Change Healthcare Operations, LLC v WEBMD Health Corp.
2017 NY Slip Op 32725(U)
December 22, 2017
Supreme Court, New York County
Docket Number: 651775/2017
Judge: Shirley Werner Kornreich

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 54

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CHANGE HEALTHCARE OPERATIONS, LLC

Index No.: 651775/2017

DECISION & ORDER

Plaintiff,

-against-

WEBMD HEALTH CORP.,

Defendant.

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HON. SHIRLEY WERNER KORNREICH:

Defendant WebMD Health Corp. ("WebMD") moves to dismiss the complaint of plaintiff Change Healthcare Operations, LLC ("CHC") pursuant to CPLR 3211(a)(1) and (7), for a declaration interpreting the parties' agreement, and for a stay of discovery pending the outcome of the motion to dismiss. CHC opposes.[1] For the reasons that follow, WebMD's motion is granted in part and denied in part.

I. Factual Background & Procedural History

As this is a motion to dismiss, the facts recited are taken from the Complaint (Dkt. 27) [2] and the documentary evidence submitted by the parties.

CHC is a provider of claim submission services and administrative, revenue, and payment cycle solutions to healthcare providers and payors. Complaint ¶¶ 2, 13-14. WebMD provides health information services to consumers, healthcare professionals, and insurance companies. *Id.* ¶ 15. CHC and WebMD are parties to an Amended and Restated Data License Agreement with an effective date of February 8, 2008 (Agreement), which supplanted an earlier

[1] On November 13, 2017, the parties stipulated to stay discovery until January 15, 2018. Dkt. 46.

[2] References to "Dkt." followed by a number refer to documents filed in this action on the New York State Courts Electronic Filing system (NYSCEF).

Data License Agreement dated as of September 25, 2006 (Original Agreement).[3] Complaint ¶ 1; Dkt. 28 (Agreement) at 1, 26-27; Dkt. 35 (Original Agreement). The Agreement is governed by New York law. Dkt. 28 (Agreement) at 25-26.

The Agreement concerns licensing, distribution, and exploitation of data that CHC collects relating to healthcare services (Business Services Data). *Id.* at 1. Article III of the Agreement, titled "Provision of Information and Materials", obligates CHC to supply certain Business Services Data, which is used to generate De-Identified Data in accordance with WebMD's functional requirements.[4] *Id.* at 8-13; *see also id.* at 32-44. Under Article II, titled "License Grant", CHC granted WebMD certain rights to the De-Identified Data, including the right to sublicense. *Id.* at 5-8. After execution of the Agreement, WebMD issued sublicenses to others (the Sublicensees); CHC has provided and will continue to provide De-Identified Data directly to the Sublicensees until the term expires in February 2018 (Historical Data). *See* Complaint ¶¶ 3, 20.

The parties dispute who owns certain rights to the Historical Data after the February 8, 2018 expiration of the Agreement's ten-year term. Although the parties agree that CHC's obligation to supply data ends at that time, they disagree as to whether WebMD's exploitation and sublicensing rights of the Historical Data also end at that time, and whether the exclusive rights to exploit and sublicense the Historical Data will thereupon revert to CHC. Complaint ¶¶ 4-5, 36. CHC, claiming that WebMD's exclusive rights to the Historical Data terminate on

[3] The named parties to the Agreement are CHC and WebMD's predecessors-in-interest. Specifically, EBS Master LLC is predecessor-in-interest to CHC, and HLTH Corporation is predecessor-in-interest to CHC. Complaint ¶¶ 16-18. This decision refers to the successors-in-interest, CHC and WebMD, in lieu of the original parties to the Agreement.

[4] The process of "De-Identification" removes identifying information to protect patient confidentiality and comply with applicable law, including the Health Insurance Portability and Accountability Act (HIPAA); both the process and the selection of the vendor to perform it are subject to approval by CHC. Dkt. 28 (Agreement) at 3, 9-12.

February 2018, has attempted to enter agreements directly with WebMD's Sublicensees, effective February 2018, to license both the Historical Data and new data that CHC will generate after the Agreement's end. *Id.* ¶¶ 4, 6, 26. CHC alleges that WebMD has told these Sublicensees, on several occasions since January 2016, that WebMD will continue to maintain exclusive rights to the Historical Data; CHC also alleges that WebMD has demanded fees for the Sublicensees' continued use of the Historical Data after February 2018.[5] *Id.* ¶¶ 5, 26-33. CHC avers that WebMD is impeding its licensing efforts and jeopardizing the Sublicensees' work, which includes scientific research. *Id.*[6]

At the heart of this dispute lies § 2.1(a) of the Agreement, which confers on WebMD "an ***irrevocable, exclusive, worldwide, perpetual license*** to use, copy, modify, display, distribute and exploit the De-Identified Data to develop, market, promote, sell, provide and commercialize" certain types of applications, products, and services. Dkt. 28 at 5-6 (emphasis added). The § 2.1(a) license prohibits CHC from using the Business Services Data in ways that fall within the scope of WebMD's exclusivity. *Id.* at 6. Section 2.1(b), by contrast, confers "an irrevocable, ***non-exclusive***, worldwide, perpetual license to use, copy, modify, distribute and exploit the De-Identified Data in any other manner, application, product or service ...." *Id.* at 6. The licenses conferred by §§ 2.1(a) and 2.1(b) were granted "with the right to sublicense in accordance with

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[5] During oral argument on the instant motion, the court requested an example of a sublicense between WebMD and any entity unaffiliated with CHC. Dkt. 43 (Oral Arg. Tr.) at 5:17-7:2. WebMD subsequently e-filed a redacted copy of one such sublicense made with an unnamed third party. Dkt. 44 (Sample Sublicense). The Sample Sublicense grants a "non-exclusive, nontransferable, non-sublicensable United States commercial license and right" to use licensed data for certain purposes and with respect to approved customers. *Id.* at 9. The year-long initial term of the Sample Sublicense is subject to renewal for additional one year terms upon mutual agreement. *Id.* at 19. The Sublicense is subject to termination, upon 30 days' notice from WebMD ***if the Agreement (between WebMD and CHC) expires or is terminated***. *Id.* at 20.

