



Software Licenses Do Not Automatically Transfer in a Merger or Acquisition

IT Tip Corner

Samuel J. Frederick

Foster Swift Business & Corporate Law Update

Spring 2010

Software licenses provide businesses with the right to use software programs. Many of these programs become interwoven into the fabric and function of the company. As a general rule, companies do not own the software that they license. The corollary is that they then do not, unless expressly agreed, possess the right to transfer or assign the licensed software they use to a new entity when later involved in a merger, acquisition or internal corporate restructuring.

In Cincom Systems, Inc v Novelis Corp., 581 F.3d 431 (6th Cir. Sept 2009), the Sixth Circuit Court of Appeals affirmed a \$460,000.00 intellectual property infringement claim in favor of a software licensor against a business for attempting to transfer its software license to a new company created by a merger.

Federal common law provides that copyright licenses (read software licenses) are unassignable absent express language to the contrary. Therefore, a merger, acquisition or corporate restructuring may constitute an impermissible transfer of an intellectual property license absent text in the license agreement to the contrary.

If your company is considering a merger, acquisition or internal corporate restructuring, it is important that intellectual property contracts (such as software licenses) be carefully reviewed to determine if the merger may have an effect on the surviving company's ability to use the software or other intellectual property. As a matter of course, companies should review new software agreements to ensure that the agreements provide for a "transferable" license. Many boilerplate software agreements do not.

AUTHORS/ CONTRIBUTORS

Samuel J. Frederick

PRACTICE AREAS

Business Law

Family Owned Businesses

Intellectual Property

Mergers & Acquisitions, Strategic Transactions & Alliances

Technology Law