

## Reorganizations and licenses

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As the global economy exits the recent economic downturn and businesses go through more reorganizations, mergers and acquisitions, companies must not forget the importance of the information technology licenses in these transactions.

A review of these agreements is critical, whether the company is undertaking an internal reorganization or involved in acquiring another company. A failure to properly consider the legal nuances of these license agreements could not only result in the loss of the use of the technology, but also liability for infringement of copyright or patent rights.

Internal reorganizations may occur when a company creates a new corporate entity and then merges into the new entity other existing companies or divisions owned by the company. Let's take a hypothetical company, Widgets Inc., which owns both Widgets of Illinois and Widgets of Ohio. For business reasons Widgets Inc. creates a new entity, Newco, and merges Widgets of Illinois and Widgets of Ohio into Newco. As a result of this merger all of the assets of both Widgets of Illinois and Widgets of Ohio are rolled into Newco, including a software license in which Widgets of Ohio is the named licensee that uses that software. Widgets of Illinois and Widgets of Ohio are merged out of existence.

In contrast to this internal reorganization, mergers and acquisitions occur when one company acquires another, unrelated company. In some mergers and acquisitions all assets of the acquired company are merged into a new entity and the acquired company merged out of existence. In others the ownership of the acquired company is transferred through a transfer of shares (or equity) to the buyer. However, in any of these transactions license agreements for software used to operate business critical functions may be present. Each of these transactions, and others, may trigger a number of problems under the software licenses of the acquired company, including conversion from one system to another, or a breach of the license agreement.

In the recent case of *Cincom Systems Inc. v. Novelis Corporation* (6th Cir. 2009), the U.S. Court of Appeals had an occasion to examine whether a company, a software licensee that went through internal corporate restructuring, had made a prohibited transfer of a software license, and the court concluded the company — the software licensee — had infringed the licensor's copyrights.

Cincom, the software licensor, owned the rights to computer programs, which it distributed to customers through a license agreement. In 1989 Cincom agreed to license Alcan Rolled Product Division's (Alcan Ohio) use of Cincom's software. The license stated that it was a "non-exclusive and non-transferrable license" to use the Cincom software on designated computers that the parties identified in a schedule attached to the license.

Alcan Ohio was a wholly-owned subsidiary of Alcan Inc. In 2003 Alcan Ohio underwent corporate restructuring. On May 15, 2003, Alcan Ohio created a separate corporation known as Alcan of Texas. On July 30, 2003, Alcan Ohio merged into Alcan of Texas with Alcan of Texas remaining as the surviving corporate entity. Alcan Ohio became a subsidiary of Alcan of Texas known as Alcan Fabrication Corp., which changed its name in September 2003 to Alcan Aluminum Corp. It then changed its name in January 2005 to Novelis, the appellant in the *Cincom* case.

The district court determined that Alcan Ohio's merger with Alcan of Texas effected a transfer of the license under Ohio law. The parties agreed to an order stipulating Cincom's damages as \$459,530 — Cincom's initial licensing fee, and an appeal followed.

The Court of Appeals first examined the interplay between federal law and state law in the context of an allegation of infringement of a license agreement and concluded that "... where state law would allow for the transfer of a license absent express authorization, state law must yield to the federal common law rule prohibiting such unauthorized transfers." The court went on to state that, "The harm is the breach of the terms of the license: the violation of the federal policy [or contract term] allowing the copyright or patent holder to control the use of his creation."

If the state law serves to transfer the license from one entity to another as a result of an internal merger, this may result in a violation of the terms of a non-transferrable license. "In the context of a patent or copyright license, a transfer occurs any time an entity other than the one to which the license was expressly granted gains possession of the license," the court held. "Alcan Ohio no longer owns the plant ... where the designated computer licensed to contain Cincom's software resides, because Alcan Ohio no longer exists. Novelis now owns the plant and has possession of the license under Ohio law. Consequently, Novelis has infringed upon Cincom's copyright."

Whenever an internal reorganization or an acquisition occurs, the information technology licenses must be analyzed to determine the impact of these changes.

Even an internal reorganization, such as in the *Cincom* case, may trigger a breach of the license agreement and cause infringement liability for the licensee.