

CLIENT ALERT

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Know the Terms of Your Intellectual Property Licenses

If you are thinking of acquiring a company, merging with another business entity, or are considering a corporate restructuring or creation of a new subsidiary, it is important that you carefully conduct a due diligence review of your licenses involving intellectual property such as copyrights and patents. Software licenses are especially important.

A recent United States Sixth Circuit Court of Appeals decision, *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431 (6th Cir. 2009) held that a transfer of a software license or other intellectual property by the licensee without the approval of the licensor is an impermissible transfer and use of such software by a surviving entity constitutes infringement. In 1979, the Sixth Circuit held that intellectual property licenses are presumed to be nonassignable and nontransferable unless the contract expressly provides otherwise. Since 1979, the Sixth Circuit has not had an opportunity to comment or consider this ruling.

In *Cincom Systems*, Novelis, the licensee, merged two corporate subsidiaries resulting in the transfer of a software license to the surviving corporate entity. Novelis never notified Cincom, the licensor, that the license was held under a new corporate name believing that a transfer had not actually occurred. The physical location of the software and the computer it was operating on never changed, however the mere fact that the original licensee on the Agreement was merged out of existence constituted an impermissible transfer. Although Ohio law provides that all assets and property of an entity in a merger vest in the surviving entity, the Court in *Cincom Systems* held that state law is preempted when intellectual property is involved.

In reaffirming its 1979 decision, the Court reasoned that a fundamental purpose of patent law and copyright law is to promote and encourage invention. If a licensee is allowed to freely transfer intellectual property licenses through merger or acquisition, such invention may end up in the hands of the licensor's competitor. Therefore to protect the interests of the licensor and continue to reward and encourage new inventions, absent a provision otherwise in an agreement, licenses are not transferable or assignable without the permission of the licensor. Do you know what your intellectual property licenses say? Have you acquired any licenses through an acquisition or merger?

For more information, contact Kevin Schadick, (216) 566-8200, kschadick@sseg-law.com or www.sseg-law.com.

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