[6] CHC has not indicated what fees it plans to charge the Sublicensees for the Historical Data if the court determines that CHC, rather than WebMD, has the right to do so.

Section 2.5" and made subject to exclusions specified in § 2.2—namely, the rights to "develop, market, promote, sell, provide or commercialize" applications, products, or services providing certain financial, administrative, or accounting-related functionalities. *Id.* at 5-7. Section 2.5 states that WebMD may sublicense its rights under § 2.1 to third parties, subject to §§ 2.2 and 2.3's restrictions. *Id.* at 8. Section 2.3 restricts WebMD from disseminating or sublicensing raw De-Identified Data to certain categories of entities (e.g., CHC's competitors), and from providing any products developed under the § 2.1 license to certain entities. *Id.* at 7.

Having conferred on WebMD "an irrevocable, exclusive, worldwide, perpetual license," the Agreement sets forth a once-renewable, ten-year contract term in § 6.1:

> This Agreement shall become effective on the Effective Date and shall ***continue in effect for a period of ten (10) years*** from the date hereof unless terminated as provided in this Article VI ("Term"). Thereafter, this Agreement ***shall automatically renew for an additional five (5) year term unless*** either party gives notice to the other party at least one hundred and twenty (120) days before the end of the Term of its decision not to renew this Agreement.

Dkt. 28 at 18 (emphasis added). The ten-year term ends on February 8, 2018. Complaint ¶ 25.[7]

Section 6.4, then, provides:

> Effect of Termination. Upon the termination or expiration of this Agreement, ***each party shall return promptly any Confidential Information*** (as defined below) of the other party in such party's possession. Notwithstanding the termination or expiration of this Agreement, ***the applicable rights and obligations in Articles VIII***, X, XI, ***XII*** and XIII ***and Sections 2.6***, 4.1(b), 5.2, ***5.3***, 5.6 (for the period stated therein), 5.7 (for the period stated therein), and 6.4 ***shall survive termination or expiration of this Agreement***.

[7] Additionally, § 6.2 provides for termination upon material breach, and § 6.3 requires WebMD to transfer its rights, subject to CHC's right of first refusal, upon WebMD's acquisition by or of one of CHC's competitors. *Id.* at 18-20.

Dkt. 28 at 20 (emphasis added). Neither § 2.1 nor exclusivity is listed as surviving. Of the enumerated surviving provisions, § 2.6, § 5.3, Article VIII, and Article XII are the most relevant to this dispute. [8]

Article XII relates to confidentiality, non-disclosure, and return of Confidential Information, and specifies in § 12.1 that, "subject to the terms" of the Agreement, each party is obligated to "return or destroy all copies of the other party's Confidential Information upon termination or expiration of this Agreement." *Id.* at 23. Further, § 12.3 gives each party the right to demand return or destruction of its Confidential Information upon request. *Id.* at 24. Section 12.1 defines Confidential Information as "***information about*** the other [party], ***its business activities and operations***, its technical information and ***its trade secrets***, all of which are proprietary and confidential" and excludes, *inter alia*, "information to the extent it … is released from confidential treatment ***by written consent*** of the disclosing party." *Id.* at 23-24. It also provides that "[f]or the avoidance of doubt, ***nothing in this Article XII is intended to modify any rights expressly provided in this Agreement***." *Id.* at 23.

Section 2.6, one of the enumerated surviving sections, which is titled "Continued Use of De-Identified Data," specifies:

> [CHC] hereby agree[s] that, to the extent not otherwise prohibited by Applicable Law and subject to the terms sets forth in Section 4.1(b), ***[WebMD] (or another Person to whom [WebMD] has provided the De-Identified Data in accordance with Article II)***

[8] The remaining provisions listed in the § 6.4 survival clause may be summarized as follows. Section 4.1(b) requires WebMD to comply with laws such as HIPAA that may require destruction of data. Dkt. 28 at 13. Section 5.2 requires WebMD to reimburse certain of CHC's costs. *Id.* at 14-15. Articles X and XI relate to indemnity and limitation of liability, respectively. *Id.* at 22-23. Article XIII includes so-called miscellaneous provisions relating to assignment, notices, third party beneficiaries, waiver, severability, relationship of the parties, governing law and venue, and equitable relief. *Id.* at 24-27. Article XIII also sets forth merger and force majeure clauses, authorizes CHC to represent certain other parties with respect to the Agreement, and releases the parties from obligations under the Original Agreement. *Id.*

> ***may retain De-Identified Data in perpetuity and shall have no obligation to [CHC] ... to purge, delete, or render any De-Identified Data inaccessible***. Subject to Section 2.3, ***[WebMD] (or another Person to whom [WebMD] has provided the De-Identified Data*** in accordance with Article II) ***may combine De-Identified Data with Data from other sources.***

Id. at 8 (emphasis added). Exclusivity is omitted from this section.

