NOT IN MY BACKYARD II
The High-Tech Hypocrites of “Tort Reform”

By Emily Gottlieb and Joanne Doroshow

INTRODUCTION

No one likes a hypocrite. Yet one would be hard pressed to find more hypocrites than in the “tort reform” movement. That was the finding of the Center for Justice & Democracy’s last Hypocrites of “Tort Reform” White Paper (January 2001)1 where we took a look at the cases of a number of proponents of tort restrictions who do not “practice what they preach.” We examined individuals and corporations that complain about lawsuits and argue that the rights of injured consumers to go to court should be scaled back because society is too “litigious.” Yet when their company loses money or a family member is injured, they run straight to court.

In this, our second Hypocrites of “Tort Reform” White Paper, we focus on the high-tech industry, relatively new to the “tort reform” scene but now one of its leading players, particularly in Congress. Most recently, this industry has taken a central role pushing for federal class action legislation that would make it more difficult for consumers to win class action lawsuits against corporations that commit fraud and other violations of consumer health, safety and environmental laws. Before that, they actively lobbied Congress for legislation to limit the high-tech industry’s liability in the event of Year 2000 computer software-related disasters, which fortunately did not transpire to the degree originally feared. To push for the bill, which passed in 1999, business lobbyists set up “the Year 2000 Coalition,” which was comprised of 113 trade associations and included the Business Software Alliance (BSA), a tech-based trade association whose members included (and to this day include) Adobe, Apple, Compaq, IBM, Intel, Intuit, Microsoft and Novell.2

The high-tech industry was also a principal mover behind enactment of both the Private Securities Litigation Reform Act of 1995 (PSLRA) and the Securities Litigation Uniform Standards Act of 1998 (SLUSA), which limit the rights of defrauded shareholders to sue. In fact the 1998 law, which pulls shareholder lawsuits out of state courts and subjects them to a single set of federal rules, was
Because companies can’t simply extinguish class actions altogether, they are doing the next best thing – pushing for legislation in Congress and in states around the country that would severely weaken consumers’ class action rights.

Because companies can’t simply extinguish class actions altogether, they are doing the next best thing – pushing for legislation in Congress and in states around the country that would severely weaken consumers’ class action rights. The bill currently being considered by Congress would provide reckless corporations with the authority to decide, in most cases, which court will hear a class action case that accuses them of wrongdoing. Its likely result will be thousands of complex state class actions put into the already overburdened federal courts, to the benefit of corporate defendants.

Many corporate supporters of this class action legislation enjoy unfettered use of the courts to recoup financial losses resulting from a host of troubles, from trademark violations, contract breaches, patent infringements and other unfair competition claims, to property damage, lost goods, unpaid bills or, ironically, fraud. While calling consumers’ lawyers “greedy” and insensitive to the importance of keeping companies “litigation-free,” their own corporate lawyers sue at the smallest provocation, targeting not only competitors but also tiny businesses that are sued into submission.
Federal Express, the world’s largest express delivery company, is a case in point. Kenneth Masterson, Executive Vice President, General Counsel and Secretary of FedEx Corp., wrote a column in March 2002 complaining about “excessive and frivolous litigation.” In the piece, Masterson said that the class action legislation was needed to “safeguard consumers and restore balance and fairness to the nation’s civil justice system…while reigning in the outrageous abuses of the system that are placing a choke hold on the American economy.”

Mr. Masterson did not advertise the fact that in 1997, Federal Express sued a man who operated a 12-foot coffee cart in a suburban Oregon shopping center because the man had called his cart “Federal Espresso.” “They’ve been totally trying to bully me around and saying they’ll take me to court,” the owner said. Sure enough, in June 1997, FedEx filed a trademark infringement suit against the man and forced him to stop using the “Federal Espresso” name. FedEx’s hounding of small businesses over use of its name did not stop there. In August 1997, FedEx filed another suit against a Syracuse, N.Y. coffee shop and its three owners for using the names “Federal Espresso” and later, “Ex-Federal Espresso.” After nearly three years of litigation, the coffee shop was forced to change its name, with the owners deciding on “Freedom of Espresso,” and settled the case confidentially.

