

smarter approach.

direct results. SM

**Q: PAY TWICE FOR THE SAME SOFTWARE?
A: IN THE CINCOM CASE, FEDERAL COURT
SAYS: "PAY AGAIN"**

What you need to know about the 2009 Cincom case

The software user was liable for damages of \$459,530, the same amount it already had paid to license the software.

In *Cincom Systems, Inc. v. Novelis Corp.*, a federal Court of Appeals ruled that the software user Novelis was liable to pay the software vendor Cincom \$459,530.00, effectively paying the vendor twice for the same software. Novelis thought that the licenses had been fully paid when it bought them in 1989. But the software vendor Cincom sued Novelis anyway. Cincom claimed that restructuring several commonly owned Novelis companies triggered a new license fee requirement. The federal Court of Appeals agreed with Cincom, that Novelis would have to pay the license fees again, because of the internal restructuring.

[Click here for link to case.](#) Here are some key facts, and some ideas about what to think about as a result of the *Cincom* case.

Facts

1989 License Installation and Terms

In 1989, the vendor Cincom licensed its software to Alcan Ohio, who installed it in a New York plant. The agreement prohibited a transfer of the license without Cincom's prior approval.

2003 - 2005 Business Restructuring and Name Change

In 2003, Alcan Ohio did an internal restructuring. Alcan Ohio merged into a newly created entity, Alcan Texas. Then Alcan Texas merged itself with its three Texas subsidiaries, and created a new subsidiary that underwent two name changes with the final name being Novelis. The software stayed on the same computer in the New York plant. Novelis never asked for Cincom's approval to use the software in the restructured business. The ultimate ownership of the original licensee appeared to



Jonathan K. Hustis is an attorney with our Dallas office. His practice includes information technology and software licensing. [Click here](#) for more information on Jonathan.

Offices

Austin

Dallas

Fort Worth

Houston

[Click Here](#) for more information

stay the same. But with the name change Cincom learned that a restructure had occurred. It resulted in this lawsuit by Cincom against Novelis for damages.

The Court's Reasoning

The Court ruled that the restructuring mergers created a transfer of the licenses. Then the Court ruled that the contract prohibition against transfers without approval would apply to the merger, as a matter of federal common law protecting copyright owners (here the software vendor Cincom). Even though the Ohio merger laws would make the restructured Novelis entity owner of the license, the federal laws protecting copyright owners would control, effectively prohibiting the restructured Novelis from using the software without incurring a new license fee for the same software on the same computer. ***A footnote comment also said that even if the contract had been silent about transfers, that federal law would prohibit the restructured Novelis from using the software without Cincom's consent.*** In such cases, consent would typically require negotiation of a new payment to the vendor.

What to Do After the Cincom Decision?

Software License Vendors

Review and be aware of the language in your licenses regarding transfers or assignments. Stay updated on your licensees' corporate merger, acquisition, and restructuring activities.

Software License Buyers

Negotiate for the right to transfer the license! What if the vendor refuses a broad right to transfer? Then negotiate a conditional right, say, upon the sale of the product line. Or on sale of a division that uses the software. Or on sale of substantially all of the company's assets, or merger of the company into another. At the very least, get the right to transfer as part of an internal restructuring of commonly controlled entities like that in the *Cincom* case.

Licensees Planning Internal Corporate Restructuring

When considering or planning for internal corporate restructuring, review existing license agreements to see if they permit use in the new structure.

Reviewing an Acquisition Target

The buyer's due diligence should review whether the original licensee has been part of any restructuring. If so, does the license permit use in the restructured entity? Otherwise, the buyer may be surprised when it pays the license fee twice, first in the price for the target company, and again when the vendor demands a new fee under the *Cincom* logic. And, regardless of prior restructuring, consider the impact of the potential acquisition on license rights and fees for software that is in place.

SOX 404 Compliance; Enterprise Risk Management

Whether seeking to comply with Sarbanes-Oxley or to maintain good risk management practices, consider an internal diligence process that reviews license terms and ownership history. Focus on software license components that (1) are key to the operation of the business, or (2) are priced at license fees material to the finances of the business.

For more information, please contact:

Jonathan K. Hustis

Phillips & Reiter, PLLC

6600 LBJ Freeway, Suite 175

Dallas, Texas 75240

+1 (214) 723-7859 phone

+1 (214) 912-0685 mobile

+1 (972) 392-0409 fax
jhustis@outsourcerc.com
www.outsourcerc.com

This Newsletter is not intended nor should it be used as a substitute for legal advice or an opinion, which can be rendered only when related to specific fact situations. For information about our firm, please visit us at www.outsourcerc.com.



[Forward email](#)

✉ **SafeUnsubscribe®**

This email was sent to cdubose@outsourcerc.com by info@outsourcerc.com.
[Update Profile/Email Address](#) | Instant removal with [SafeUnsubscribe™](#) | [Privacy Policy](#).

Email Marketing by



Phillips & Reiter, PLLC | 1300 W Sam Houston Parkway, Suite 340 | Houston | TX | 77042