the state of the art is non-technical cannot constitute a patentable invention."* (Amendment 85, Recital 13a)

The amended directive sets forth a test for patentability of computer-implemented inventions in Europe, as follows (new language highlighted in italics):

1. *In order to be patentable, a computer implemented invention must be susceptible of industrial application and new and involve an inventive step. In order to involve an inventive step, a computer-implemented invention must make a technical contribution.*
2. Member States shall ensure that a computer-implemented invention *making a technical contribution constitutes a necessary condition of involving an inventive step.*
3. *The significant extent of the technical contribution shall be assessed by consideration of the difference between all of the technical features included in the scope of the patent claim considered as a whole and the state of the art, irrespective of whether or not such features are accompanied by non-technical features.*
 - 3a. *In determining whether a given computer-implemented invention makes a technical contribution, the following test shall be used: whether it constitutes a new teaching on cause-effect relations in the use of controllable forces of nature and has an industrial application in the strict sense of the expression, in terms of both method and result.* (Amendments 16, 100, 99, 110 and 70, Article 4)

While the amended directive has passed an initial vote before the European Parliament, the European Union's decision process also requires further evaluation of the proposed legislation by the European Commission and is subject to additional votes by Parliament and the Council of Ministers. If approved, the member states of the European Union would modify their national laws to implement the patent legislation. One commentator has suggested that a likely time frame for adoption of the proposed legislation, if approved by the European Union, is in 2005.

W. Scott Petty, a Patent Attorney with King & Spalding LLP, focuses on intellectual property issues in the fields of computer software, communications, and financial services.

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“THE CHANGING VENTURE CAPITAL INDUSTRY”

By Dennis J. Gerschick, CPA, Attorney, CFA

Few industries have changed as much in the past decade as the venture capital industry. In the past ten years, the venture capital industry has undergone a great transformation, in large part, due to the dot com craze, but for other reasons as well.

First, the number of venture capital funds increased substantially during the dot com craze. The number of funds chasing deals caused valuations to be bid up. In recent years, a number of venture capital funds have folded and are no longer operating.

Second, the sheer size of established venture capital funds also increased tremendously. Prior to 1994, a \$100 million venture capital fund was a large fund; I don't believe there were any billion-dollar funds even in existence at that time or even \$500 million funds. During the dot com craze, there were many venture capital funds of \$500 million or more; some exceeded \$1 billion. The sheer size of such funds meant that the managing partners had to increase the dollar amount they invested in each company. For a billion-dollar fund, it simply did not make sense to invest in increments of \$1 - \$2 million. Instead, venture capitalists looked to invest their fund's capital in increments of \$10 - \$20 million and sometimes more. Give \$20 million to a 30 year old entrepreneur and what will they do with it? Spend it, of course, and often foolishly. Many entrepreneurs often did not have any prior experience managing and spending such sums. Quite simply, too much was expected of them. The venture capitalists have no one to blame but themselves for their worthless investments. The dot com craze and the lemming-like behavior led many venture capitalists to invest in dot coms that simply never made any sense. Of course, hindsight is always 20/20. Since the end of the dot com craze, the number and size of venture capital funds have decreased.

Third, what I find amazing is that the general partners of several large venture capital funds gave money back to their investors, telling them that they simply could not find worthwhile investments in this environment. This is amazing because, by doing so, the general partner forfeited millions of dollars per year in management fees. For large venture capital funds, the management fee is often 2% of the assets under management plus 20% to 25% of the profits. I read that the general partners of some successful funds were insisting on a 30% profit share; again, I think this was a product of the times and the profit share has reverted back to the standard 20%. For the general partner who returned \$500 million to his investors, the general partner was walking away from an annual management fee of \$10 million plus the general partner's share of the profits that might have been achieved with the invested \$500 million.

Fourth, I read that one venture capital fund invested \$5 million in a well-known company and its investment eventually became worth \$4.2 billion. It was this type of investment that drove many venture capitalists to roll the dice more recklessly. However, those kinds of returns are an anomaly and they are not likely to be seen again in our lifetime. Financial markets eventually revert back to the mean. Since we had some years with extraordinarily high returns, it should not be a surprise to anyone that the public stock markets were down each year for the years 2000, 2001 and 2002; this three-consecutive-year drop in the public markets is the first such period since the 1930s. Venture capitalists are not isolated. Instead, they feel the effects of poor stock market performance. The euphoria is gone. Also, the IPO market was closed for a while so venture capitalists could not exit their investments through that route. However, the IPO market is now starting to see some activity again. I've heard that of the venture capital funds started in 1999 – 2000, 70% of them are out of business. Of the remaining 30%, they are expected to return \$.60 - \$.70 on the dollar. Breaking even is now viewed as a major achievement!