Not in My Backyard: The High-Tech Industry

In CJ&D’s first Hypocrites of “Tort Reform” White Paper, we looked at corporate litigants who have lent financial or other support to groups like the American Tort Reform Association (ATRA), the Manhattan Institute and state business coalitions like New Yorkers for Civil Justice Reform (NYCJR). These industries complain about “too much litigation” against them by injured or defrauded consumers. But when these same companies believed they were wronged by a business competitor, they were the first to sue. As we noted then, tort restrictions advocated by these organizations virtually never limit the rights of corporations to sue business competitors for commercial losses.

Another trade association worth examining is TechNet, the high-powered lobbying organization of Silicon Valley tech-companies that has made enactment of the federal class action bill a top issue. TechNet members include high-ranking executives from companies like AOL Time Warner, Apple, Compaq, eBay, Hewlett-Packard and Sun Microsystems, with officials from Hewlett-Packard, Intel and Microsoft serving on TechNet’s Executive Council. The Information Technology Industry Council (ITI) has also urged lawmakers to support the class action bill. ITI member
companies include Amazon.com, AOL Time Warner, Apple Computer, Canon USA, Compaq, Eastman Kodak, Hewlett-Packard, IBM, Intel, Microsoft, Motorola, Sony Electronics and Sun Microsystems.  

Similarly, nearly 100 high-tech executives, part of the so-called “Class Action Fairness Coalition,” have urged passage of the class action bill. Signatories to a recent letter to Congress included Intel’s President and CEO Craig Barrett and executives from Compaq, Hewlett-Packard, eBay and Sun Microsystems. The president of the Semiconductor Industry Association (SIA) also signed the letter. SIA member companies include Eastman Kodak, IBM, Intel and Motorola. 

In March 2002, Rick White, President and CEO TechNet, wrote to House Speaker Dennis Hastert complaining about “meritless” class actions that “waste time” and ostensibly force companies to hike consumer prices. Similarly, in February 2002, Peter N. Detkin, Vice President, Assistant General Counsel of Intel, testified on behalf of the Semiconductor Industry Association and Intel in favor of the class action bill then before the House Judiciary Committee. He complained, “We are seeing an aggressive move by a limited number of plaintiffs’ attorneys to file class actions against technology companies in areas such as allegedly defective products. It is obvious that many of these suits are brought as class actions because the injury alleged is either trivial, highly speculative, or wholly nonexistent.” 

Detkin compared the need for class action restrictions to the rationale behind enactment of the 1995 and 1998 laws that limit lawsuits by defrauded investors – laws that some believe have become obstacles to those seeking restitution and justice in the Enron scandal. Using language nearly identical to arguments he now makes for class action legislation, Detkin asserted that the Private Securities Litigation Reform Act of 1995 (PSLRA) and the Securities Litigation Uniform Standards Act of 1998 (SLUSA) were “narrowly tailored” laws that curtailed only “frivolous” suits “without unduly impeding the ability of shareholders with legitimate claims to seek relief in federal court.” Moreover, he claimed, “[T]he record suggests that a similar response is now needed to address other forms of abusive class action litigation.”

Detkin could not be more wrong. Like the current class action proposal, the 1995 and 1998 securities litigation laws were not “narrowly tailored” curtailing only “frivolous lawsuits.” These laws had sweeping applications, which helped lead to the Enron disaster. As explained in a recent column by Hon. Abner Mikva, former Member of Congress, Chief Judge of the U.S. Court of Appeals for the District of Columbia and White House counsel, these laws “inhibit[ed] the rights of individuals to seek damages ...[and thus]
eliminated deterrence and fostered a culture of laxity.” Mikva continued,

While the stated aim of Congress was to put some limits on rapacious lawyers who abused the process, the effect was to remove many of the restraints on corporate officials and their accountants. Free markets respond to incentives. If perpetrators are not held accountable and the costs of their actions are not internalized within the companies that enable the offenders, fraud will increase.21

This experience should stand as a grim warning of what other abuses might result without the deterrent potential of consumer class actions.

