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# QUARTERLY

Tackling Tough Business Litigation Matters

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## IN NO UNCERTAIN TERMS: STRATEGIES FOR ASSESSING AND MITIGATING RISK IN TECHNOLOGY AND SOFTWARE LICENSE DISPUTES

BY BRYAN J. MECHELL

Software providers, asset managers, and licensees can consider various strategies to help assess risk and effectively negotiate software license compliance disputes.

Software is the heartbeat of every industry. Rapid changes in technology, business objectives, and market preferences experienced by software licensees and licensors alike have historically resulted in significant disputes over software license agreements. On top of this, the pandemic has accelerated the evolution of ways in which software is used, distributed, and leveraged in today's increasingly demanding and hybrid work-from-home models.

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REWRITING THE ODDS

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Technology and software license disputes often arise over linguistic imprecision in defining the software product being licensed, restrictions on use, and how license fees are calculated. Users beyond the intended scope of the license may access the software, a licensee may make unauthorized copies outside of geographic restrictions, or the terminology in the license may incompletely capture more recent changes in technology or business models.

As trial lawyers, we advise clients on all sides of technology and software license disputes and see firsthand how previously agreed-upon terms and other issues relating to license agreements play out in negotiation and — when an amicable resolution cannot be reached — the courtroom.

Leveraging this unique perspective, we offer strategies that parties seeking to enforce or defend their intellectual property and contractual rights to software-based assets can consider helping navigate the process and avoid expensive litigation.

## **IDENTIFY KEY LICENSE TERMS AND SCOPE**

Many license disputes result from differing interpretations of key terms. The parties may have differing views on how licensed software can be used (e.g., types of copies allowed), how license fees are calculated (e.g., per copy, per core, user/seat based), who can access software (e.g., employees, contractors, other third parties), and field of use (e.g., technology types, geographic restrictions). Understanding the type of software license and restrictions on copying are critically important.

For instance, ambiguity over license terms regarding what constitutes “use” of the software may give rise to disputes. *In Quest Software, Inc. v. Nike, Inc.*, Case No. 3:18-cv-00721 (D. Or. 2018), the dispute involved the definition of “unauthorized users” in Nike’s Software License and Service Agreement (“SLSA”) with Quest. A large part of the damages in dispute related to users who simply had access to Quest software (e.g., “potential” users), whether they used the software or not. A key question for resolution in the lawsuit was therefore what constitutes an “authorized” user under the terms of the SLSA. According to Quest, if a user could access or was permitted to access its software, the SLSA required a licensing fee, even if the user had no need or history of using the software. Nike, on the other hand, argued the SLSA merely required payment for “all unauthorized users,” that the ordinary meaning of “user” meant individuals that actually executed Quest’s software, and therefore only direct users required a fee. The case ultimately settled on confidential terms.

One takeaway for companies assessing risk in their own potential disputes in light of software license disputes like *Quest v. Nike* is that parties should assess not only the merits of each side’s competing views on the license term(s) in dispute but also any other terms that might affect or be affected by each interpretation of the disputed terms. Terms relating to restrictions on use, types of copies

that can be made, geographic provisions, privacy and security, data ownership, warranties, and software uptime/downtime requirements all merit a close look.

Keep in mind that different interpretations of terms may affect existing license agreements on similar technology. Therefore, taking a global approach to assessing key license terms not only addresses the merits of a specific dispute but could also help identify broader solutions going forward.

### **PAY SPECIAL ATTENTION TO AFFIRMATIVE OBLIGATIONS**

Like any dispute, litigation arising from breach of a software license agreement can strain collaborative business relationships that are key to both parties' business continuity.

Exemplifying this point was a recent dispute between Hewlett-Packard Co. and Oracle Corp. involving Oracle's violation of an affirmative contract term requiring Oracle to support software on HP's Itanium server. Despite having previously agreed to support HP's Itanium server, Oracle discontinued all software development on the Itanium processor, arguing that it was simply a long-standing "voluntary" business relationship, not a mandatory provision. The California Appellate Court disagreed, holding that the agreement's "mandatory language which appears in a contractual setting where previously no contract had existed, necessarily creates new legal duties." In other words, Oracle had affirmatively bound itself by contract to "continue" certain conduct—the scope of which was defined by past voluntary practices. The California appellate court affirmed HP's \$3 billion win against Oracle. *Hewlett-Packard Co. v. Oracle Corp.*, 65 Cal.App.5th 506 (2021).

