

IDEAS ON INTELLECTUAL PROPERTY LAW

APRIL/MAY 2012

When legal distinctions collide

Court explains “tension” between patents and trade secrets

Presumed innocent?

Federal Circuit addresses permanent injunctions

Can an SLA constitute copyright misuse?

Ninth Circuit clarifies the ACPA’s reach



**Ostrolenk
Faber** LLP

Intellectual Property Law

When legal distinctions collide

Court explains “tension” between patents and trade secrets

It’s enough to keep you up at night: the fear that employees who’ve had access to confidential information will leave the company. Such employees often walk out the door with extensive knowledge about valuable intellectual property, including patents and trade secrets.

A recent case heard by the U.S. Court of Appeals for the Federal Circuit, *Atlantic Research Marketing Systems, Inc. v. Troy*, involved a dispute between competing firearms makers. The court’s decision addressed the “tension” between patents and trade secrets.

Targeting a competitor

Atlantic Research Marketing Systems (ARMS) manufactures accessories for small arms weapons, including handguards that attach to rifles. ARMS holds a patent and its reissue on a free-floating handguard. The original patent included claims that covered both a barrel-nut attachment and a sleeve attachment to a handguard, but the reissue patent claims covered only a handguard that attaches at the rifle’s barrel nut.

Stephen Troy joined ARMS in 2002 and became the owner’s “right-hand man.” He learned how and why products were designed as they were and saw prototypes of ARMS products. In early 2003, ARMS terminated Troy. The following year he began offering handguards that attached solely at the barrel through his own company.

ARMS sued Troy in 2007, alleging that he had infringed its reissue patent and misappropriated trade secrets — the free-floating handguard that attaches only at the barrel nut. The district court dismissed the patent infringement claim before trial, finding the reissue patent was invalid because it failed to meet the written description requirement. The trade secret claim went to trial, and the jury awarded ARMS \$1.8 million in damages. Both parties appealed.



Shooting down a claim

ARMS argued on appeal that the district court had erred by interpreting the claims in its reissue patent to cover a device supported solely by the barrel nut because the construction conflicted with the patent’s specification, which didn’t disclose a barrel-nut-only attachment design. But, as the Federal Circuit explained, the discrepancy between the claims and the specification showed that ARMS hadn’t satisfied the written description requirement. The U.S. Patent Act requires that a specification contain a written description that:

1. Makes the invention understandable to a person skilled in the relevant field, and
2. Shows that the patentee actually invented it.

The court found that the reissue’s specification described an invention with two support points, at the sleeve and the barrel nut, while ARMS’ claims clearly indicated that the handguard is completely supported by a single attachment at the barrel nut.

In other words, the patent claims exceeded in scope the subject matter that ARMS disclosed to the public in its written description.

The Federal Circuit also pointed to the fact that ARMS considered its barrel-nut-only attachment to be a trade secret, as evidenced by the application for the original patent. That patent didn't disclose the barrel-nut-only attachment design. ARMS, the court said, couldn't "have it both ways" by relying on the disclosure in the original patent to claim an invention it was "purposely shielding from the public."

The Federal Circuit clarified that the focus in a trade secret claim is whether the claimed secret is, in fact, *secret*.

Recoiling from the decision

In his appeal, Troy contested the trade secret claim. But the Federal Circuit clarified that the focus in a trade secret claim is whether the claimed secret is, in fact, *secret*.

Troy argued that the concept of a handguard attaching at the barrel nut couldn't be a trade secret because the original patent disclosed this type of device. The court agreed that "that which is disclosed in a patent cannot be a trade secret." And it went on to describe the inherent tension created when ARMS alleged misappropriation of trade secrets while simultaneously asserting that the products Troy developed with those secrets infringed its patent.

In response, Troy argued that the original patent disclosed the trade secret while also alleging that the patent was invalid for failure to disclose a written description. The court noted that "these conflicting positions left little room for either party to prevail on both claims." Ultimately, the jury found that ARMS had a trade secret that went beyond what was disclosed in the original patent. The court upheld that finding.

Clamping down on the jury

Interestingly, despite affirming the district court on the patent and trade secret issues, the Federal Circuit ended up vacating the verdict because of a "jury taint" problem. The appellate court faulted the lower court judge for failing to properly deal with the fact that a juror had brought in a plumbing clamp to show other jurors during deliberations. If they don't settle, the parties will have to retry the case. ○

Federal Circuit takes aim at plaintiff's tactics

In *Atlantic Research Marketing Systems, Inc. v. Troy* (see main article), Atlantic Research Marketing Systems (ARMS) argued on appeal that the district court had erred by construing that the claims in its reissue patent covered a device supported solely by the barrel nut. That may sound like a reasonable enough assertion, but the problem was that it represented a 180-degree pivot from the plaintiff's earlier position.