HIGH-TECH HYPOCRITES

The high-tech industry does not like class action lawsuits, or any consumer suits for that matter. That much is clear. They lobbied heavily for retractions on suits by defrauded investors and now want legislation that would make it even more difficult for injured consumers to use class actions to win their cases.

To these companies, the courts should be theirs alone, reserved exclusively for their patent, trademark, breach of contract and damaged property suits to recover money that they believe has been unfairly taken from them.

Take, for example, the trademark infringement and dilution lawsuit by Internet giant Amazon.com against Von Eric Lerner Kalaydjian and his company, Amazon Cosmetics and Tan Products, in 2000. Amazon sued this company for using the word “Amazon” to sell beauty products. Kalaydjian had sold only 100 bottles of tanning oil since he went into business. (The trial court dismissed the case on procedural grounds in February 2001.22)

Or how about the aggressive August 2000 suit by Apple against Juan Gutierrez, an employee who had posted pictures of new Apple products on the Internet under the pseudonym “worker bee.”23 Apple and Gutierrez settled the case the following year.24

Or the 1998 nuisance and trespass lawsuit by Intel against former engineer Ken Hamidi after he sent mass e-mails critical of Intel to company employees. Intel’s actions raised critical First Amendment concerns. On March 27, 2002, the California Supreme Court agreed to hear the case.25
The following represent only a tiny sample of lawsuits brought by high-tech companies but illustrate the arrogance of an industry that places far more value on its right to sue and to be compensated for commercial losses than on allowing citizens to hold accountable those who damage the health, safety and financial security of all Americans.

What’s Your Name – And What’s It Worth to You?

When it comes to “trademark infringement,” high-tech companies are very “touchy” and extremely aggressive in court, as these examples show.

- In August 2001, eBay sued a company called BidBay, alleging that use of the word “bay” in its name and the overall appearance of the BidBay website infringed on the eBay trademark. BidBay founder and chief executive officer George Tannous told the E-Commerce Times that he “began BidBay as an alternative to an eBay site that was more concerned with monopolizing the market than providing a customer-friendly product. BidBay’s success and this subsequent lawsuit prove that I was right.” The case settled in February 2002, with BidBay agreeing “to change its name to AuctionDiner.com, design a new logo and pay eBay an undisclosed sum.”

- In March 2000, Motorola filed a trademark infringement, dilution and unfair competition lawsuit against CheechInc. for using the name “MOJOROLA” on pager-type devices. Two months later, the parties agreed to an injunction in favor of Motorola, which, among other things, barred CheechInc. from using the “MOJOROLA” mark and transferred the domain name “www.mojorola.com” to Motorola.

- In December 1998, AOL sued AT&T for infringement of its “Buddy List,” “You Have Mail” and “IM” trademarks. The trial court ruled in favor of AT&T with respect to each mark. The Fourth Circuit Court of Appeals upheld the lower court’s decision regarding the “You Have Mail” and “IM” marks but vacated and remanded the lower court’s ruling on the “Buddy List” mark, finding that its validity could not be resolved on summary judgment.

- In 1995, Sun Microsystems sued to prevent SunRiver Corp. from using the “SUNRIVER” trademark in connection with products sold by two newly acquired subsidiaries. A federal judge barred SunRiver from using not only the “SUNRIVER” mark or name but also any “SUN”-based mark or name on its products or promotional materials. That
same year, Sun Microsystems also sued Astro-Med, Inc. for trademark and trade name infringement and dilution, unfair competition and false and misleading statements over Astro-Med’s use of the mark “SUNDANCE” on its label printer. The court ordered Astro-Med to stop using “SUNDANCE” or any “SUN”-prefixed mark or name on its products and promotional materials.32

- In September 1997, Hewlett-Packard filed a trademark infringement suit against Xerox Corp. over its use of Hewlett-Packard’s trademarks, like “LaserJet” and “HP,” on Xerox’s toner cartridge packaging.33 After two years of litigation, the case settled, with Xerox agreeing to change its toner packaging.34

Lost or Damaged Property? Defective Goods? Unpaid Bills? Sue the %*$%#’s

As these examples show, some high-tech companies see less value in using civil courts to protect the health, safety and security of consumers than to get their money back when someone has damaged or stolen their inanimate property.