An important takeaway from the *HP v. Oracle* case is for software providers and licensees to regularly review contractual relationships for affirmative obligations that might be similarly construed, especially when discontinuing support for software products that might be tied to third-party hardware. For example, agreements made 10 years ago may be tied to outdated or defunct hardware. Conversely, software providers involved in mergers or acquisitions, such as acquiring new software technologies from an existing provider, should look closely at any affirmative obligations and duties to existing licensees absorbed as part of the acquisition.

### **QUANTIFY THE DISPUTE AND ASSOCIATED BUSINESS RISK**

When faced with a potential breach of license agreement, software licensors and licensees should conduct a holistic assessment of potential financial liability, factoring in the cost of litigation and likelihood of success, potential monetary damages, the effect that termination of the license agreement would have upon their business, as well as any potential sources of relief through indemnification or insurance coverage.



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For software licensors, quantification of the dispute and associated business risk should be considered as a matter of course in connection with license audit practices and periodic reviews of license compliance. Developing a fulsome understanding of the potential damages and impact escalation might have on revenue streams provides valuable data points for decision makers on business and legal teams.

For software licensees, a holistic assessment of the above issues has the added benefit of helping licensees develop a more complete picture of their use of the licensed software in different situations — particularly those involving on-premises software. And, sometimes, business-level discussions where a party voluntarily provides more detailed information on software use can enable a good-faith dialogue for resolving a dispute. Disclosing such information comes with risks and should only be done after consulting legal counsel.

## **RESOLVE AMBIGUITIES AND FUTURE-PROOF AGREEMENTS**

If the framework of the license dispute allows, parties should consider taking the time to resolve ambiguities and future-proof agreements now to prevent additional disputes down the road. This might include an agreement to review and, if necessary, redraft other existing licenses to clarify and resolve ambiguities. This effort can focus on known and anticipated changes in technology, infrastructure, and software use. Parties should consider how future changes in computer hardware could impact license terms. For example, the definition and calculation of license payments based on ambiguous definitions of terms for “physical” and “virtual” computer cores has been a common source of disputes in recent software audits. And now that more employees work from home, the increased use of licensed software in different distributed environments and geographic locations presents another source of potential ambiguity when applied to pre-pandemic software licenses. Incorporating new and revised terms into existing agreements could help reduce disputes in the future and has the added benefit of creating a solid shared understanding for the going-forward business relationship.



**Bryan J. Mechell** is a partner in the Robins Kaplan Intellectual Property and Technology Litigation Group, where he helps large companies, small businesses, and inventors assess and protect the value of their IP. He regularly represents emerging and established businesses involved in technology and software license disputes and helps them develop methods for auditing, managing, and enforcing license compliance.

# Victory in Boundary Waters Canoe Area Wilderness Pro Bono Matter

Robins Kaplan LLP is pleased to share a significant victory in a legal challenge to the federal government's renewal of two expired copper-nickel mining leases on land adjacent to the Boundary Waters Canoe Area Wilderness (BWCAW). On January 26, the Biden administration announced the cancellation of the two leases, finding that they were improperly renewed under the administration of former President Donald Trump.

In 2018, Robins Kaplan filed a lawsuit on behalf of the Friends of the Boundary Waters Wilderness in the United States District Court for the District of Columbia, alleging that the Bureau of Land Management's (BLM) reinstatement of these expired mining leases will allow further exploration and development of a sulfide-ore copper-nickel mine that is incompatible with the wilderness character of the area. That lawsuit claims the BLM's decision to reinstate the expired leases was arbitrary, capricious, contrary to law, and exceeded the government agency's authority, while improperly disregarding a decision by the U.S. Forest Service to not consent to the lease renewal due to the inherent risk of damage from the proposed mine. In 2020, after the BLM completed the renewal of those leases, Robins Kaplan filed a second lawsuit claiming that the renewal was conducted without an adequate environmental review under improper political pressure from certain legislators.