Section 5.3 requires WebMD to pay CHC a 20% royalty on certain net revenues, while §§ 5.6 and 5.7 specify the parties' audit rights and require them to maintain certain records for a period of six years. *Id.* at 14-17. Article VIII specifies, *inter alia*, that "subject to the licenses granted in Article II, [CHC] own[s] all intellectual property rights in and to the Data licensed to [WebMD] in accordance with Article II." *Id.* at 21.[9]

CHC filed this action by summons and complaint on April 3, 2017. Dkt. 1 (Summons and Complaint). It asserts the following causes of action, numbered here as in the Complaint: (1) a declaratory judgment declaring that WebMD's right to sublicense the Historical Data will terminate on February 8, 2018; (2) breach of the implied covenant of good faith and fair dealing;

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[9] Compilations of data (e.g., the De-Identified Data) are often copyright-eligible. *See generally* 17 U.S.C. §§ 101, 103; *Feist Publ'ns, Inc., v Rural Tel. Serv. Co.*, 499 U.S. 340 (1991).

In relation to intellectual property ownership, Article VIII further provides that WebMD "owns all intellectual property rights in and to ... any derivative works of any De-Identified Data licensed hereunder created by or on behalf of" WebMD. Dkt. 28 (Agreement) at 21. The Agreement does not define "derivative works". For purposes of federal copyright law, the Copyright Act defines "derivative work" as

> a work based upon one or more preexisting works, such as a[n] ... abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

35 U.S.C. § 101.

(3) tortious interference with prospective business and contractual relations; and (4) unfair competition. In addition to a declaration of the parties' respective rights, CHC seeks compensatory damages and an injunction estopping WebMD from interfering with CHC's prospective licensees.

WebMD now moves for a declaration consistent with its interpretation of the parties' agreement—that it retains irrevocable, exclusive and perpetual rights to the Historical Data—dismissal of the complaint, and a stay of discovery. Oral argument was held September 6, 2017, and the court reserved. Pending the motion, discovery proceeded in accordance with this court's practices until stayed by court order on November 16, 2018. Dkt. 47.

II. Discussion

a. Legal Standard - Motion to Dismiss

On a motion to dismiss a complaint, the court must accept as true the facts alleged in the pleading as well as all reasonable inferences that may be gleaned from those facts. *See Amaro v Gani Realty Corp.*, 60 AD3d 491, 492 (1st Dept 2009); *Skillgames, LLC v Brody*, 1 AD3d 247, 250 (1st Dept 2003), citing *McGill v Parker*, 179 AD2d 98, 105 (1st Dept 1992); *see also Cron v Hargro Fabrics, Inc.*, 91 NY2d 362, 366 (1998). The court is not permitted to assess the complaint's merits or factual allegations, but may only determine if, assuming the truth of the facts alleged and the inferences that can be drawn from them, the complaint states the elements of a legally cognizable cause of action. *See Skillgames*, 1 AD3d at 250, citing *Guggenheimer v Ginzburg*, 43 NY2d 268, 275 (1977). Deficiencies in the complaint may be remedied by affidavits submitted by the party who filed the pleading. *See Amaro*, 60 AD3d at 491. "However, factual allegations that do not state a viable cause of action, that consist of bare legal conclusions, or that are inherently incredible or clearly contradicted by documentary evidence are not entitled to such consideration." *Skillgames*, 1 AD3d at 250, citing *Caniglia v Chicago*

Tribune-New York News Syndicate, 204 AD2d 233 (1st Dept 1994). Further, where dismissal is sought based upon documentary evidence, the motion will succeed if "the documentary evidence utterly refutes plaintiff's factual allegations, conclusively establishing a defense as a matter of law." *Goshen v Mutual Life Ins. Co. of N.Y.*, 98 NY2d 314, 326 (2002), citing *Leon v Martinez*, 84 NY2d 83, 88 (1994).

b. Declaratory Judgment for Interpretation of the Agreement (First Cause of Action)

WebMD seeks dismissal of CHC's first cause of action for a declaratory judgment. It contends that the "irrevocable, ***exclusive***, worldwide, ***perpetual*** license" to "use, copy, modify, display, distribute and exploit" the Historical Data conferred by Article II, § 2.1(a) does not expire after the ten-year term specified in Article VI, § 6.1, but continues without end. Arguing to the contrary, CHC asserts that WebMD's rights to the Historical Data, and the rights of anyone to whom WebMD provided the Historical Data under Article II, are limited to the rights granted in § 2.6. In other words, it contends these rights are limited to retaining De-Identified Data "in perpetuity" and combining the Historical Data with data from other sources. CHC argues sublicensing, exclusivity, and ways to "use, copy, modify, display, distribute [or] exploit" the data apart from retaining or combining it with other data end in February 2018. Each party claims that the Agreement terms unambiguously support its respective position.

Contracts "are construed in accord with the parties' intent." *Greenfield v Philles Records, Inc.*, 98 NY2d 562, 569 (2002). "The best evidence of what parties to a written agreement intend is what they say in their writing. Thus, a written agreement that is complete, clear and unambiguous on its face must be enforced according to the plain meaning of its terms." *Id.* (quotation marks and citations omitted). "A contract is unambiguous if the language it uses has 'a definite and precise meaning, unattended by danger of misconception in the purport of the

[agreement] itself, and concerning which there is no reasonable basis for a difference of opinion.'" *Id.* (brackets in original), quoting *Breed v Ins. Co. of N. Am.*, 46 NY2d 351, 355 (1978). The issue of whether a contract is ambiguous "is a question of law to be resolved by the courts." *W. W. W. Assocs., Inc. v Giancontieri*, 77 NY2d 157, 162 (1990). Moreover, "provisions in a contract are not ambiguous merely because the parties interpret them differently." *Mount Vernon Fire Ins. Co. v Creative Hous. Ltd.*, 88 NY2d 347, 352 (1996). "If the court concludes that a contract is ambiguous, it cannot be construed as a matter of law, and dismissal under CPLR 3211(a)(7) is not appropriate." *Telerep, LLC v U.S. Int'l Media, LLC*, 74 AD3d 401, 402, (1st Dept 2010). "Parol evidence—evidence outside the four corners of the document—is admissible only if a court finds an ambiguity in the contract." *Schron v Troutman Sanders LLP*, 20 NY3d 430, 436 (2013).