- In 1990, Canon sought over $256,740 from carriers Nippon Liner System, Inc. and Jam Trucking, Inc. after 48 Canon copy machines were damaged while en route from Japan to Illinois.35

- In 1997, Motorola filed a $1.3 million negligence lawsuit against Fritz Company, Inc. and Fritz Air Freight after Motorola’s satellites rolled off a Fritz truck and suffered permanent damage while being loaded at the airport. The parties settled before trial for $115,000.36 In 1999, Motorola and its insurance company sued freight forwarder Kuehne & Nagel, Inc. over damage done to shipments of equipment while en route from Texas to Japan. A federal judge awarded them over $244,000.37

- In April 1998, IBM sought $1 million in a breach of contract suit against Burlington Air Express, Inc. (BAX) after IBM’s computer memory cards were stolen from a BAX truck en route from Canada to Minnesota. The trial court granted IBM’s preliminary motions and an inquest to compute damages.38

- In December 1992, Sony sued the Stereo Factory, Inc. to recover more than $468,000 for the unpaid portion of the cost of three shipments of tapes. A federal judge awarded Sony over $266,000. The Fourth Circuit Court of Appeals upped the award to $468,000.39
• In 1993, IBM sued Fasco Industries for breach of contract, negligence and breach of the implied covenant of good faith and fair dealing, claiming that Fasco put malfunctioning blowers into IBM’s Model 3390 data storage device. The trial court found in favor of Fasco on the negligence claim but allowed IBM’s other claims to go forward.

Compassionate Concern Over Patents

Litigation over patents has become a time-honored way for high-tech companies to do business. The litigation “spiral” of claims and counterclaims is not unusual among high-tech industries trying to protect their patents while amassing a good deal of money.

• In March 1997, Motorola sued Qualcomm in Illinois federal court for trademark and trade dress infringement, unfair competition, trademark dilution, patent infringement, unjust enrichment, intentional interference and inducement to breach, deceptive trade practices, consumer fraud and deceptive business practices and counterfeit trademarks over the design similarities between Qualcomm’s digital “Q” phone and Motorola’s “StarTac” cellular phone. One month later, Motorola filed the same lawsuit against Qualcomm in California federal court. Two months later, Motorola filed a new patent infringement lawsuit against Qualcomm concerning its “QCP” phones. By the end of 1997, Motorola and Qualcomm had filed a total of seven claims and counterclaims against each other. The companies agreed to drop their lawsuits in 2000.

• In 1990, Eastman Kodak sued Goodyear Tire and Shell Oil for patent infringement over a process that increased the molecular weight of polyester. The jury awarded Kodak and its co-plaintiff $12 million; the Federal Circuit Court of Appeals upheld the award.

• In June 1999, Intel filed a breach of contract and patent infringement suit against Via Technologies for marketing Intel technology that was excluded from a license the two had companies signed. In July 2000, the companies reached a partial settlement, which, among other things, had Via paying Intel an undisclosed lump sum and ongoing royalty payments. In December 2001, Intel and Via settled the remaining claims. Intel is currently pursuing other intellectual property lawsuits against Via in North America, Europe and Asia.

• Things do not always go so well for Intel. In August 2000, Intel sued...
Broadcom for $82 million, alleging that the company had infringed on five Intel patents – three relating to digital video compression, one relating to networking and one relating to chip packaging. In December 2001, a unanimous jury found that one of the patents was invalid and that Broadcom hadn’t violated either patent. A second trial, which covers the remaining three patents, has yet to be conducted.

