NAVIGATING SOFTWARE LICENSE DISPUTES:
FIVE STEPS TO AN AMICABLE RESOLUTION

Legaltech News
By Bryan Mechell and Kris Teng
June 6, 2018

Parties involved in negotiating and resolving license-compliance disputes can consider various strategies to help navigate the process and avoid expensive litigation.

The market for innovative desktop and cloud-based software solutions is expanding rapidly, driven by the Internet of Things, growth in the fintech and healthcare IT sectors, and advances in artificial intelligence. This change underscores the importance of protecting intellectual property and contractual rights in software-based assets.

However, software licensees and licensors alike often encounter rapid changes in technology, business objectives, and market preferences that can lead to significant disputes over software license agreements. Thus, software license audits are becoming increasingly common. Parties involved in negotiating and resolving license-compliance disputes can consider various strategies to help navigate the process and avoid expensive litigation.

COMMON ISSUES

From desktop and enterprise applications to cloud-based SaaS, PaaS, and IaaS (software, platform, and infrastructure as a service, respectively), software license disputes often arise over linguistic imprecision in defining the product being licensed, and hence the units used to calculate royalties due. Common issues arise when licensed software is unexpectedly accessed by licensee employees, customers, or outside contractors beyond the intended scope of the license. And the terminology used in the license may incompletely capture changes in technology or business models occurring since the license's drafting.

Recent cases illustrate some common issues with license interpretation leading to software license disputes:

- *Phoenix Technologies Ltd. v. VMware, Inc.:* On June 12, 2017, a jury found that VMWare's products incorporating Phoenix's copyrighted BIOS (firmware typically used to initialize hardware during the booting process) fell within its BIOS software-licensing agreement with Phoenix, so did not infringe Phoenix's copyright. The dispute involved whether the license term "standard PC platform" covered VMware's virtualization products running on servers or only products running on a desktop/laptop computer with a preinstalled operating system. The jury decided that this term covered VMWare's server-virtualization products, so did not award Phoenix the $110 million in damages it sought.

- *SAP SE v. Anheuser-Busch InBev SA/NV:* On June 30, 2017, SAP settled its $600 million software-licensing claim against Anheuser-Busch InBev, one of the world's largest brewing companies. SAP had commenced arbitration in New York four months earlier, in February. Though the arbitration proceedings were kept confidential, InBev's SEC filings and trade press reveal that the dispute centered on the alleged underpayment of fees due under a licensing agreement, fees allegedly resulting from InBev customers' indirect access to InBev's implementation of the SAP enterprise resource-planning SaaS solution through Salesforce.com.

NAVIGATING DISPUTES

Parties involved in negotiating software license disputes can consider the following five steps to help navigate the process:

Step 1:
Assess the Scope of Key License Terms and Potential Impact on Other Licenses.

Step 2:
Determine Potential Damages and Settlement Value.

Step 3:
Establish Business-Level Discussions to Exchange Views and Desired Outcomes.

Step 4:
Consider Redrafting the License Agreement to Resolve Ambiguities.

Step 5:
Harmonize and Integrate New Terms Into Other Existing Agreements.

STEP 1: ASSESS THE SCOPE OF KEY LICENSE TERMS AND POTENTIAL IMPACT ON OTHER LICENSES.

Many license disputes result from differing interpretations of key terms, such as "standard PC platform" in the *Phoenix Technologies* case. The parties may have differing views on whether the license covers a particular technology, such as software on a server, or type of use, such as indirect use by customers through Salesforce.com.

At the outset, both licensor and licensee should assess not only the merits of each side's competing views on the term(s) in dispute, but also any other terms that might affect or be affected by each interpretation of the disputed terms. This may require examining how different interpretations may affect other license agreements on similar technology. Obtaining a holistic view of the license terminology and landscape of encumbered technology not only results in an assessment of the merits of the specific dispute, but also allows the parties to assess broader approaches to resolving their disagreement.

STEP 2: DETERMINE POTENTIAL DAMAGES AND SETTLEMENT VALUE.

Both licensor and licensee should assess the potential financial liability and settlement value of the dispute, accounting for litigation risks and costs. This requires identifying the length and extent of the breach of contract and any resulting infringement of intellectual property rights, potential monetary damages, relative strengths and weaknesses of competing legal positions, likelihood of success at each stage of litigation, and the effects on both parties of a license-agreement termination (whether justified or wrongful). This assessment should also include identifying potential sources of indemnification or insurance coverage.

The licensee is sometimes in a better position to estimate this liability than the licensor, since the licensee might have a better understanding of the extent it is using the licensed software. Though a formal audit or discovery may narrow this gap, these procedures cannot entirely eliminate the knowledge difference. That said, the licensee may wish to avoid the costs of a third-party audit or legal proceeding by willingly providing the licensor information on its software use, including by conducting a self-audit.

STEP 3: ESTABLISH BUSINESS-LEVEL DISCUSSIONS TO EXCHANGE VIEWS AND DESIRED OUTCOMES.

After assessing potential liability and damages, the parties should consider establishing a good-faith dialogue attempting to resolve the dispute. This dialogue can serve as the first step toward restoring trust between the parties, allowing the parties to eventually reach a fair and reasonable resolution that maintains the future value of their business relationship.

Parties should carefully consider the scope of business-level discussions, employees involved, and parameters for sharing information. Disclosing information does carry litigation risk that can be difficult to control by non-disclosure agreements and Federal Rule of Evidence 408, but information sharing can be an important first step in helping the parties reach a comfort level for potential resolution. Parties concerned about disclosing technical information should carefully consider the legal framework regarding the exchange of information and viewpoints during license dispute negotiations.

STEP 4: CONSIDER REDRAFTING THE LICENSE AGREEMENT TO RESOLVE AMBIGUITIES.

During business-level discussions, the parties should not focus solely on who is at fault in the current dispute. Rather, they should also consider the talks as an opportunity to redraft the license agreement to avoid ambiguities revealed since its original drafting. Ambiguities may result from rapid changes in technology, business models, and even the meaning of the words themselves. Resolving ambiguities, including any that gave rise to the current dispute, by redrafting affords the parties a chance to productively refocus their business relationship toward a mutual goal of avoiding costly future legal proceedings. Parties can also consider refining or adding new audit provisions that help reestablish trust and mutual understanding going forward.

STEP 5: HARMONIZE AND INTEGRATE NEW TERMS INTO OTHER EXISTING AGREEMENTS.

In the event parties are able to resolve a software license dispute through negotiation, the parties should consider building into other existing license agreements the newly negotiated terms and conditions of the resolution, including those stemming from any redrafting efforts. Integrating new terms into existing agreements can help the parties avoid similar disputes in the future, and ideally will provide a clearer, solidified foundation for future development of the licensor–licensee business relationship.

BRYAN MECHELL

Bryan Mechell is a principal in the Intellectual Property and Technology group of Robins Kaplan LLP and has experience advising a variety of clients in intellectual property disputes. Bryan is registered to practice before the United States Patent and Trademark Office and can be reached at bmechell@robinskaplan.com or 612-349-0172.

KRIS TENG

Kris Teng is an associate in the Intellectual Property and Technology group of Robins Kaplan LLP. Kris is registered to practice before the United States Patent and Trademark Office, the Federal Circuit, and numerous other federal and state courts. Kris can be reached at kteng@robinskaplan.com or 612-349-0973.