

Lessons for Safely Switching Software

Even if you are not a software developer, chances are your company is a software user. A recent decision in *ECIMOS v. Carrier* by the Court of Appeals for the Sixth Circuit (the Court) is a good reminder about the potential pitfalls of switching from your existing software provider to a new software provider.

Our key takeaways illustrate lessons involving contracts, copyright, and trade secrets when switching software providers.

Key Takeaways

1. Do **NOT** use any code from your existing software provider to develop new software.
2. Do **NOT** provide any code or derivative of any code from your existing software to your new software developer.
3. Consider whether anyone involved with the acquisition or development of your existing software should be involved in the acquisition or development of new software.
4. If you are a software developer, do **NOT** accept any code or derivative of any code from your client's existing code.
5. Be sure you have nondisclosure agreements with your employees and third parties who may have access to your confidential information, including trade secrets and software code.
6. Limit access to your confidential information to only those who have a need to know such information.
7. Document information you consider to be confidential or trade secret information.
8. Train your employees on what they can and cannot do with your company's confidential and trade secret information.

Facts

The case began in 2015 when ECIMOS, a software developer, sued Carrier, a manufacturer of heating, ventilation, and air conditioning (HVAC units) for breach of contract, copyright infringement, and misappropriation of trade secrets.

Prior to filing the lawsuit, ECIMOS developed software that enabled quality-control testing of Carrier's HVAC units and provided Carrier with database storage for the test results. A license granted to Carrier by ECIMOS for the software included use of the database-script source code (database code) and the software-script source code (software code). However, the license provided that Carrier could not copy, reverse engineer, distribute, or create derivative works based on the software developed for it by ECIMOS.

After using the licensed software for nearly two decades, Carrier made a software switch. Carrier approached another software developer, Amtec, to replace the ECIMOS software. In preparing for this switch, Carrier used ECIMOS's database code to create a similar data-storage procedure and data-storage "results table." Carrier then sent that code to Amtec. Amtec ultimately used that code in the new software it developed for Carrier.

Following a jury trial, the court found in favor of ECIMOS on all three claims. Both parties appealed.

Breach of Contract

The Court affirmed the trial court's ruling on the breach of contract claim. Specifically, the Court determined that Carrier violated the nondisclosure provisions of the license agreement when it provided the similar data-storage procedure and data-storage "results table" database code to Amtec. The Court awarded ECIMOS \$401,250 for Carrier's breach of contract.

Copyright Infringement

The Court also affirmed the trial court's ruling on the copyright infringement claim, finding that software developed by Amtec and used by Carrier infringed ECIMOS's database code. The Court rejected Carrier's argument that any copying was only *de minimus*, i.e., not quantitatively or qualitatively sufficient to justify liability for damages. The Court's award of \$164,800 in actual damages was based on the fair market value that Carrier would have paid for the software but for its infringing activities, and the disgorgement of profits award of \$5 million was approximately 2.2% of Carrier's total profits during the relevant time period.

Misappropriation of Trade Secrets

Finally, the Court affirmed the trial court's ruling on the trade secret claim. Specifically, the Court found that ECIMOS's software code, hardware drawings, and wiring diagrams were trade secrets under applicable law. As a result, the Court affirmed the trial court's injunction prohibiting Carrier from disclosing ECIMOS's trade secrets to any third parties.

If you would like to learn more about how to successfully avoid the potential pitfalls of making a software switch, please contact a member of the [Chambliss Intellectual Property section](#).