WebMD bases its interpretation on the words "irrevocable, exclusive, worldwide, perpetual license" contained in § 2.1(a). It argues that no provision in the Agreement states that the license provided in § 2.1(a) expires at the end of the Agreement term. While the term provision of the Agreement (Article VI, § 6.1) is silent on this point, so is § 6.4, the survival clause. Moreover, § 2.6, which survives termination pursuant to § 6.4, allows WebMD and its sublicensees to retain De-Identified Data in perpetuity, but does not mention exclusivity.

Countering WebMD's interpretation, CHC propounds the general principle that expiration or termination of an agreement to license ends all rights to use the licensed information. Dkt. 32 (Pls.'s Opp. Br.) at 9, quoting Nimmer & Dodd, Modern Licensing Law § 9:11 (2016) ("Unless otherwise specified in the license, termination generally ends all rights to

use the licensed information pursuant to that license.").[10] WebMD responds that its rights ***are*** otherwise specified in the license in § 2.1(a), which, among other things, provides it with a perpetual and exclusive license, and § 2.6, which confers the right to retain the data "in perpetuity." Addressing the word "perpetual" in § 2.1, CHC distinguishes "perpetual" from "in perpetuity" as used in § 2.6, the surviving section, arguing that it does not always mean "forever", but may instead mean "indefinitely long-continued". *See* Dkt. 36 (Definition of Perpetual, Merriam-Webster.com (accessed 5/31/2017)).[11] CHC asserts that the latter interpretation is supported here because the "perpetual" license automatically renews unless notice is given not to renew.[12]

CHC also applies the *expressio unius*[13] canon of interpretation to the survival clause in § 6.4, arguing that no unlisted provision of the Agreement can survive expiration. Section 2.6 is the only Article II provision listed in the survival clause. CHC claims § 2.1, therefore, does not survive expiration. Further, CHC notes that § 2.3, which imposes certain restrictions on the license grant, is also not listed in § 6.4. CHC contends that survival of § 2.1's license grant without § 2.3's restrictions would, absurdly, expand WebMD's rights after the Agreement

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[10] CHC also cites a New York Court of Appeals case concerning a contract for telephone services. *New York Tel. Co. v Jamestown Tel. Corp.*, 282 NY 365 (1940). *Jamestown* is not directly relevant to the survival of rights conferred by an agreement granting a data license.

[11] That a perpetual license is capable of termination, as CHC advances, is not relevant. Dkt. 32 (Pl.'s Opp. Br.) at 11. The question here is whether the Agreement's "perpetual license" is capable of expiration by mere passage of time.

[12] CHC also argues the "perpetual" license merely covers "perpetually" (i.e., continually) supplied data provided during the "indefinitely long contractual relationship." Dkt. 32 (Pl.'s Opp. Br.) at 11 n.3; *see also* Dkt. 43 (Oral Arg. Tr.) at 26:23-27:17. CHC cites no legal authority to support the notion that a "perpetual license" connotes a license to continually-generate material.

[13] *Expressio unius est exclusion alterius*- "[T]he expression of one thing is the exclusion of another....When certain persons or things are specified in a law, contract, or will, an intention to exclude all others from its operation may be inferred." Black's Law Dictionary 521 [5th ed. 1979].

expires. Finally, CHC argues that survival of Article II's licenses after term expiration would render superfluous the post-expiration rights conferred by § 2.6 and § 6.4.

Before proceeding, it is important to understand that § 2.1 and § 2.6 each grant ***distinct*** rights to the De-Identified Data. "The multiple rights of ownership, use, and possession are expressed as '"a bundle of sticks"—a collection of individual rights which, in certain combinations, constitute property.'" *Flo & Eddie, Inc. v Sirius XM Radio, Inc.*, 28 NY3d 583, 624 (2016), *quoting United States v Craft*, 535 US 274, 278 (2002). Section 2.1 confers rights (and exclusive rights for certain purposes) "to ***use, copy, modify, display, distribute and exploit*** the De-Identified Data" and to "***sublicense*** in accordance with § 2.5." Section 2.6, titled "***Continued Use*** of De-Identified Data,"[14] confers the nonexclusive rights to "***retain*** De-Identified Data in perpetuity" and to "***combine*** De-Identified Data with Data from other sources." It also frees WebMD and those to whom WebMD has distributed the De-Identified Data from any obligation to CHC to "purge, delete, or render any De-Identified Data inaccessible." Section 2.6 does not confer the right to make use of the De-Identified Data in any manner other than retaining it or combining it with data from other sources. Conversely, § 2.1 does not expressly confer the right to combine data or to retain it.[15] In sum, even setting aside

[14] Among the Agreement's mysteries is the drafter's choice to employ the word "use" in the title of § 2.6, even though the rights conferred by § 2.6—to "retain" and "combine" data—are not as broad as the right to "use".