On January 26, the Interior Department announced the cancellation of the mineral leases, based on a legal determination by its Solicitor General that the leases had been renewed in violation of multiple legal authorities, including by failing to recognize the Forest Service's consent authority and failing to conduct an adequate environmental review. Interior Secretary Deb Haaland explained, "After a careful legal review, we found the leases were improperly renewed in violation of applicable statutes and regulations, and we are taking action to cancel them."

"The Interior Department's action heralds a complete victory in our long-running effort to preserve and protect the Boundary Waters Canoe Area Wilderness," said Partner Steve Safranski, counsel to the Friends of the Boundary Waters Wilderness. "We are proud to have partnered with the Friends of the Boundary Waters Wilderness to ensure the future of this area which has been a national ecological treasure and an iconic destination in Minnesota for generations." This decision was hailed by Minnesota Congresswoman Betty McCollum as a "monumental victory for the Boundary Waters."

Protected by federal law for more than 100 years, and now by federal statute, the BWCAW is the largest wilderness area east of the Rocky Mountains. It is renowned for its water quality and provides an abundant habitat for thousands of species of wildlife, including three threatened or endangered species, and offers opportunities for ecological studies and exceptional wilderness experiences. The National Geographic Society recognized the BWCAW as one of the planet's "50 Places of a Lifetime."

Robins Kaplan partners **Richard Allyn** and **Bryan Mechell** and counsel **Eric Barstad** and staff attorney **Siobhan Jamsa** also represented the Friends of the Boundary Waters Wilderness in this case.





## Robins Kaplan Secures Complete Dismissal of \$160 Million Copyright and Software License Dispute

The Robins Kaplan trial team consisted of Christopher Larus, David Prange, Benjamin Linden, Emily Tremblay, Rajin Olson, and Akina Khan.

On June 14, 2022, a Minnesota federal jury issued a complete defense verdict in favor of Erie Custom Computer Applications, Inc. and Payroll World, Inc., two second-generation family-owned payroll processing companies, dismissing \$27.4 million in remaining claims in a significant software licensing dispute. Including previously dismissed claims, total asserted damages in this case exceeded \$160 million.

In March 2019, MPAY Inc. filed suit against multiple companies that compete in the payroll servicing and human capital management software industries, asserting claims of copyright infringement, trade secret misappropriation, tortious interference with prospective economic advantage, and breach of contract.

In the complaint, MPAY alleged that defendants improperly used, copied, and distributed source code and software related to MPAY's payroll processing software, and that in doing so, defendants violated a membership agreement of OnePoint Solutions, LLC, a software commercialization company to which MPAY and the defendants were members, and to which MPAY had provided source code development and licensing rights.

Robins Kaplan LLP served as lead defense counsel for defendants Erie Custom Computer Applications, Inc. and Payroll World, Inc.

Earlier in the case, Robins Kaplan secured a summary judgment ruling that dismissed trade secret misappropriation, copyright infringement, and breach of contract related to the alleged misuse of source code owned and licensed by OnePoint, which together represented exposure of nearly \$86.8 million for defendants. Through successful pre-trial motion practice, the firm then eliminated approximately \$45.1 million in additional potential liability.

On June 14, 2022, a federal jury awarded defendants a complete defense verdict on the remaining claims of breach of contract, direct copyright infringement, contributory copyright infringement, vicarious copyright infringement, and tortious interference with prospective economic advantage related to alleged improper sublicensing and distribution of software executable programs used for payroll processing. MPAY requested approximately \$27.4 million in damages from the jury.

"This hard-fought verdict allows our clients to continue to develop and license their industry-leading payroll processing software to small business customers," said Robins Kaplan Partner David Prange.

**"This was bet-the-company litigation that was a significant threat to our clients' licensing business. We are thrilled to have obtained a sweeping verdict in their favor."**

—CHRISTOPHER LARUS, CHAIR OF THE ROBINS KAPLAN  
IP AND TECHNOLOGY LITIGATION GROUP



# FRONT AND CENTER

## Three Robins Kaplan Attorneys Named 2022 Notable Partners in Law



PATRICK ARENZ

Robins Kaplan LLP is pleased to announce that Patrick Arenz, Tara Sutton, and Brandon Vaughn have been recognized as Notable Partners in Law by *Twin Cities Business*.