What do these developments mean for the private companies seeking venture capital? For the past year or so, many venture capitalists have said that “it is time to get back to basics.” Today, venture capitalists are less likely to be carried away by the euphoria of a rising stock market in the hope that companies can go public even though they are losing money and no profits are in sight. It will take much more than a PowerPoint presentation filled with numerous cliches such as the company wants to be “first to market” and “if the company can build its product, the customers will come.” Another trend is that venture capitalists are investing in later stages. Many venture capitalists are coming to the conclusion that they are not being amply rewarded for assuming the high level of risk associated with a start-up or early stage company. In short, using a risk-return analysis, many venture capitalists are looking “farther up the food chain.” This means that more companies will have to make more progress and be more established to attract venture capital.

In 1999, Fortune magazine ran an article focusing on Warren Buffett and it raised the question whether he was a dinosaur who was no longer relevant or “with it.” The implication was that in the “new economy” being profitable was not as important. The key was to be “first to market” and establish a strong position. As many of you know, Warren Buffett does not invest in high-technology stocks because he claims he doesn't understand them. Instead, he focuses on businesses that he understands and those which he believes he can accurately forecast their future results with some degree of accuracy. I remember the adage “the cream always rises to the top.” Mr. Buffett's track record speaks for itself. He knew then, and continues to know, much more than the “new economy pundits.” The key point is this: it is **not** the technology! It is whether a company can develop a profitable business by delivering value to customers.

For those of you with clients who dream of building a technology company, I would urge them to keep their dream alive and to pursue it with passion and work hard. However, the “easy money days” are over and now they will have to make money the old fashioned way – they will have to earn it by providing a product or service that truly meets a market need and is not just a “nice to have” product or technology. Technology will continue to advance and some companies will flourish. I tend to be an optimist in this respect and believe that the discoveries that will be made in the next 20 years will make the Internet look like child's play.

Do you have a venture capital topic you'd like to see covered here, or a specific question you'd like to see answered? I welcome suggestions for new topics to be addressed in future columns, and will, from time to time, answer reader questions in this column. Please send any comments, suggestions or questions directly to me at dgerschick@aol.com.



Dennis Gerschick is an attorney, CPA, and chartered financial analyst. Gerschick practiced law for 16 years before starting a VC fund; Gerschick is President of VenCap Advisory Group, Inc., which is the general partner of VenCap Opportunities Fund, L.P., a venture capital fund in Atlanta, Georgia. He can be reached at 770-792-7444 or at DGerschick@aol.com.

EXECUTIVE COMMITTEE MEETING HIGHLIGHTS

Meeting Date: October 2, 2003

By Suellen W. Bergman

The Executive Committee of the Technology Law Section met on October 2, 2003. Ann Moceyunas, Section Chair and CEO and Interim Director of Tech Corps Georgia, lead the meeting and began with an announcement and introduction of the 2003-2004 officers (Ann Moceyunas - Chair, Janine Bowen - Vice Chair, Suellen Bergman - Secretary, and Michael Stewart - Newsletter Editor) and then provided an overview of the past year's Section activities, which included Volunteer Days, quarterly events, the Technology Law Institute and Biotech Institute.

Section Activities

The Committee discussed future events, including the 18th Annual Technology Law Institute, the next Quarterly Section Event entitled "Corporate Culpability for Cybercrimes" which will take place in December 2003, and future Section Quarterly Events, volunteer days, and possible social events. The tentative calendar for 2003-2004 is as follows:

- 11/15/03 Volunteer Day at Free Bytes 10-3 p.m. (lunch included)
2581 Piedmont Road, Suite D-1000, Atlanta, GA 30324
- 12/9/03 Corporate Culpability for Cybercrimes, Buckhead Club
- 1/31/04 Newsletter deadline; focus topic: Technology Licensing
- 2/04 or 3/04 Quarterly Section Event on International Issues
- 3/04 or 4/04 Technology Showcase - ½ day seminar
- 4/04 or 5/04 Biotech Seminar
- 5/1/04 Newsletter deadline
- 5/02/04 Quarterly Section Event
- 6/04 Annual Meeting
- 7/04 - 8/04 Quarterly Event

Newsletter

Michael Stewart, Section Newsletter Editor, informed the Committee of upcoming Newsletter deadlines and focus topic (noted above). The Executive Committee decided that, commencing with the Winter 2003 issue, it will nominate one article from each issue of the Newsletter for submission to the Georgia Bar Journal for publication; the first article will be nominated for this honor at the next Executive Committee meeting on November 5, 2003. The Newsletter will continue with electronic publication and distribution.

Website

Stephen Combs volunteered to be the new Webmaster for the Technology Law Section's website: www.computerbar.org. The Section wishes to thank Chuck Hollis for his many years of service to the Section as the Section's previous Webmaster.

