

CASE FACTS AND TIMELINE

***Cincom Systems, Inc. v. Novelis Corp.*, 2009 Fed. App'x 0346P (6th Cir.) (recommended for publication)**

Cincom Systems, Inc. is a Cincinnati, Ohio-based corporation founded in 1968 that develops, licenses, and services software to its business customers in the U.S. and on six continents worldwide.

Cincom is the sole owner of all rights to its two products at issue:

- SUPRA[®] – a database management program that allows a company to manage millions of records.
- MANTIS[®] – a fourth-generation application development system; a computer language that enables a company's software professionals to develop computer programs to optimize the business's operations.

On July 5, 1989, Cincom entered into a software license agreement with Alcan Rolled Products Division (Alcan Ohio), an Ohio-based corporation.

- The software license agreement granted Alcan Ohio a “non-exclusive and non-transferrable license” to use Cincom's SUPRA and MANTIS products.
- The software license agreement stipulated that the two software programs “constitute proprietary and confidential information of Cincom, and that the protection of this information is of the highest importance.”
- Alcan Ohio agreed to place the software only on designated computers at its facility in Oswego, New York that the parties specifically listed in a schedule attached to the license.
- The software license agreement explicitly noted that Alcan Ohio could “not transfer its rights or obligations under this Agreement without the prior, express written approval of Cincom.”

In 2003, Alcan Ohio was one of several corporations that were merged into Alcan Aluminum Corporation and ultimately became Novelis Corporation. As the result of the corporate restructuring, it was stipulated that Alcan Ohio was merged out of existence.

- Alcan Ohio never sought or obtained Cincom's written approval to continue to use the SUPRA and MANTIS software before the corporate restructuring.
- After the restructuring, Novelis continued to use Cincom's copyrighted software on the same computers in Oswego, New York, which were then owned by Novelis.

On March 11, 2005, on behalf of Cincom, Keating Muething & Klekamp PLL attorneys James E. Burke, Joseph M. Callow, Jr., and Jennifer J. Morales filed suit against Novelis in the United States District Court for the Southern District of Ohio, alleging that Novelis's actions violated the express terms of the software license agreement that Cincom entered into with Alcan Ohio.

The district court determined that Alcan Ohio's merger into Alcan Aluminum Corporation effected a transfer of the license under Ohio Law (*Cincom Sys., Inc. v. Novelis Corp.*, No. 1:05cv152, 2007 U.S. Dist. LEXIS 2721 (S.D. Ohio 2007)).

- The district court entered summary judgment in favor of Cincom as to Novelis's liability for copyright infringement. The parties agreed to an order stipulating the amount of damages that Cincom had suffered as \$459,530, which is equal to the amount of Cincom's standard initial licensing charge plus prejudgment interest.

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- On August 2, 2007, the district court approved the stipulated judgment.

Novelis appealed the district court's final judgment, and the case was argued on September 8, 2008 before the United States Court of Appeals for the Sixth Circuit. Novelis argued to the Sixth Circuit that the district court erred in granting summary judgment to Cincom for two reasons:

In its first argument, Novelis asserted that the district court misinterpreted the Sixth Circuit's seminal decision in *PPG Industries, Inc. v. Guardian Industries Corp.*, 597 F.2d 1090 (6th Cir. 1979), by failing to look at the individual contracting parties' intent as expressed in the licensing agreement. Novelis claimed that while the agreement at issue in *PPG* showed a clear intent to prevent the license from coming into the possession of a competitor, Cincom's license demonstrated no concern with preventing internal corporate reorganizations.

The Sixth Circuit disagreed, and used this appeal to clarify its *PPG* decision and "to explain more fully the complex interaction of federal and state law that occurs when interpreting intellectual property licenses." In the 1979 *PPG* decision, the Sixth Circuit held that, in the context of intellectual property, a license is presumed to be non-assignable and non-transferrable in the absence of "express provisions to the contrary."

In the *Cincom* decision, the Sixth Circuit confirmed that federal common law governed "questions with respect to the assignability of a patent (or copyright) license." Courts generally have acknowledged the need for a uniform, national rule that intellectual property licenses are personal and non-transferrable in the absence of an agreement authorizing assignment.

