

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF NORTH CAROLINA
WESTERN DIVISION
NO. 5:12-CV-277-BO

MCHENRY SOFTWARE, INC.,)
)
Plaintiff,)
)
v.)
)
ARAS 360 TECHNOLOGIES, INC.,)
)
Defendant.)

ORDER

This matter is before the Court on plaintiff's motion to show cause [DE 38] and plaintiff's amended motion to show cause [DE 41]. Hearings were held in Raleigh, North Carolina on December 13, 2013 at 2:30 p.m. and on December 19, 2013 at 10:00 a.m. in this matter. Plaintiff's motion to enforce the contempt order is GRANTED.

BACKGROUND

The instant dispute is over defendant's use of source code developed by the plaintiff. Plaintiff McHenry Software, Inc. ("McHenry") entered into a Software Licensing and Development Agreement with defendant ARAS 360 ("ARAS") on February 11, 2010. The plaintiff filed its complaint on May 17, 2012. On November 1, 2012, this Court issued an order granting the plaintiff's motion for preliminary injunction. Specifically, that injunction ordered:

The defendant to refrain from the use, duplication, or transmission of copyright-protected material owned by McHenry; to refrain from using any trademarks, images, or logos owned by McHenry; to refrain from the use, duplication, or transmission of any McHenry trade secrets; and to refrain from implying any continued association between ARAS and McHenry.

[DE 22]. On May 22, 2013, this Court issued an order granting the plaintiff's motion to enforce the preliminary injunction. The Court found that defendant violated the preliminary injunction by

issuing additional serial numbers to the software at issue after the preliminary injunction had been entered and ordered the defendant to:

(1) remove all articles authored by McHenry and/or Brian McHenry from its website; (2) cease the use and publication of all McHenry DLLs and links to McHenry DLLs; (3) provide a complete list of sales of the Collide software, including the date on which the sale occurred; (4) be subject to a penalty of \$1,000 (ONE THOUSAND DOLLARS) per day for each day the defendant continues to violate this Court's preliminary injunction after the date of entry of this Order; and (5) reimburse McHenry its attorney's fees in enforcing this preliminary injunction as set forth below.

[DE 34]. On June 26, 2013 a status conference was held to evaluate defendant's continuing compliance with the preliminary injunction.

On September 9, 2013, the plaintiff filed a motion to show cause and requested this Court to further enforce the preliminary injunction and contempt order issued against defendant [DE 38]. On October 9, 2013, the plaintiff filed an amended motion to show cause [DE 41]. The plaintiff alleged: (1) that the defendant continued to violate the preliminary injunction and contempt order by failing to provide McHenry with a complete list of sales of the Collide software product; and (2) that ARAS continued to engage in the use, duplication, and transmission of McHenry's proprietary information in the period following the contempt order. Hearings were held on this matter and the Court now enforces its preliminary injunction as set forth below.

DISCUSSION

The plaintiff seeks civil contempt sanctions and attorney's fees associated with the defendant's alleged violation of this Court's preliminary injunction issued on November 1, 2012, and contempt order issued on May 22, 2013. In order to establish that a party should be held in civil contempt, the movant must establish by clear and convincing evidence that (1) a valid decree exists; (2) that the decree was in the movant's favor; (3) that the alleged contemnor's

conduct violated the decree and he had knowledge of those violations; and (4) that the movant suffered harm as a result. *See Ashcraft v. Conoco, Inc.*, 218 F.3d 288, 301 (4th Cir. 2000). The first two elements of this standard are easily met. The preliminary injunction was a valid decree of this Court and it served to protect the interests and intellectual property of the plaintiff. The Court considers the alleged violations of the injunction in turn.

First, plaintiff has alleged that the defendant violated the preliminary injunction by failing to provide McHenry with a complete list of sales of the Collide software product. It is apparent to this Court that, although there were a few bookkeeping errors, ARAS did in fact provide McHenry with a list of sales of the Collide software in a manner that satisfied the contempt order. Although the parties may dispute exactly when all of the miscommunications were ironed out, by the time of the hearing in this matter McHenry had the sales information it wanted and there was no continuing violation of the contempt order. Further, as communications between the parties allowed McHenry to identify further allegations of the preliminary injunction, it is not apparent that there was actual injury caused by the alleged errors in the sales reports provided to McHenry. Therefore, plaintiff has not met its standard of showing by clear and convincing evidence that defendant violated the contempt order by failing to provide a complete list of all sales of the Collide software.