The Executive Committee

The Executive Committee is comprised of Section members who are interested in volunteering their time to plan events for the section. The EC members who attended the October 2, 2003 meeting were: James Aiken, David Armistead, Suellen Bergman, Megan Bosse, Gaines Carter, Stephen Combs, Guanming Fang, John Hutchins, David Lilenfeld, Ann Moceyunas, Chuck Ross, Gary Saidman, Brad Slutsky, and Michael Stewart.

Suellen W. Bergman is an Associate in the Intellectual Property and Technology Group at Powell, Goldstein, Frazer & Murphy, where she practices technology, intellectual property, and Internet law. She earned her J.D., cum laude, from the University of Georgia in 1996 after receiving a B.A. in Mathematics and a B. A. in English Literature from Washington University in St. Louis, MO, in 1993. Mrs. Bergman may be reached at 404-572-6705 or sbergman@pgfm.com.



AVOIDING SPOILIATION OF ELECTRONIC DOCUMENTS *By Steve Hardy*

Spoilation refers to the destruction of evidence, and includes any significant and meaningful alteration of a document. The increasing use of electronic documents and the ease with which they can be deleted or altered raises significant issues about spoliation for individuals and businesses. The article will discuss spoliation of evidence from the perspective of advising clients how to avoid it.

First, some principles regarding spoliation. Spoliation does not have to be intentional to have adverse consequences. In Georgia, if a party had a document (or other object) in its possession that contained relevant evidence, the inability to produce that document raises a rebuttable presumption that the document, if it had been produced, would have been adverse to the party that had control over it. O.C.G.A. § 24-4-22; *Bennett v. Associated Food Stores, Inc.*, 165 S.E.2d 581 (Ga. App. 1968). Most federal courts, on the other hand, will only draw an adverse inference if it can be shown that a party acted in bad faith when it destroyed documents. *Stanton v. National Railroad Passenger Corporation*, 849 F. Supp. 1524, 1528 (M.D. Ala 1994).

Of course, the intentional or reckless destruction of documents can lead to more severe sanctions, including fines or even criminal sanctions, as well as dismissal of the plaintiff's case, striking the defendants' answer, or excluding evidence. The best recent example of extreme consequences for spoliation is the conviction of Arthur Andersen for obstruction of justice after it destroyed evidence related to its audits of Enron. While interviews with the jurors indicated that the guilty verdict was based upon the alteration of a single document, the events that prompted the prosecution were the destruction of large numbers of documents after Andersen learned that Enron was being investigated by the Securities and Exchange Commission. It is important to remember that, at the time Andersen destroyed the documents in question, there was no criminal or civil action pending and no subpoenas had issued. Furthermore, Andersen had a document destruction policy that provided for the destruction of documents of the nature of those that were destroyed, but it had not followed that policy on a consistent basis.

The first lesson to be learned from the Arthur Andersen case is that clients should have reasonable document retention policies and should apply those policies routinely and consistently. The second lesson to be learned is that clients need to be careful about destroying documents when they have notice that the documents may be relevant to a criminal

investigation or anticipated litigation. The most important lesson to learn from this case is that lawyers need to be proactive to ensure that their clients do not destroy documents at a time or in a manner that could lead to a charge of spoliation.

Electronic documents raise difficult document retention issues – and potential spoliation problems — both because they are so easy to accumulate and, conversely, because they are so easy to destroy. Electronic files can accumulate quickly on a computer system, and large numbers of documents can be stored in a relatively small amount of storage space. Clients need to be careful about allowing electronic files to accumulate, but they need to implement destruction policies in a way that avoids potential spoliation claims. Some clients get into trouble because they routinely write over their electronic data storage tapes or other media. For example, in *Linnen v. A.H. Robbins Company, Inc.*, No. 97-2307, 1999 WL 462015 (Mass. Super. June 16, 1999), the court imposed monetary sanctions and an adverse inference instruction on Wyeth-Ayerst Laboratories (“Wyeth”) because Wyeth failed to suspend its practice of recycling backup tapes containing email communications at the outset of the litigation, leading to the destruction of tapes covering a six-month period after Wyeth had notice of the claims in the case.

Clients also can get into trouble because they may naively believe that they can delete incriminating electronic files without a trace. This could be a disaster if some or all of an incriminating document is later recovered from a hard drive or other storage device, especially if there is evidence that the documents were destroyed after the client learned about a potential claim.

