

Sixth Circuit Holds Internal Corporate Reorganization Can Lead to Copyright Infringement

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On September 25, the Sixth Circuit in *Cincom Systems, Inc. v. Novelis Corp.* concluded that the merger of a software licensee as part of an internal corporate restructuring violated restrictions on transfer of a copyright license, and affirmed an award of \$460,000 to the licensor as damages for copyright infringement. The decision underscores the importance of careful review of intellectual property licenses to determine whether consent from licensors is needed before engaging in internal or external restructuring transactions, and provides guidance on how to navigate the interplay between state corporate law and federal intellectual property law in drafting and interpreting intellectual property licenses.

The Sixth Circuit case involved Cincom's nonexclusive license of software to Alcan Rolled Products Division. The license agreement required Alcan to place the software on a designated computer in a single location and stated that Alcan could not transfer its rights or obligations under the agreement without Cincom's prior written approval. As part of a subsequent internal corporate reorganization, Alcan underwent a series of mergers with affiliated entities and ultimately was renamed Novelis.

Throughout this period, the licensed software was used only on the designated computer at the authorized location. When Cincom learned of the corporate changes, it sued Novelis, alleging that the changes caused an improper transfer of the license. The district court agreed, granting Cincom's motion for summary judgment.

The Sixth Circuit agreed that the initial merger of Alcan into an affiliate caused the license to be transferred to the surviving corporation, in violation of the license terms. The court concluded that the continued use of the software after that point infringed Cincom's copyright. The court relied by analogy on a prior Sixth Circuit decision that held that the merger of a patent licensee into an unrelated entity violated a nontransferable license. *See PPG Industries, Inc. v. Guardian Industries Corp.*, 597 F.2d 1090 (6th Cir. 1979).

The Sixth Circuit based its decision on the following principles of interpretation:

1. State contract law governs the interpretation of agreements, including intellectual property licenses.

2. The substance (not the wording) of state corporate law (for example, the state merger statute) determines whether a merger results in the transfer of an intellectual property license.
3. Federal common law governs questions with respect to the transferability of a patent or copyright license and provides that such licenses are presumed to be nontransferable in the absence of express provisions to the contrary.
4. Federal common law restricting transfer of patents and copyrights trumps inconsistent state law. If state law were to permit a patent or copyright license to be assigned freely (such as by operation of law in connection with a merger), then state law would be preempted as undermining the exclusive statutory rights granted to patent and copyright holders.

Based on these governing principles, the Sixth Circuit rejected the licensee's arguments that this case should be distinguished from *PPG*. First, the court rejected the licensee's assertion that the parties' intent was relevant to the interpretation of the software license and that the license did not reflect any intent to prevent internal corporate reorganizations, as opposed to transfers to competitors. The court stated that the plain wording of the software license was clear and declined to go beyond it. In the court's view, if the merger caused the license to be transferred, then the license was violated. It was irrelevant to the court that the merger took place in the context of an internal corporate restructuring, rather than a transaction with an unrelated entity or potential competitor.

Second, the court rejected the licensee's contention that changes in the Ohio merger statute (the agreement stated that it was governed by Ohio law) since *PPG* required a different result. Specifically, the statute no longer expressly stated that a merger causes all property to be "transferred" to the surviving entity. The court found that the deletion of the word "transferred" did not change the substantive analysis. Per the court, a transfer of a patent or copyright license occurs any time an entity other than the stated licensee gains possession. In this case, because Alcon no longer exists, the court found that Novelis obtained possession of the license and that its use of the software violated Cincom's copyright.

The court stated that it would have reached the same conclusion in the *Cincom* case if the license were silent as to whether it could be transferred, because of the presumption of nontransferability. Although the Sixth Circuit refers in the decision to this presumption applying to licenses of "intellectual property," the *PPG* and *Cincom* cases involved only patent and copyright licenses, respectively. The Sixth Circuit notes the "historical kinship" between patents and copyrights elsewhere in the decision, and presumably, did not necessarily intend to implicate other forms of intellectual property (such as trademarks), which have very different underlying policies and bases for protection. Nevertheless, the court's wording may give rise to arguments as to whether trademark or other intellectual property licenses should be similarly interpreted.

This decision sends a strong reminder of the importance of assessing the transferability of intellectual property licenses before implementing corporate changes, and underscores that this analysis should be undertaken with a thorough understanding of the interplay between corporate law and intellectual property law. If required consents are not obtained before implementing corporate changes, whether external or wholly internal, significant liability can result. Similarly, intellectual property licenses should be drafted with an understanding of the implications of silence or lack of detail in matters relating to transferability.