[15] It is arguable that rights to "retain" and "combine" (in § 2.6) are impliedly conferred by § 2.1, either a way or prerequisite to "use, copy, modify, display, distribute [or] exploit the De-Identified Data"; however, the rights conferred by § 2.6 are not mere surplusage, even if the "perpetual" license survives termination, because § 2.1 does not ***unambiguously*** confer the right to combine (e.g., to generate combined datasets as derivative works) or retain (e.g., for archival purposes without active use). As the Supreme Court of the United States has noted in the statutory context, "'mere' elimination of evident ambiguity is ample—indeed, admirable—justification for the inclusion of a statutory phrase." *Walters v. Metro. Educ. Enterprises, Inc.*, 519 US 202, 209-10 (1997). That § 2.6 and § 6.4 remove all doubt that WebMD and its sublicensees (some of whom are researchers) will always have retention and combination rights,

durational differences, § 2.6 confers rights that are both narrower ***and*** more specific than those in § 2.1; the latter provision is not simply ***broader*** in its grant of rights to use and exploit the data, it also fails to grant ***specific*** rights to combine and retain the data.[16]

Turning back to CHC's arguments, it is not clear that any ***general*** principle regarding the effects of expiration (and termination) of an agreement overrides the ***specific*** "perpetual" (and "irrevocable")[17] language present here. To the contrary, a license containing such language may override the presumption that it may be revoked by intentional act (e.g., revocation), occurrence

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does not eliminate the possibility that the "perpetual" Article II licenses to use and exploit the Historical Data ***also*** last forever.

[16] In disputing CHC's contention of superfluity, WebMD argues that the De-Identified Data is CHC's Confidential Information, which § 12.1 defines as "information about the other [party], its ***business activities and operations***, its technical information and its ***trade secrets***, all of which are proprietary and confidential." Section 6.4 provides that "[u]pon the termination or expiration of this Agreement, each party shall return promptly any Confidential Information ... of the other party in such party's possession." Section 12.1 similarly obliges each party to "return or destroy all copies of the other party's Confidential Information upon termination or expiration of this Agreement," and § 12.3 provides the right to return or destroy upon request. Therefore, were it not for § 2.6, CHC could demand that WebMD return or destroy De-Identified Data in its possession.

Classifying the De-Identified Data as CHC's Confidential Information, however, is problematic for at least two reasons. First, to the extent that De-Identified Data comprises CHC's trade secrets, Article VIII specifies that CHC owns all intellectual property rights in and to the De-Identified Data "***subject to*** the licenses granted in Article II." (emphasis added). Thus, for the duration of the license (whether perpetual or not), the De-Identified Data is not CHC's exclusive property. Second, Confidential Information expressly excludes "information to the extent it ... is released from confidential treatment by written consent of the disclosing party." Agreement § 2.1 permits WebMD to distribute the De-Identified Data. While this right is somewhat constrained by § 2.2 (as to use) and § 2.3 (as to distribution to competitors), by the terms of the Agreement, the De-Identified Data was likely released from confidential treatment. Regardless, § 2.6 serves the purpose of alleviating any doubt that WebMD (and anyone to whom WebMD distributed the data) need ***never*** delete De-Identified Data in its possession (unless required to by § 4.1(b)in order to comply with applicable law).

[17] CHC provides several examples of contracts granting "irrevocable rights" that nonetheless were held to expire with the term of the contract. *See* Dkt. 32 (Pl.'s Opp. Br.) at 12-13. None of those contracts purported to grant "perpetual" rights. Likewise, to give undue credence to WebMD's argument that the remaining modifiers of the § 2.1(a) license—irrevocable and worldwide—alchemically affects the meaning of the modifiers at issue (exclusive and perpetual) ignores the distinct effect of each word on scope, duration, and revocability.

(e.g., material breach), or mere passage of time (e.g., expiration). *See, e.g.*, *Nano-Proprietary, Inc. v Canon, Inc.*, 537 F3d 394, 400-01 (5th Cir 2008) ("Based upon the unambiguous meaning of 'irrevocable,' we find that the PLA could not be terminated, notwithstanding a material breach of the agreement."). The argument that "perpetual" carries other shades of meaning, such as "indefinitely long-continued," shows only a possibility that the license lasts short of forever.[18] It does not demonstrate "no reasonable basis for a difference of opinion." *Greenfield*, 98 NY2d at 569. Commercial agreements, moreover, often encompass 15 or even 20 year terms that are renewable, i.e., commercial real estate leases. These long-term agreements are not considered indefinite or forever. Then too, insofar as releasing WebMD from the § 2.3 restriction on the license grant's scope would be absurd, as CHC argues, WebMD admits that § 2.3 survives so long as the § 2.1 licenses do.[19]

As for the survival clause, the omission of § 2.1(a) therefrom may be immaterial if the "perpetual" license did not need an explicit survival clause to survive the Agreement.[20] Indeed,

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[18] CHC supports its alternative explanation of "perpetual" by citing *BMS Computer Solutions Ltd. v AB Agri Ltd.*, [2010] EWHC 464 (Ch) (Dkt. 34), an English case concerning a "Variation Agreement" that extended a software license previously granted for a term of 10 years (renewable for a further period of two years) to be a "UK-wide perpetual license." Dkt. 34 at 6-7, 9. The court held that the "perpetual license" nonetheless did not survive termination of an open-ended support agreement, which required the licensee to return all copies of the licensed software. Dkt. 34 at 12-15. The grant of a "perpetual" license freed the license to "operat[e] without limit of time," but did not make the license irrevocable. Here, however, an inherent limit of time—either 10 or 15 years—unquestionably cabins the Agreement term.