- In October 1999, Amazon sued Barnesandnoble.com for patent infringement of its one-click ordering technology, which allowed returning customers to make purchases with one click of a computer mouse. The case was settled confidentially in March 2002.

- In May 1996, Apple filed a lawsuit against Articulate Systems, Inc., alleging that its PowerSecretary voice recognition software violated four Apple patents. Dragon Systems, Inc. was later added as a defendant after it had acquired Articulate’s PowerSecretary line. The court narrowed the allegations of infringement to a single patent, which it then found invalid. In October 1997, Apple filed another lawsuit against Dragon alleging its NaturallySpeaking voice recognition software violated three Apple patents. The companies later settled confidentially.

Suing For Punitive Damages? What’s Wrong With That?

While punitive damages are easy rhetorical targets of corporations seeking to limit consumer lawsuits, studies show that punitive damages are higher and more frequently awarded in cases involving business contracts than in those by individuals against corporations. Professors Michael Rustad and Thomas Koenig’s on-going analysis of business tort cases – what they term “Goliath versus Goliath” cases – shows that the vast majority of hundred-million-dollar verdicts arise in business litigation. According to their findings:

Intellectual property disputes, indemnification of pollution cases, real estate development, trade secrets litigation, and general corporate bad faith cases is where large punitive damages awards are more common. Rand’s Institute of Civil Justice, the American Bar Foundation study, and [Rustad’s] summary of all punitive damages research … confirms that if there is any problem in punitive damages as a remedy, it is likely to be in the field of business versus business.
Businesses love suing for punitive damages. Sometimes they even win:

- In 1995, IBM filed a breach of contract lawsuit against Diamond & Diamond Merchant Banking Group and its agent after they failed to pay IBM $2.5 million for its claim rights against a bankrupt technology company. The trial court found the defendants liable, with a federal magistrate judge recommending that the defendants pay IBM over $4.4 million, $2.5 million of which were punitive.\(^6\)

- In August 2000, Sony sued Grass Valley Group, Inc. for punitive damages, claiming that it had interfered with a pre-existing contract to install Sony audio-visual equipment in Ohio’s Paul Brown Stadium, home to the Cincinnati Bengals’ football team. The trial court dismissed the complaint. Sony then filed an amended complaint in January 2001, alleging tortuous interference with business relations and civil conspiracy. On March 22, 2002, an Ohio appeals court ruled: 1) that the trial court had properly dismissed Sony’s claims, and 2) that Sony had no right to amend its complaint after the trial court had formally granted Grass Valley’s motion to dismiss Sony’s lawsuit.\(^6\)

- In July 1999, Apple sued Daewoo Telecom of Korea and Future Power, its joint venture that sold PCs in the US, for punitive damages in California state court, alleging that they illegally copied the design of Apple’s iMac computer.\(^6\) Under the terms of a June 2001 settlement, Future Power was prohibited from selling its look-alike E-Power computer until February 2004.\(^6\)

Microsoft Sues to Protect Its Software Again, and Again, and Again, and Again ...

- In September 1992, Microsoft filed a copyright infringement suit against U-Top Printing Company, U-Win Printing Company and their owners for manufacturing and trading illegal copies of Microsoft software. The trial court awarded Microsoft $24.8 million in damages, plus attorney fees, court costs and pre-judgment interest.\(^6\)

- In May 1993, Microsoft sued Golden Dragon Systems, LTD. Canada, G.D. Systems America, Inc. and its field manager, among others, for copyright and trademark infringement related to their distribution and sale of counterfeit copies of Microsoft software programs. A federal judge entered a permanent injunction against the defendants, barring them from distributing or selling products bearing Microsoft’s marks “MS-Dos” or “Windows,” and ordered them to pay all profits, treble
profits and $88,000 in attorney’s fees to Microsoft.\textsuperscript{66}

- In February 1994, Microsoft sought damages from Direct Wholesale and its sole shareholders and officers, alleging that they had infringed on Microsoft’s copyrights and trademarks by selling and distributing counterfeit copies of its software. The trial court issued a permanent injunction against the defendants and awarded Microsoft over $4 million in compensatory damages.\textsuperscript{67}