A reasonable and competent document destruction policy that is applied consistently can protect a client from a claim that documents were destroyed in bad faith while enabling a company to keep damaging documents from accumulating in its files. *Vick v. Texas Employment Comm’n*, 514 F.2s 734, 737 (5th Cir. 1975) (no inference of bad faith where documents destroyed pursuant to policy governing the destruction of inactive files). The courts have given some guidelines that can assist in evaluating whether a document destruction policy is likely to lead to a spoliation claim. In *Lewy v. Remington Arms. Co.*, 836, F.2d. 1104 (8th Cir. 1988), the Court of Appeals considered whether the trial court properly gave an adverse inference instruction with respect to customer complaints destroyed by Remington Arms Company pursuant to a routine document destruction policy. The court noted that that the reasonableness of a document destruction policy depends on the nature of the documents subject to the policy. A retention period that is reasonable for routine correspondence may not be reasonable when applied to customer complaints, particularly where the company knows that the documents are likely to be relevant to future litigation. The Court also noted that the motives for instituting the policy are also relevant. If a policy is implemented solely to limit damaging evidence available to plaintiffs, an adverse inference instruction may be called for. *See also Carlucci v. Piper Aircraft Corp.*, 102 F.R.D. 472, 485-86 (S.D. Fla. 1984) (striking defendant’s answer after finding that defendant engaged in a practice of destroying engineering documents to prevent them from being produced in lawsuits).

The following guidelines will assist practitioners in avoiding spoliation claims:

- Document retention/destruction policies should, at a minimum, set forth what documents are retained, where they are retained, and for how long are they retained.
- The policy should be tailored to the specific types of documents a client has (e.g., routine correspondence verses customer complaints; drafts verses final documents) and should comply with any laws applicable to the individual categories of documents.
- Employees should be educated about the terms of the policy, including about which documents to keep and which documents to discard and when.
- Employers should perform regular reviews to ensure that employees are complying with the policy.
- Documents that are retained should be organized and segregated to make searching and retrieval easier and to prevent the inadvertent destruction of important documents.
- All versions of documents intended for destruction should be destroyed, and, if possible, documents should be stored on media that permit total destruction at the appropriate time.

- Attorneys should advise clients in writing about the obligation to preserve electronic (and other) evidence as soon as they know that the client is under criminal investigation or is about to become a party to a civil action.
- It may be appropriate to request that the client copy its files onto a back up tape or other medium and turn it over to counsel so that there will be a record of the electronic files at the outset of the litigation.

Steve Hardy practices in the areas of intellectual property, technology and business litigation at Friend, Hudak & Harris LLP. He graduated from Brigham Young University (BA 1987) and the University of California at Berkeley (Boalt Hall) (JD 1990). He can be reached at 770-399-9500 or at shardy@fh2.com.



Interested in joining the Technology Law Section?

Send your name, Bar number and address, along with a \$25 check made payable to the State Bar of Georgia to:

State Bar of Georgia
Technology Law Section
104 Marietta Street, NW
Atlanta, Georgia 30303

TECHNOLOGY LAW
Section Newsletter, State Bar of Georgia, Spring 2003

WINE HOUSE: GEORGIA TECH
By Janet Allen

TECHNOLOGY LAW
Section Newsletter, State Bar of Georgia, Summer 2002

TECHNOLOGY LAW
Section Newsletter, State Bar of Georgia, Fall 2002

ANNUAL MEETING ON THE TECHNOLOGY LAW SECTION - NEW OFFICES FOR 2003 AND THE "LEGAL ASPECTS OF WI-FI"

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Visit the Technology Law Section website at www.comptelbar.org



Attention All Section Members!!!

THE STATE BAR NEEDS YOUR EMAIL ADDRESS!

We want to be able to send you section related information such as newsletters and meeting notices in a fast and efficient manner. If you have not yet submitted your email address to the Bar's Membership Department you may do so online or by e-mailing membership@gabar.org.

Next Section Event Quarterly Event

Co-sponsored by the Litigation Committee

Tuesday, December 9, 2003
12:00 p.m. to 1:00 p.m.

The Buckhead Club

3343 Peachtree Road, NE
Suite 1850
Atlanta, GA 30326

Topic: *Cyber Crimes - Are Your Clients Potential Victims or Potential Defendants?"*

Cost:

\$25 per person if registered in advance
\$30 per person if registered "at the door"
1 Hour CLE credit.

Speakers:

Randy S. Chartash

Assistant United States Attorney for the Northern District of Georgia and Chief of the Cybercrimes Section

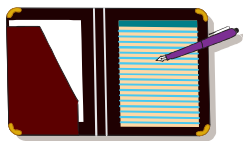
Terry Parsons

Customer 1st Communications

The program will answer questions about the growing problem of network "hacking" and why your clients should be concerned about it, including issues such as the costs of a compromised network and potential corporate criminal culpability. This is a cutting edge luncheon presentation that you don't want to miss.



Calendar of Upcoming Events



Quarterly Technology Law Section Event

The Buckhead Club

Topic: "Cyber Crimes - Are Your Clients Potential Victims Or Potential Defendants?"

December 9, 2003

Deadline for contributions to Winter 2003 Newsletter

Focus on "Technology Licensing"

January 30, 2004

Volunteer Day at TECH CORPS Georgia

10 a.m. - 3 p.m.

February 21, 2004