Second, plaintiff alleges that ARAS continued to engage in the use, duplication, and transmission of McHenry's proprietary information in the period following the contempt order, thereby continuing to violate the preliminary injunction. Plaintiff limits its focus to four discrete events in which defendant reset a customer's license key to allow the customer to install and use Collide software on a new computer. Each of these four instances was admitted by ARAS. [DE

50 at ¶¶ 5(f), (k), (m), and (s)]. Each of these instances occurred after this Court issued its contempt order on May 22, 2013. In the contempt order, the Court wrote:

[P]laintiff alleged that the defendant issued additional serial numbers to the software at issue after the preliminary injunction had been entered. Again, the defendant did not dispute this behavior, but stated that it was justified in doing so because the serial numbers were issued to existing customers who need access to the program on new computers or otherwise required an additional access code. Again, the Court is unpersuaded by the defendant's attempt to do an end run around its preliminary injunction. That injunction explicitly prohibited the defendant from duplicating, transmitting, or using the plaintiff's proprietary information, including its source code. By issuing additional serial numbers and/or license keys the defendant facilitated the transmission and use of the plaintiff's proprietary material. It is of no consequence that these transactions took place with existing customers.

[DE 34 at 5]. After the contempt order, ARAS stopped issuing additional serial numbers to clients, but instead began to "reset" license keys to allow its customers "to install [Collide] on a computer that has not previously had the software installed on it. [DE 47 at 9]. In other words, instead of issuing an additional license key to allow a customer to use Collide on a new or upgraded computer – behavior that served as a basis for a finding of contempt against ARAS – ARAS now accomplishes the exact same result by resetting the customer's license key. Although the means are different, the result is precisely the same – the customer is able to use Collide on a new or upgraded computer, and ARAS is able to continue its end around the preliminary injunction. It is clear to this Court that the defendant violated this Court's orders by resetting software license keys.

It is also clear to this Court, however, that since the filing of plaintiff's show cause motions, defendant has engaged in a good faith effort to stop its violation of the Court's orders. Defendant has stopped its practice of resetting license keys and has informed all of its customers that it will supply them with an ARAS product that does not contain the Collide software. Within

five months, no ARAS customer will be using Collide. [DE 49]. Therefore, it is apparent to this Court that there is no ongoing violation of any of its orders.

Because there is no ongoing violation of the preliminary injunction or the contempt order, the Court turns to view the circumstances of the four past violations that have occurred. Plaintiff argues that because the last violation occurred on September 10, 2013, 111 days after the entry of the Court's contempt order, defendant should be subject to \$111,000 in fines, or \$1,000 per day from May 22, 2013 until September 10, 2013. Defendant argues that these four instances represent four discrete violations of the Court's contempt order that occurred on four separate days and, because they are not continuing violations of the order (such as leaving an article ordered removed on a website would be) that the appropriate penalty here is \$4,000. This Court agrees with defendants.

Plaintiff also seeks attorney's fees. This Court has broad discretion to craft civil contempt remedies. *See In re Gen. Motors Corp.*, 61 F.3d 256, 259 (4th Cir. 1995). "Remedies include ordering the contemnor to reimburse the complainant for losses sustained and for reasonable attorney's fees." *Id.* However, the maxim "he who seeks equity must do equity" applies here. This dispute has been acrimonious and lengthy. Arbitration is currently proceeding apace in British Columbia, Canada. The parties have been unable to cooperate and resolve relatively simple matters without this Court's involvement. Plaintiff's repeated refusals to work with the defendant and efforts to involve the Court are not to be rewarded nor encouraged. As such, the Court will not award attorney's fees.

CONCLUSION

Plaintiff's motions to enforce the preliminary injunction and contempt order are GRANTED. The defendant is ordered to PAY plaintiff a penalty of \$4,000 (FOUR THOUSAND DOLLARS) for its violation of this Court's orders. This Court's previous orders REMAIN IN EFFECT although defendant has ESTABLISHED that it is now in compliance.

SO ORDERED.

This the 20 day of December, 2013.



TERRENCE W. BOYLE
UNITED STATES DISTRICT JUDGE