While state contract law will govern the interpretation of a license and may also determine whether a merger results in the transfer of an intellectual property license right, the Sixth Circuit held that "where state law would allow for the transfer of a license absent express authorization, state law must yield to the federal common law prohibiting such unauthorized transfers."

The Sixth Circuit rejected Novelis's argument that *PPG* could be distinguished on the basis of the specific intent of the contracting parties. The Sixth Circuit found that, as in *PPG*, the license issued to Alcan Ohio required the express written approval of the grantor prior to any transfer of the license, and that no transfers were permissible without express written approval.

The Sixth Circuit further found that the result in *PPG* — that the license ended up in the possession of a competitor — was an immaterial distinction. "The harm is the breach of the terms of the license: the violation of the federal policy (or contract terms) allowing the copyright or patent holder to control the use of the creation." Therefore, even if Ohio law served to transfer the license from Alcan Ohio to Novelis as a result of the internal merger, Novelis violated the express terms of the non-transferrable license.

In Novelis's second argument before the Sixth Circuit, Novelis claimed that a change in Ohio substantive corporate law since *PPG* was decided required the Sixth Circuit to find that no transfer of the license had occurred as a result of Alcan Ohio's merger into Alcan Aluminum Corporation.

At the time of the *PPG* decision, Ohio's statutory merger law provided that "all property of a constituent corporation shall be 'deemed to be transferred to and vested in the surviving or new corporation without further act or deed.'"

The current statute provides that "[t]he surviving or new entity possesses all assets and property of every description, and every interest in the assets and property, wherever located, and the rights, privileges, immunities, powers, franchises, and authority, of a public as well as of a private nature, of each constituent entity, and . . . all obligations belonging to or due to each constituent entity, all of which are vested in the surviving or new entity without further act or deed." Ohio Rev. Code Ann. § 1701.82(A)(3) (2009).

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Novelis argued that the deletion of the prior statute's language explaining that all property shall be deemed "transferred to" the surviving corporation prevented a finding that Alcan Ohio's merger into Alcan Aluminum Corporation transferred the license.

The Sixth Circuit noted, however, that Ohio's law provides that upon a merger, "the separate existence of each constituent entity other than the surviving entity. . . shall cease." Ohio Rev. Code Ann. § 1701.82(A)(1). Alcan Ohio, the rightful owner of the Cincom license, thus ceased to exist as a legal entity under Ohio law when it was merged out of existence.

The Sixth Circuit also found that Ohio law further provides that the license once held by Alcan Ohio automatically vested by operation of law in Novelis (Alcan Ohio's successor) after the completion of the corporate restructuring. The vesting of the license in the surviving entity could not occur without being transferred by the old entity. Federal common law and the actual language of the license in this case are clear: the only legal entity that can hold the license from Cincom is Alcan Ohio. If any other legal entity holds the license absent Cincom's prior written approval, that entity has infringed on Cincom's copyright because an unauthorized transfer has occurred.

The Sixth Circuit noted that Alcan Ohio no longer owns the plant in Oswego, New York, where the designated computers licensed to contain Cincom's software reside, because Alcan Ohio no longer exists. Novelis is now the owner of the plant and the computers, and it has used Cincom's copyrighted software on the computers without Cincom's permission. Consequently, Novelis has infringed on Cincom's copyright.

The Sixth Circuit affirmed the judgment of the district court.

Of note (but not of direct consequence in this case), in 2007, Novelis was acquired by Hindalco Industries Limited, a then 50-year old veteran of the aluminum business and flagship company of the Aditya Birla Group of companies, a multinational conglomerate headquartered in Mumbai, India. With the addition of Novelis in 2007, Hindalco became the world's largest aluminum rolling company and one of the biggest producers of primary aluminum in Asia.

About Keating Muething & Klekamp PLL

The law firm of Keating Muething & Klekamp PLL (KMK[®]), based in Cincinnati, Ohio, was founded in 1954. KMK has approximately 115 lawyers and a support staff of 150 employees. For the past 55 years, KMK has contributed to the success of many businesses, from Fortune 500 corporations to small start-up companies. KMK's mission is to provide high-quality legal counsel to business clients by meeting their identified needs and developing appropriate solutions. Additional information is available at www.kmklaw.com.

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About Cincom Systems, Inc.

For more than 40 years, Cincom's problem-solving software, services and people have helped thousands of companies all over the world grow and manage their businesses. Additional information is available at www.cincom.com.

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