- In March 1999, Microsoft lodged copyright and trademark infringement claims against Logical Choice Computers, Inc. for having resold pirated copies of Microsoft software obtained from unauthorized dealers.\textsuperscript{68} A federal judge awarded Microsoft $1.5 million in compensatory damages.\textsuperscript{69}

- In March 1999, Microsoft sued software reseller Compusource for counterfeiting, copyright infringement and other violations after it resold unauthorized or counterfeit software purchased from suppliers at substantially lower prices. The trial court granted Microsoft’s motion for summary judgment and awarded the company $535,000.\textsuperscript{70}

- In July 1999, Microsoft filed copyright and trademark infringement claims against Software Wholesale Club, Inc. and its owner, claiming that they had distributed and sold counterfeit copies of Microsoft software and end user license agreements. A federal judge granted Microsoft’s motion for summary judgment and awarded the company $440,000.\textsuperscript{71}

- In 2000, Microsoft sued A&A Technology and its president for copyright and trademark infringement through A&A’s sale and distribution of counterfeit Microsoft software. The parties reached a settlement in 2001, barring the defendants from committing future trademark and copyright violations.\textsuperscript{72}

**Never Mind Those Pesky Defrauded Investors – Here’s Some REAL Fraud**

In what may be the ultimate irony, companies that lobbied hard to restrict the rights of defrauded investors often themselves sue other companies for fraud. Compaq is a case in point:

- In October 2000, Compaq filed a $17 million-dollar breach of contract and fraud lawsuit against The Baxter Group, a Canadian-based
consulting group, and its owner, alleging that they had misrepresented the existence of an FAA contract to supply equipment to American airports. The case settled in February 2001 (details of the settlement were not disclosed).\textsuperscript{73}

- In August 2001, \textbf{Compaq} sought to recover more than $20 million from Millennium Technology Group Inc., Creative Resources Group, Inc. and their executives, who had allegedly conspired to defraud Compaq through illegal brokering schemes.\textsuperscript{74} The case against Millennium settled confidentially that same month.\textsuperscript{75}

\textit{In what may be the ultimate irony, companies that lobbied hard to restrict the rights of defrauded investors often themselves sue other companies for fraud.}
NOTES


10 Information relating to specific corporate sponsorship of ATRA and the Manhattan Institute was based on John Gannon’s article, “Tort Deform – Lethal Bedfellows” (Essential Information, 1995), citing Kenneth Chesebro, “Galileo’s Retort: Peter Huber’s Junk Scholarship,” 42 Am. U.L. Rev. 1637 (Summer 1993). Very few state “tort reform” groups publicly list their corporate members. One of the few that does, with the most
comprehensive public list available, is New Yorkers for Civil Justice Reform. NYCJR’s list can be found at the organization’s website, http://www.nycjr.org/support.html.


12 http://www.technet.org/who/list.alpha.phtml.


19 Testimony of Peter N. Detkin, Vice President, Assistant General Counsel, Intel Corporation, on behalf of the Semiconductor Industry Association and Intel, before the Committee on the Judiciary, U.S. House of Representatives, February 6, 2002, found at http://www.semichips.org/pre_stat.cfm?ID=103.

20 Testimony of Peter N. Detkin, Vice President, Assistant General Counsel, Intel Corporation, on behalf of the Semiconductor Industry Association and Intel, before the Committee on the Judiciary, U.S. House of Representatives, February 6, 2002, found at http://www.semichips.org/pre_stat.cfm?ID=103.


Motorola, Inc. v. Fritz Company, Inc., No. 01-25-21 (San Francisco County Super. Ct., Cal.).

Motorola, Inc. v. Federal Express, 2000 U.S. Dist. LEXIS 16366 (N.D. Cal.).


61 International Business Machines Corporation v. Diamond, 1995 U.S. Dist. LEXIS 15608 (N.D. Ill.).


