

## Software Licensing in M&A Transactions

By Brian Von Hatten

Many business owners are familiar with how complex merger and acquisition activities can be. Asset purchase agreements, reverse triangular mergers, and statutory mergers not only sound intimidating, but there is a significant amount of complexity inherent in these deals, even when dealing with smaller entities. These transactions may present legal and financial risks concerning intellectual property license agreements. When a company acquires the assets of another company, they probably assume that they also gain ownership of the assets owned by the company they acquired. Unfortunately, that “asset” may really just be a liability in disguise. Take for example, the following case:

*Cincom v. Novelis*, a case from the Sixth Circuit Court of Appeals, is often cited by other courts with respect to the assignability and transferability of intellectual property licenses in merger activities.<sup>1</sup> While an in-depth analysis of this case is beyond the scope of this article, the facts are as follows: Cincom had licensed technology products to one of its customers. The customer and its affiliates underwent a number of internal restructurings and name changes and was finally renamed to Novelis. After the merger, Cincom sued Novelis for copyright infringement because Cincom’s license agreement precluded the licensee (Novelis) from being able to assign or transfer the license without consent of the licensor. Novelis was ultimately required to re-license the software. In this case, the appellate court affirmed the lower court’s ruling that as a result of the merger activities, an *unintended transfer* of the license had occurred, which left Novelis infringing Cincom’s copyright.

This case underscores the need to heavily scrutinize agreements with respect to intellectual property and contract rights of a merging entity. Failure to do so can be a very expensive proposition—one that may be fairly easily dealt with prior to closing the transaction.



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.

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