[19] As WebMD points out, the § 2.1 license grant gives WebMD the right to sublicense in accordance with § 2.5 (and subject to § 2.2). Section 2.5 is expressly subject to § 2.3. Thus, if § 2.1 survives, so does § 2.3. Further, § 2.6—which expressly survives pursuant to § 6.4—references § 2.3. Dkt. 28 at 8 ("Subject to Section 2.3, [WebMD and others] may combine De-Identified Data with Data from other sources.")

[20] CHC cites no case supporting expiration of a "perpetual" license solely because the license grant is omitted from a survival clause. *See Quadrant Structured Prod. Co. v Vertin*, 23 NY3d 549, 560 (2014) (holding that no-action clause limited enforcement solely as to indenture contract rights mentioned in clause); *TSI USA, LLC v Uber Tech., Inc.*, No. 3:16-cv-2177-L, 2017 US Dist LEXIS 3783, at *23-24 (ND Tex Jan. 11, 2017) (holding that forum selection

CHC concedes that an ***irrevocable*** license, which § 2.1 granted to WebMD, "cannot be taken away based on a unilateral decision of the other party or even … a material breach." Dkt. 32 (Pl.'s Opp. Br.) at 12. Consequently, in CHC's view, WebMD's perpetual license survives material breach of the Agreement, but not expiration. However, as § 6.4 omits § 2.1 from a list of provisions that ***also survive termination*** (i.e., upon material breach), § 6.4 is not necessarily exhaustive.[21] On the other hand, if a "perpetual" license needs no survival clause, it would also be unnecessary to include § 2.6, insofar as it already established that WebMD and its sublicensees may (non-exclusively) "retain De-Identified Data ***in perpetuity***." However, other portions of § 2.6 that exclude the "perpetual" and "in perpetuity" modifiers, such as the nonexclusive right to combine De-Identified Data, might otherwise expire with the Agreement. In sum, the intent of the parties in omitting § 2.1 from the survival clause is unclear.

Finally, WebMD argues that CHC's interpretation lacks commercial sense because CHC continues to provide Historical Data on an ongoing basis, pursuant to the Agreement, until February 2018. Consequently, it argues that the value of the rights to newly received data falls to nothing as expiration approaches because the data can only be used or sublicensed for a matter of days. None of the pled or documented facts as to the Agreement, however, rule out the

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provision omitted from survival clause did not survive termination of agreement); *Verson Corp. v Verson Intl. Group PLC*, No. 93 C 2996, 1993 US Dist LEXIS 18720, at *9 (ND Ill Dec. 30, 1993) (holding that requirement for consent prior to assignment or transfer to competitor could not survive by mere "implication" where survival clause referenced survival of rights and obligations "which are agreed herein to survive"). As a side note, the parties in *Verson* had no trouble agreeing that "perpetual" rights granted in another provision survived, notwithstanding the omission of that provision from the survival clause. 1993 US Dist LEXIS 18720 at *4-5.

[21] Further demonstrating the Agreement's lack of clarity, Article IX, which is ***also*** omitted from the survival clause, includes WebMD's agreement that it "will not during the Term, ***or thereafter*** claim ownership of Business Services Data." Dkt. 28 at 21 (emphasis added).

possibility that the value of WebMD's rights diminish in the described manner.[22] WebMD's argument falls short of demonstrating that CHC's interpretation is commercially unreasonable. *See Cole v Macklowe*, 99 AD3d 595, 596 (2012) ("[A] contract should not be interpreted to produce an absurd result, one that is commercially unreasonable, or one that is contrary to the intent of the parties.").[23]

None of WebMD's cited authority decided that a ***perpetual*** license survives ***expiration*** of the license-granting agreement.[24] In one case, ***the parties agreed*** that a perpetual software

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[22] By contrast, under the Sample Sublicense, which expires February 8, 2018, WebMD agreed to provide daily access to that third party during the term. A 120-day grace period extends the third party's rights to use the data following termination or expiration of the Sample Sublicense. *See* Dkt. 44 (Sample Sublicense) at 11, 21. The court will not draw inferences in favor of WebMD, as movant for dismissal, from the failure of the Agreement to provide a similarly smooth transition (such as by way of a grace period).

[23] The court is sensitive to the power of WebMD's alleged continuing exclusive rights. CHC hopes to license newly generated data after February 8, 2018 to some of the Sublicensees. The Sublicensees, apparently, wish to secure their rights to the Historical Data for some time after February 8, 2018. They apparently do have the right to retain and combine the Historical Data but may wish further use of the Data. CHC has an incentive to provide a discount or otherwise bundle the Historical Data with the sale of a license to the new data. WebMD has no such apparent forward-looking relationship to lose by demanding additional fees. But if WebMD's interpretation of the Agreement is correct, the court cannot reform it. *See Greenfield*, 98 NY2d at 569-70 ("[I]f the agreement on its face is reasonably susceptible of only one meaning, a court is not free to alter the contract to reflect its personal notions of fairness and equity.").

