

License Agreement Lessons From Ford Trade Secrets Case

By **Mariam Sarwar and Anne Li** (December 14, 2022, 4:59 PM EST)

After seven years of contentious litigation, a jury in the U.S. District Court for the Eastern District of Michigan **found** Ford Motor Company liable for \$105 million in damages for misappropriating trade secrets and breaching a licensing agreement with software company Versata Software Inc. on Oct. 26.

The dispute centered around Versata's automobile configuration software, known as ACM, which it licensed to Ford in the late 1990s.[1]

The case serves as a cautionary tale on the possible consequences of acquiescing to broad contractual provisions relating to reverse engineering in licensing agreements if a licensee goes on to develop software that could be construed as similar after the agreement is terminated or expires.

A dispute had previously arisen between the contracting parties in 2001 relating to, among other things, ownership of the ACM software.[2] Ford and Versata avoided litigation at the time by entering into a business settlement and software subscription agreement, under which Versata continued to license the ACM software to Ford.[3]

The parties entered into a subsequent master subscription and services agreement, or MSSA, in 2004, which superseded all previous agreements between the parties and similarly granted Ford a license to continue use of the ACM software in its vehicles.[4]

Importantly, the MSSA prohibited Ford from copying, reproducing or distributing Versata's confidential information and provided that, "in no event shall Ford disassemble, decompile or reverse engineer the Software or Confidential Information ... or permit others to do so." [5] The agreement provided that disassembling, decompiling and reverse engineering included:

- (i) converting the Software from a machine-readable form into a human-readable form; (ii) disassembling or decompiling the Software by using any means or methods to translate machine-dependent or machine-independent object code into the original human-readable source code or any approximation thereof; (iii) examining the machine-readable object code that controls the Software's operation and creating the original source code or any approximation thereof by, for example, studying the Software's behavior in response to a variety of inputs; or (iv) performing any



Mariam Sarwar



Anne Li

other activity related to the Software that could be construed to be reverse engineering, disassembling, or decompiling.

According to Ford, the relationship between the parties was far from perfect. Ford alleged that the ACM software had material performance problems which "naturally led to frustration within Ford," and that Ford had even been "bombarded with phone calls regarding [ACM] performance." [6]

Based on these performance issues, and unbeknownst to Versata, Ford began working in its Research and Innovation Center to develop its own automobile configuration software to replace ACM. [7]

By 2014, the parties were unable to reach an agreement to renew Ford's license of the ACM software, and Versata terminated Ford's license to its software later that same year. Ford decommissioned the ACM software in its vehicles in December 2014 and implemented its own replacement software, PDO. [8] Upon learning of this, Versata accused Ford of infringing its technology in developing the new software.

Ford responded by filing suit against Versata in 2015 in the Eastern District of Michigan, seeking declaratory judgment that it did not infringe or misappropriate Versata's intellectual property. [9] Versata filed a counterclaim alleging that Ford had infringed the patents, stole Versata's trade secrets and breached agreements between the parties. [10] According to Versata:

[PDO] — like ACM — is a back-end system used to configure vehicles from billions of possible combinations of parts, features, and options. When a Ford dealer attempts to place an order through Ford's Web Based Dealer Ordering ("WBDO") system — for example, an order for 250 Ford Mustangs in different colors with sunroofs and 20 inch wheels — [PDO] supplies the 'rules' that ensure configuration results in an integrated, working vehicle system that Ford is able to manufacture and sell. Likewise, when a retail customer attempts to customize a Ford F-150 pickup using Ford.com, [PDO] ensures that the customer is only able to select options that Ford could build. [11]

Versata alleged that Ford incorporated Versata's technologies and trade secrets into PDO, and used these technologies to replace ACM. [12]

At trial, Versata argued that Ford had misappropriated its trade secrets in violation of both the Defend Trade Secrets Act and the Michigan Uniform Trade Secrets Act, alleging that multiple Ford PDO developers had improper access to ACM materials, had ACM code on their computers, or actually used ACM to develop Ford's PDO software. [13]

Versata asserted that the resulting PDO software was "remarkably similar to Versata's software," with derivations if not exact copies of Versata technology found in PDO. [14]

Versata further alleged that the same evidence showed that Ford had breached the MSSA by reverse engineering or copying Versata's licensed software in violation of the MSSA, and by distributing confidential information outside the bounds permitted by the MSSA. [15]

With regard to the Versata's four asserted trade secrets, the jury found three out of four constituted valid trade secrets and had been misappropriated by Ford. [16] Ford was found to owe Versata in excess of \$22.3 million for the misappropriation alone. [17]

However, the jury also concluded Ford's misappropriation was not willful or malicious. With regard to

the MSSA, the jury found that Ford has breached the MSSA by both misusing and disclosing Versata's confidential information, and by reverse engineering Versata's software for its own commercial use.

Ford was ordered to pay approximately \$81.5 million for these breaches. Ford urged the court to reduce the verdict last week.

Companies entering into licensing arrangements should be mindful of broad contract provisions preventing reverse engineering or information disclosure.

For example, contract language that prevents a licensee from "performing any other activity related to the Software that could be construed to be reverse engineering, disassembling or decompiling" can severely impede that licensee from creating similar software in the future if they choose to end the licensing arrangement and develop their own technology.

Former licensees should also carefully assess whether the development of new technology could be viewed as having used remnants of previously licensed technology owned by other parties.

For best practices at the outset of a licensing agreement, companies should carefully track which employees have access to in-licensed information and where it is held.

At the end of a license agreement, companies should wall off those who worked with licensed technology from any teams that are working on developing new software, restricting access to previously licenses information or — better — ensuring its destruction. Taking careful steps at the outset and end of license agreements can save time and headaches on new innovations.

Mariam Sarwar is an associate and Anne Li is a partner at Crowell & Moring LLP.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of their employer, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

[1] Ford Motor Co. v. Versata Software, Inc., No. 15-11624, 2016 WL 6650380, at *1 (E.D. Mich. Nov. 10, 2016).

[2] Id.

[3] Id.

[4] Id.

[5] Exhibit B – Master Subscription and Services Agreement at Section 1.7, Ford Motor Co. v. Versata Software, Inc., No. 15-10628 (E.D. Mich. Nov. 10, 2016), ECF 132-3.

[6] Ford Motor Company's Motion for Summary Judgment, Ford Motor Co. v. Versata Software, Inc., No. 15-10628 (E.D. Mich. Nov. 10, 2016), ECF 358 at 4, 5.

[7] Ford Motor Co. v. Versata Software, Inc., 2016 WL 6650380, at *1.

[8] Ford Motor Company's Motion for Summary Judgment, Ford Motor Co. v. Versata Software, Inc., No. 15-10628 (E.D. Mich. Nov. 10, 2016), ECF 358 at 8.

[9] Ford Motor Co. v. Versata Software, Inc., No. 15-11624, 2019 WL 1375509, at *1 (E.D. Mich. Mar. 27, 2019).

[10] Ford Motor Co. v. Versata Software, Inc., 2016 WL 6650380, at *1.

[11] Ford Motor Co. v. Versata Software, Inc., No. 15-11624, 2017 WL 4803705, at *1 (E.D. Mich. Oct. 25, 2017).

[12] Id.

[13] Versata's Anticipatory Response to Ford's Motion for Judgment as a Matter of Law, Versata v. Ford, No. 15-10628 (Oct. 18, 2022), ECF 983 at 13.

[14] Id. at 14.

[15] Id. at 21.

[16] Verdict Form, Versata v. Ford, No. 15-10628 (Oct. 18, 2022), ECF 1004.

[17] Id.