**Patrick Arenz** handles high-stakes disputes for a diverse set of clients, ranging from Fortune 100 companies to small businesses and individuals. In 2021, he served as lead trial counsel in a personal injury case where his team secured a \$27.8 million jury verdict, including \$10 million in punitive damages, on behalf of a top Twin Cities plastic surgeon who endured an amputated leg after Assist America refused to evacuate him for proper medical care. This verdict has been reported as one of the largest personal injury verdicts in Minnesota history.



TARA SUTTON

**Tara Sutton** is the chair of the firm's Mass Tort Group and a member of the Executive Board. She currently serves as co-lead counsel on behalf of the State of Minnesota in its suit against JUUL Labs, and recently spearheaded the negotiation of a \$590 million settlement on behalf of hundreds of Tribal governments in the Opioid multi-district litigation.



BRANDON VAUGHN

**Brandon Vaughn** is a personal injury, medical malpractice, and product liability attorney who provides advocacy for those who have been harmed due to another party's negligence. He is currently investigating several wrongful death matters, including the death of a young woman alleged to have been killed by a resident in a group home who was not being administered antipsychotic medications appropriately and the wrongful death of a college athlete due to alleged hazing in a national sorority.



# Robins Kaplan Named Midwest Firm of the Year for Trademark Contentious by Managing IP

Robins Kaplan LLP is pleased to have been named 2022 Midwest Firm of the Year in the category of Trademark Contentious by *Managing Intellectual Property*. Additionally, the firm was shortlisted for Midwest Firm of the Year in the category of Patent Contentious and Christopher Larus was one of five attorneys named to the shortlist for Litigator of the Year – Minnesota.

**Christopher Larus** is the chair of the firm’s National IP and Technology Litigation Group. For more than 25 years, he has helped leading technology companies protect and monetize their intellectual property. He tries complex patent, trade secret, trademark, copyright, and licensing dispute cases in courts throughout the United States and in both national and international arbitration. He has extensive experience planning and implementing licensing campaigns involving a broad range of intellectual property assets and technologies.

*Managing IP* is a leading source of news and analysis of intellectual property developments worldwide. Its annual awards are presented to firms, individuals, and companies behind the most innovative and challenging IP work of the past year, as well as those driving the international IP market.



CHRISTOPHER LARUS



ASHTON BATCHELOR

## Ashton Batchelor Named Chief Value and Analytics Officer

Robins Kaplan LLP is pleased to announce that Ashton Batchelor has been promoted to Chief Value and Analytics Officer.

In this newly created role, Batchelor will lead deployment of innovative value solutions across the firm to optimize the way Robins Kaplan delivers legal services to its clients. She will work closely with firm leadership and attorneys to drive strategy and create leading-edge performance improvement initiatives. Batchelor will continue to lead the firm’s Pricing, Legal Project Management (LPM), and Financial Analytics functions.

“We are thrilled to have Ashton taking on this new role at the firm. Ashton joined us in early 2018 and quickly earned the trust of our partners and leaders by building high-performing teams and bringing her industry knowledge and expertise to bear on our most impactful strategic initiatives,” says Ronald J. Schutz, chair of the firm’s Executive Board. Chief Operating Officer and Chief Financial Officer Tom Schwartz adds: “With Ashton leading the way in this new role, we look forward to building upon our efforts to enhance value and efficiency in our work and deepen partnerships with our clients.”

Batchelor holds certifications in legal project management and co-founded the firm’s ACCELERATE Value Solutions Academy program. Previously, Batchelor held leadership roles in legal project management and pricing at two national law firms.



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**“I take great pride in the way we have served our clients and community over the past four decades, and I look forward to seeing our office continue to grow and flourish with the guidance of our emerging leaders.”**

– TONY FROIO, MANAGING PARTNER  
OF THE BOSTON OFFICE

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Celebrating the Present.  
Envisioning the Future.**

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