[24] *See Total Television Prods., Inc. v Leonardo Television Prods., Inc.*, 121 AD2d 161, 161-64 (1st Dept 1986) (holding that 12-year grant-back of certain rights did not revoke or modify by implication grantee's "exclusive license in perpetuity," which reverted to grantee after 12-year term of grant-back); *Nano-Proprietary*, 537 F3d at 400-01 (holding that irrevocable license could not be terminated even in event of material breach of agreement); *Timeline, Inc. v Proclarity Corp.*, No. C05-1013JLR, 2007 WL 1574069, at *4, *8 (WD Wash May 29, 2007) (same); *Stolte v McLean*, 34 Misc. 3d 1216(A), 2012 WL 246060, at *4-5 (Sup Ct Suffolk Cty 2012) (interpreting "irrevocable" in marital separation agreement); *P.C. Films Corp. v Turner Ent. Co.*, 954 F Supp 711, 716 (SDNY 1997) (holding that "perpetual" distribution rights granted "in perpetuity" were not limited by length of original copyright), *aff'd on other grounds*, 138 F3d 453 (2d Cir 1998). Other cases cited by WebMD concern the non-durational scope of granted rights. *See Rooney v Columbia Pictures Indus., Inc.*, 538 F Supp 211, 227-28 (SDNY 1982), *aff'd*, 714 F2d 117 (2d Cir 1982); *Spinelli v Nat'l Football League*, 96 F Supp 3d 81, 121 (SDNY 2015).

license permitted use of certain versions of the software notwithstanding the end of the contract term, but the issue was not decided by the court. *See Gene Codes Forensics, Inc. v City of New York*, No. 10 CIV. 1641 NRB, 2012 WL 1506166, at *4 (SDNY Apr. 26, 2012). No cited authority determined whether the word "perpetual" prevails over an agreement's limited term.

WebMD further argues that survival of its obligation to pay royalties to CHC (under § 5.3) means that the license too must survive. But as CHC points out, the survival of royalty obligations is not rendered pointless by expiration of the license. Following expiration, WebMD could hypothetically invoice, book, or otherwise realize revenue from sublicensing and development activities conducted before expiration.

In sum, the Agreement is ambiguous as to whether the § 2.1(a) exclusive license grant, with the right to sublicense, survives the February 8, 2018 Agreement expiration date.[25] As the limited extrinsic evidence submitted by the parties is also not dispositive,[26] WebMD's motion to dismiss CHC's first cause of action is denied.

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[25] Neither party argues a third possibility: that under § 2.1, WebMD may "use, copy, modify, display, distribute and exploit" and even sublicense the Historical Data forever, but ***exclusivity*** is lost because CHC is no longer constrained from doing those things because § 2.1(a) and § 2.4 fail to survive the Agreement and may no longer be enforced against CHC. *See* Dkt. 28 at 6 (§ 2.1) ("[CHC] may not use Business Services Data for any purpose within the scope of WebMD's exclusive license under this Section 2.1(a)."); *id.* at § 2.4 (setting forth additional "Restrictions on Licensor" such as transmitting raw De-Identified Data to any third party). The court will not opine upon the viability of this argument.

[26] Each party also presented extrinsic evidence in support of their respective positions. WebMD submitted a "data sublicense agreement" dated October 1, 2009 between the parties (Grant-Back Sublicense) in which WebMD granted an "irrevocable, worldwide, perpetual sublicense" ***back*** to CHC. Dkt. 29 (Grant-Back Sublicense) at 4. The Grant-Back Sublicense states that it "shall continue until February 8, 2018." *Id.* at 12. WebMD asks why CHC would need a "perpetual" license back for rights that would nonetheless revert to CHC upon expiration of the Agreement. However, the Grant-Back Sublicense was for a term that ends on February 8, 2018.

CHC submitted the Original Agreement, which also included a "perpetual" license grant in Article II. Dkt. 35 (Original Agreement) at 4. The survival clause (§ 6.3) stated expressly that the applicable rights and obligations in "Section[] 2," *inter alia*, survive the term of the Original Agreement; § 6.4 stated that WebMD had the right, after expiration or termination of the

c. Breach of Implied Covenant of Good Faith and Fair Dealing (Second Cause of Action)

CHC alleges that WebMD has misrepresented to the Sublicensees that WebMD will retain exclusive rights to sublicense the Historical Data even after the term of the Agreement expires, depriving CHC of the benefit of its alleged reversionary rights to sublicense the Historical Data. Complaint ¶¶ 40-43. All contracts interpreted under New York law include an implied covenant of good faith and fair dealing. *511 W. 232nd Owners Corp. v Jennifer Realty Co.*, 98 NY2d 144, 153 (2002). The implied covenant "embraces a pledge that 'neither party shall do anything which will have the effect of destroying or injuring the right of the other party to receive the fruits of the contract.'" *Id.*, quoting *Dalton v Educ. Testing Serv.*, 87 NY2d 384, 389 (1995). While the covenant does not imply obligations inconsistent with the terms of the contract, it does "encompass 'any promises which a reasonable person in the position of the promisee would be justified in understanding were included.'" *Id.*, quoting *Rowe v Great Atl. & Pac. Tea Co.*, 46 NY2d 62, 69 (1978).

CHC has stated a claim only if exclusive rights to sublicense the Historical Data revert to it upon expiration of the Agreement term—an issue for fact discovery. A term limitation on an exclusive license is a bargained-for benefit under that contract. Although CHC has not pled WebMD's bad faith in interpreting the "perpetual" exclusive sublicense, WebMD cites no authority for the proposition that good faith based upon erroneous contract interpretation excuses a breach of implied contractual obligations. The obligation to exercise contractually conferred

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Original Agreement "to continue to use" any De-Identified Data received prior to such expiration or termination. *Id.* at 7-8. Notably, the Original Agreement contains an ***Article*** II containing a § 2.1 and a § 2.2, but no "Section 2." This evidence is inconclusive as to the parties' intent in omitting § 2.1 from the § 6.4 survival clause in the subsequent Agreement.

discretion in good faith is not the issue.[27] *See, e.g.*, *Dalton v. Educ. Testing Serv.*, 87 NY2d 384, 396-97 (1995) (discussing implied and express contractual obligations to exercise discretion conferred under a contract in good faith). If CHC succeeds in proving that the parties intended the Agreement to give it the right, effective February 8, 2018, to sublicense the Historical Data, a reasonable person in CHC's position would be justified in expecting WebMD to refrain from preventing CHC from exercising that right by claiming that WebMD has exclusive rights. WebMD's motion to dismiss CHC's second cause of action, therefore, is denied.