In the "Markman" hearing preceding the trial, ARMS sought a claim construction that would cover a barrel-nut-only design. It was only on appeal that ARMS, after losing on written description grounds, argued for a construction that *precluded* the barrel-nut-only design.

The Federal Circuit stressed that it views such tactics with "extreme disfavor." It raised the possibility, but didn't decide, that ARMS could be blocked from asserting contradictory claim construction arguments on appeal. The court did, however, note that the inconsistencies undermined ARMS' argument on appeal.

Presumed innocent?

Federal Circuit addresses permanent injunctions

Since 2006, patentees have been pulling their hair out over whether a victorious patent infringement plaintiff is entitled to a permanent injunction against the infringement. The U.S. Federal Circuit Court of Appeals has, for the time being, put the question to rest.

In *Robert Bosch LLC v. Pylon Mfg. Corp.*, the court eliminated the presumption of irreparable harm in the patentee's favor once and for all, or at least until the U.S. Supreme Court weighs in to the contrary. But the Federal Circuit also made clear that injunctions remain in reach for some patentees — especially when the patent suit is between competitors.

Failure to establish

Robert Bosch LLC develops wiper blades and holds patents covering various aspects of “beam blade” technology, a relatively new technology that offers several advantages over conventional blades. Bosch sued Pylon Manufacturing, a competitor in the wiper blade market, for patent infringement.



After a jury trial found that Pylon had infringed two of Bosch's patents, the district court denied Bosch's motion for a permanent injunction on the grounds that Bosch had failed to establish that it would suffer irreparable harm in the absence of an injunction. Bosch appealed that denial.

The Federal Circuit wasn't ready to abandon the concept of permanent injunctions in patent litigation altogether.

4 factors for injunctive relief

The Federal Circuit, which hears all patent case appeals, had long followed the general rule that a permanent injunction will issue once a patent is found to have been valid and infringed. It was presumed that irreparable harm would otherwise result.

This came to an end with *eBay Inc. v. MercExchange, L.L.C.*, a 2006 decision by the U.S. Supreme Court. In that case, the Court found that such categorical rules have no place in the permanent injunction inquiry and that courts should exercise discretion in accordance with traditional principles of equity. The Court didn't, however, expressly address the presumption of irreparable harm — and the Federal Circuit's subsequent cases haven't definitively clarified whether the presumption remains intact.

The court of appeals took this opportunity “to put the question to rest and confirm that *eBay* jettisoned the presumption of irreparable harm as it applies to determining the appropriateness of injunctive relief.” It noted that at least two other federal appellate

courts have reached the same conclusion in the context of copyright infringement.

That said, the court wasn't ready to abandon the concept of permanent injunctions in patent litigation altogether. The proper approach, according to the Federal Circuit, is to apply the traditional four-factor test for injunctive relief. To obtain a permanent injunction under the test, a plaintiff must show that:

1. It has suffered an irreparable injury,
2. Monetary damages are inadequate to compensate for that injury,

3. The balance of hardships between the plaintiff and the defendant warrants an injunction, and

4. A permanent injunction wouldn't be a disservice to the public.

The court concluded that three of the four factors in this case favored granting the injunction.

Silver lining

The Federal Circuit laid down an important rule in *Bosch*: Courts can't presume irreparable harm. But the critical corollary is that there's also no presumption *against* irreparable harm. Patent owners should keep these important points in mind. ○

Can an SLA constitute copyright misuse?

The software licensing agreement (SLA) has become a commonplace feature of today's high-tech business world. But such agreements aren't without risk, as illustrated by the decision of the U.S. Court of Appeals for the Ninth Circuit in *Apple Inc. v. Psystar Corp.*

Core of the case

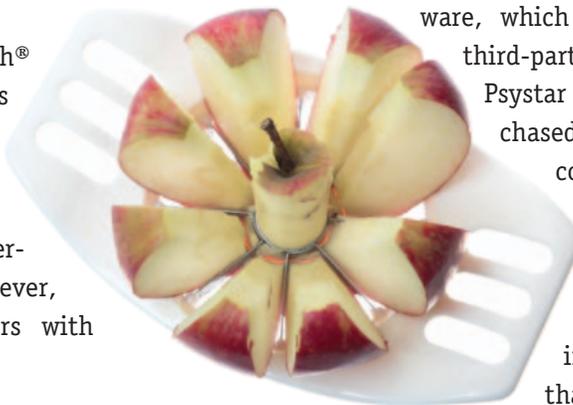
Apple has sold its Macintosh® line of personal computers since 1984. In April 2008, Psystar began making and selling personal computers that can run a variety of operating systems. Psystar, however, chose to sell its computers with Apple's Mac OS X.

Apple uses "lock and key" technological measures to prevent the operation of Mac OS X on non-Apple computers. Psystar circumvented the measures and

developed a "master image" of the software on a non-Apple computer.

