

# Will Your Company's Reorganization Make Your Company a Copyright Infringer?

by Andrew L. Goldstein

A FREEBORN & PETERS CLIENT ALERT SPRING 2010

## ABOUT THIS CLIENT ALERT:

As companies evolve through corporate restructuring, it is often the details in the intellectual property agreements that can land you in expensive litigation. This client alert highlights the crucial components of software licensing to consider prior to entering into a corporate transaction.

A case recently decided by the U.S. Court of Appeals for the Sixth Circuit<sup>1</sup> makes it more important than ever for a company to review its intellectual property, software and technology licenses prior to any corporate restructuring, even if the transaction involves only an affiliate. A company's failure to obtain any consents required to transfer these licenses could render it liable for copyright infringement. This decision affects not only the technology companies, but any company that has any software or technology licenses (the defendant in this case was a producer of aluminum sheet and foil).

Cincom Systems, Inc. ("Cincom") licensed its database management software program to Alcan Rolled Products Division ("Alcan Ohio"), an Ohio-based corporation. Cincom's license agreement stated that the license granted to Alcan Ohio could not be transferred without Cincom's prior written approval.





Alcan Ohio undertook a substantial internal corporate reorganization that involved the merger of several affiliated Alcan entities, including Alcan Ohio, and the surviving corporation then changed its name to Novelis Corp. At all times during the reorganization, the Cincom software remained on the same computer at the same plant, and Novelis continued to use the software subject to the Cincom license after the completion of the corporate restructuring.

Alcan Ohio did not obtain Cincom's consent to the merger. Upon learning of the merger, Cincom filed suit for violation of the license agreement and for copyright infringement.

In its opinion, the Court of Appeals first acknowledged that federal law governs questions regarding the assignability of a patent or copyright, and that under federal law, intellectual property licenses are presumed to be non-assignable and non-transferable in the absence of express provisions in a particular contract to the contrary. While state law cannot override these federal principles, a state's laws will determine whether a merger results in a "transfer" of an intellectual property license. The court ruled, however, that where state law would allow for the transfer of a license absent express authorization, state law must yield to federal law that generally prohibits such unauthorized transfers.

Novelis argued that the Ohio merger statute didn't technically provide for a "transfer" because references to "transfers" had been deleted from the merger statute in a prior amendment. Novelis claimed that the Ohio legislature's deletion of this language precluded a finding that the mergers resulted in a "transfer" of the license.

The Court rejected Novelis' argument, and reasoned that, under Ohio's merger law, Alcan Ohio ceased to exist as a legal entity upon the completion of the reorganization and that the Cincom license automatically vested by operation of law in Novelis at that time. As such, the license could not have vested in the surviving entity without being transferred by the old entity. The court held that federal law was clear: Alcan Ohio is the rightful holder of the Cincom license, and the only legal entity that can hold the license from Cincom is Alcan Ohio. The court stated that: "Simply put, *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."

Therefore, the Court held that an unauthorized transfer of the license occurred during the reorganization and Novelis had no right to use Cincom's software. Accordingly, Novelis' use of the software infringed Cincom's copyright even though Novelis' corporate restructuring was completely internal and even though Cincom's software remained on the same computer system in the same plant.



Illinois' corporate merger statute is substantively similar to that of Ohio. It provides:

Such surviving or new corporation shall thereupon and thereafter possess all the rights, privileges, immunities, and franchises, as of a public or a private nature, of each of the merging or consolidating corporations; and all property, real, personal, and mixed, and all debts due on whatever account, including subscriptions to shares, and all other choses in action, and all and every other interest, of or belonging to or due to each of the corporations so merged or consolidated, shall be taken and deemed to be transferred to and vested in such single corporation without further act or deed... 805 ILCS 5/11.50.

While the Ohio statute and the Illinois statute both state that the surviving entity of a merger possesses all rights of the original entity, the Illinois statute further states that all property of the original entity is deemed to be transferred to and vested in the surviving entity. However, even if Illinois' statute clearly provided that a merger did not result in a transfer, under the *Cincom* case, federal law would preempt state law to hold that, as applied to an intellectual property license, a transfer would have resulted from the merger.

Unless a license agreement expressly permits a transfer without the consent of the licensor, a corporate restructuring, even an internal one, can render a surviving entity liable for copyright infringement in addition to breach of contract. Notably, damages for copyright infringement are broader than breach of contract damages in that copyright damages could include recovery of attorneys' fees and costs and statutory damages. This case highlights the importance of reviewing all of your intellectual property, software and technology licenses prior to any corporate restructuring, even one that only involves related entities. It is also important to consider issues of transferability when you are negotiating intellectual property, software and technology licenses (some licensors have tried to charge up to 30% of the license fees set forth in the license agreement for approval of corporate reorganizations).

---

<sup>1</sup> *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431 (6th Cir. 2009)



## ABOUT THE AUTHOR

### **Andrew L. Goldstein**

*Partner, Corporate Practice Group*

Chicago Office  
(312) 360-6438

[agoldstein@freeborn.com](mailto:agoldstein@freeborn.com)

Andy focuses his practice in the area of Intellectual Property and Information Technology. His experience in the areas of intellectual property law include trademark, trade dress and copyright law; internet, website, cloud computing, technology, outsourcing and computer law in general. In addition, Andy has been counseling food companies in intellectual property law, including copyright and trademark law, as well as advertising, marketing and promotions, including sweepstakes.

## ABOUT FREEBORN & PETERS LLP

Freeborn & Peters LLP is a full-service law firm headquartered in Chicago, with international capabilities. Freeborn is always looking ahead and seeking to find better ways to serve its clients. It takes a proactive approach to ensure its clients are more informed, prepared and able to achieve greater success – not just now, but also in the future. While Freeborn serves clients across a broad range of sectors, it has also pioneered an interdisciplinary approach that serves the specific needs of targeted industries, including food, transportation, and insurance and reinsurance. Freeborn is a firm that genuinely lives up to its core values of integrity, caring, effectiveness, teamwork and commitment, and embodies them through high standards of client service and responsive action. Its lawyers build close and lasting relationships with clients and are driven to help them achieve their legal and business objectives.

Call us at **(312) 360-6000** to discuss your specific needs. For more information visit: [www.freeborn.com](http://www.freeborn.com)

### CHICAGO

311 South Wacker Drive  
Suite 3000  
Chicago, IL 60606  
(312) 360-6000  
(312) 360-6520 fax

### SPRINGFIELD

217 East Monroe Street  
Suite 202  
Springfield, IL 62701  
(217) 535-1060  
(217) 535-1069 fax

*Disclaimer: This publication is made available for educational purposes only, as well as to provide general information about the law, not specific legal advice. It does not establish an attorney/client relationship between you and Freeborn & Peters LLP, and should not be used as a substitute for competent legal advice from a licensed professional in your state.*

*© 2010-2013 Freeborn & Peters LLP. All rights reserved. Permission is granted to copy and forward all articles and text as long as proper attribution to Freeborn & Peters LLP is provided and this copyright statement is reproduced.*