d. Tortious Interference with Prospective Business and Contractual Relations (Third Cause of Action)

The elements of tortious interference with prospective contractual relations are 1) a business relationship with a third party; 2) defendant's knowledge of that relationship and intentional interference with it; 3) malice or improper or illegal means amounting to a crime or independent tort; and 4) injury to the relationship with the third party. *Amaranth LLC v J.P. Morgan Chase & Co.*, 71 AD3d 40, 47 (1st Dept 2009). "To state a cause of action for tortious interference with prospective business advantage, it must be alleged that the conduct by defendant that allegedly interfered with plaintiff's prospects either was undertaken for ***the sole purpose*** of harming plaintiff, or that such conduct was wrongful or improper independent of the interference allegedly caused thereby." *Jacobs v Continuum Health Partners, Inc.*, 7 AD3d 312, 313 (1st Dept 2004) (emphasis added); *see NBT Bancorp Inc. v Fleet/Norstar Fin. Group*, 87 NY2d 614, 621 (1996) (explaining that, unlike tortious interference with contract, interference with prospective contract rights requires showing of culpable conduct since it warrants less

[27] The opinion of this court in *MBIA*, cited by WebMD, did not discuss good faith interpretation of a contract, but an alleged failure to maintain exhaustive records. *See MBIA Ins. Corp. v Credit Suisse Sec. (USA) LLC*, 55 Misc 3d 1204(A), 2017 WL 1201868, at *8-9 (NY Sup NY County 2017) (holding that negligent behavior in complying with implied contractual obligations was not a breach of the implied covenant warranting a remedy on par with spoliation sanctions).

protection). "[A]s a general rule, the defendant's conduct must amount to a crime or an independent tort. Conduct that is not criminal or tortious will generally be 'lawful' and thus insufficiently 'culpable' to create liability for interference with prospective contracts or other nonbinding economic relations." *Carvel Corp. v Noonan*, 3 NY3d 182, 190 (2004). Here, CHC has neither shown that WebMD's conduct was criminal, independently tortious or sufficiently egregious, or that WebMD acted for the sole purpose of inflicting intentional harm on CHC. *See id.* at 190. Rather, admittedly, WebMD's complained-of conduct was impelled by normal economic self-interest.[28] *See id.* at 190-191. CHC's allegations, therefore, are insufficient to state a claim for tortious interference.

e. Unfair Competition (Fourth Cause of Action)

CHC alleges that WebMD seeks to misappropriate CHC's exclusive right to sublicense the Historical Data following the expiration of the Agreement. "Under New York law, '[a]n unfair competition claim involving misappropriation usually concerns the taking and use of the plaintiff's property to compete against the plaintiff's own use of the same property.'" *ITC Ltd. v Punchgini, Inc.*, 9 NY3d 467, 478 (2007), quoting *Roy Exp. Co. Establishment of Vaduz, Liechtenstein v Columbia Broad. Sys., Inc.*, 672 F2d 1095, 1105 (2d Cir. 1982). To sustain an unfair competition claim, bad faith is required. *See Brook v Peconic Bay Med. Ctr.*, 152 AD3d 436, 439 (1st Dept 2017), *citing LoPresti v Mass. Mut. Life Ins. Co.*, 30 AD3d 474, 476 (2d Dept

[28] The Complaint (¶ 29) asserts that WebMD threatened to "force the market to pay whatever price WebMD may decide to demand." Elsewhere in the Complaint (¶ 32), CHC more specifically alleges that WebMD demanded "50% of the pre-termination license fee in Year 1 post-termination; 31% of the pre-termination license fee in Year 2 post-termination; and 25% of the pre-termination license fee in Year 3 post-termination." CHC's allegations of impropriety, however, hinge on its own interpretation of the Agreement: that WebMD has ***no*** exclusive right to sublicense. CHC has not alleged that WebMD's fee demands are improper if WebMD ***does*** have such rights. Given the court's view that the Agreement is ambiguous, CHC has not sufficiently pled tortious conduct.

2006). CHC's allegation that WebMD acted in bad faith is conclusory, and, consequently, insufficient. Complaint ¶ 52; *see Skillgames*, 1 AD3d at 250. Nor can the court reasonably infer that WebMD lacked a good faith basis for its actions, as the Agreement's terms governing the duration of the exclusive license are ambiguous. CHC's fourth cause of action is dismissed.[29]

f. WebMD's Motion for Stay of Discovery

Discovery proceeded pending determination on this motion to dismiss and for a stay. On November 16, 2017, the court stayed discovery, pursuant to stipulation of the parties, until January 15, 2018. Dkt. 47. In any event, issuance of this decision moots WebMD's motion for a stay. Accordingly, it is

ORDERED that plaintiff WebMD Health Corp.'s motion to dismiss is granted without prejudice as to the third and fourth causes of action, and otherwise denied; and it is further

ORDERED that plaintiff WebMD Health Corp.'s motion for a stay is denied as moot; and it is further

ORDERED that discovery in this matter is stayed, pursuant to stipulation of the parties (Dkt. 46), until January 15, 2018, and the parties shall call the court for a status teleconference on January 18, 2018, at 3:00pm.

Dated: December 22, 2017

ENTER:

J.S.C.

SHIRLEY WERNER KORNREICH
J.S.C.

[29] Should CHC uncover any additional facts as to WebMD's bad faith that support CHC's claim of unfair competition, CHC may move to amend their complaint.