

Choice of Law Is Not Just Boiler Plate

By Brian Von Hatten

When reviewing various types of agreements, there is often a small section for choice of law and venue selection included with the fairly routine provisions such as severability and force majeure. Although these choice of law provisions are usually very brief, these provisions can end up having a large impact and should be given consideration during the negotiation and drafting phase.

Take for example, an intellectual property license agreement. These types of agreements often have clauses precluding the licensee from assigning, transferring, or sublicensing its rights under the agreement without written consent from the licensor. Although intellectual property law is generally a federal question, the interpretation of the license agreement itself is construed under state law. Potentially of greater importance, any relevant acquisition transactions will be governed under state law as well.

What this means is that if, during the pendency of an active license agreement an entity merges with another, the merger may automatically effect a transfer of the license without regard to the intent of the parties. A state's statutory merger law may, without any intent to impact any specific license agreement, create an unintended transfer of the license. If the agreement precludes license transfers, then the acquiring entity may be in violation of the license agreement as a result of the state law interpretation of the agreement. See *Cincom Sys., Inc. v. Novelis Corp.*, 581 F.3d 431 (6th Cir. 2009) (determining that the merger was a transfer of the license under Ohio law and finding that Defendant had infringed Plaintiff's copyright). In *Cincom*, it was argued by *Novelis* on appeal that the parties did not intend for there to be a transfer of the license, however this argument proved unsuccessful given that the merger resulted in a transfer of the license by operation of law. Had the agreement been construed under another state's law, then perhaps the outcome may have been different. See also *Meso Scale Diagnostics, LLC v. Roche Diagnostics GmbH*, C.A. No. 5589-VCP (Del. Ch. Feb. 22, 2013) (ruling that a reverse triangular merger is not an assignment by operation of law under Delaware law).

Given the potential impact these provisions have in the context of intellectual property license agreements, careful consideration should be given to choice of law provisions during the contract negotiation phase.



About the author Brian Von Hatten:

Brian represents many large and mid-market organizations on matters related to transactions, software licensing, and disputes. Brian's focus includes substantial attention to complex information technology issues for companies of all sizes.

Get in touch: bvonhatten@scottandscottllp.com | 800.596.6176