Psystar shipped its computers with a copy of that master image installed as the operating system, along with an unopened copy of the Mac OS X software, which Psystar bought from Apple or third-party vendors. This practice allowed Psystar to maintain that it had purchased a copy of the software for each computer it sold, but the computer actually ran on the copy of the master image.

Apple sued Psystar for copyright infringement in 2008, alleging that Psystar had violated Apple's SLA, which restricts OS X to Apple computers. The district court ruled in Apple's favor, and Psystar appealed.





Another bite

Psystar didn't challenge the infringement finding but contended that Apple misused its copyright in Mac OS X by requiring licensees to run their copies only on Apple computers. It argued that this restriction impermissibly extends the reach of Apple's copyright, thereby constituting misuse.

Some licensees have reacted to the proliferation of SLAs by asking courts to apply the copyright misuse defense to limit the scope of such agreements.

As the Ninth Circuit noted, SLAs have become ubiquitous in the software industry because they allow licensors, such as Apple, to control the use of copyrighted material and avoid the consequences of the first sale doctrine. This doctrine allows owners of copies of copyrighted works to resell their copies without restriction.

The first sale doctrine, however, doesn't apply to licenses, where the copyright owner retains ownership of the copy itself. SLAs allow companies to control the use of their software. Most software transactions, therefore, are licensing arrangements, not sales.

Some licensees have reacted to the proliferation of SLAs by asking courts to apply the copyright misuse

defense to limit the scope of such agreements. The Ninth Circuit has previously described the purpose of the defense as preventing copyright holders from "leveraging their limited monopoly to allow them to control areas outside the monopoly." The court has upheld the misuse defense in only one case, where it found that the licensor prevented the licensee from using any other competing product.

Not a bad apple

The Ninth Circuit rejected Psystar's misuse defense, characterizing it as a failed attempt to apply the first sale doctrine. Psystar charged that Apple unlawfully attempts to control the use of the Mac OS X software after it has been sold. But Apple didn't sell the software — it licensed it.

Further, the copyright misuse defense doesn't prohibit using conditions to control use of copyrighted material. It only prevents copyright holders from using the conditions to stifle competition. The court found that Apple's SLA doesn't restrict competitors' ability to develop their own software or preclude customers from using non-Apple components with Apple computers. The SLA merely restricts the use of Apple's software to its own hardware.

It's in the sauce

The court's decision not only clarifies the scope of the copyright misuse defense, but also underscores the importance of licensing agreements. Although Apple's SLA was upheld, all such agreements should be carefully reviewed by an attorney to increase the likelihood that they'll hold up in court. ○

Ninth Circuit clarifies the ACPA's reach

Cybersquatters, those who register a domain name with the bad-faith intent of profiting from the goodwill of someone else's trademark, are considered one of the worst scourges of the Internet. In fact, Congress passed a law to rein them in: the Anticybersquatting Consumer Protection Act (ACPA). But this law has its limits, as set forth by the U.S. Court of Appeals for the Ninth Circuit in *GoPets Ltd. v. Hise*.

Domain name collared

Edward Hise registered the domain name "gopets.com" in 1999. The company GoPets, creator of an online game called GoPets, was founded in 2004. It filed an application to register the service mark "GoPets" that year, and the mark was eventually registered in 2006.

GoPets made several unsuccessful attempts to buy the domain name from Hise but, in time, filed a complaint with the World Intellectual Property Organization (WIPO). In July 2006, a WIPO arbitrator decided in favor of Hise because he'd registered the name five years before GoPets was founded.

GoPets made additional attempts to buy the name, and Hise responded by offering to sell it for \$5 million. He also threatened to employ "competitive meta tagging," which would direct users seeking gopetslive.com (registered by GoPets) to gopets.com.

Shortly thereafter, Hise transferred the registration to a corporation he co-owned. He also began registering additional domains similar to gopets.com. Finally, in March 2007, GoPets sued Hise under the ACPA. The district court decided the case in GoPets' favor before trial, and Hise appealed.

Court curbs the law

The ACPA prohibits cybersquatters from registering domain names that are identical or confusingly similar to registered marks that are distinctive at the time of registration. GoPets argued that the term "registration" includes re-registration, so Hise's corporation's re-registration of the domain name was prohibited because the GoPets service mark was distinctive at that time.

The Ninth Circuit disagreed. It concluded that "registration" refers only to the initial registration. The court saw no reason to hold that a right that belongs to an initial registrant is lost when the name is transferred to another owner. Thus, the re-registration didn't violate the ACPA.

Put on a leash

The Ninth Circuit didn't let Hise run loose, though. It found that the additional domain names registered after the WIPO decision were registered at a time the GoPets mark was distinctive.

The only remaining issue was whether Hise had registered them in bad faith. According to the court, he clearly intended the additional domains to divert customers from gopetslive.com, thereby increasing the selling price of gopets.com and violating the ACPA. ○

