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By H. Justin Pace*

I. INTRODUCTION

¶1 At first blush, the decision in *Cincom Systems, Inc. v. Novelis Corp.* inspires an almost knee-jerk negative reaction.[1] It strikes one as unfair and arbitrary that an anti-assignment provision in an intellectual property license would be triggered by a series of mergers within a single operating company (intra-group mergers) when no substantive change results.[2] However, upon closer examination of the relevant law and competing interests, it becomes clear that the court came to a decision that is correct, if perhaps otherwise open to criticism.[3]

¶2 In *Cincom*, the Sixth Circuit addressed whether a series of intra-group mergers resulted in the contractually impermissible transfer of a non-assignable copyright license.[4] The court held that the intra-group mergers did result in a transfer of the license and that said transfer was impermissible. For unrelated business purposes, Alcan Ohio, the original holder of the license, merged into Alcan Corporation, a corporate affiliate. Alcan Corporation was then merged into three subsidiaries (each a Texas corporation). The plant and computer containing the software in question, without physically moving, became assets of Alcan Fabrication Corporation, which subsequently changed its name to Novelis Corporation.[5] There is no evidence to suggest that any of these corporations were not part of the same corporate family; that is, a single corporation controlled all of the corporations involved.

¶3 Cincom, the owner of the software copyright, sued Novelis for copyright infringement, claiming the license was impermissibly transferred as a result of the intra-

* Candidate for Juris Doctor, Northwestern University School of Law, 2011. Special thanks to Professors Presser and DiCola for their insight and comments.

[1] 581 F.3d 431 (6th Cir. 2009).

[2] Anti-assignment provisions prohibit the transfer of the contract to another party. This Note will focus on anti-assignment provisions in patent and copyright licenses. Mergers result in the transfer of contracts as an operation of law.

[3] This Note will attempt to differentiate between internal, or non-acquisitive, and external, or acquisitive, mergers as applicable throughout the text. As a general rule, the use of the term intra-group merger will indicate a non-acquisitive, internal change in corporate form. The difficulties differentiating between internal and external mergers will be explored in Part IV. Bankruptcy reorganizations are outside of the scope of this Note.

[4] 581 F.3d 431.

[5] Cincom Sys., Inc. v. Novelis Corp., No. 1:05CV152, 2007 WL 128999, at *1 (S.D. Ohio Jan. 12, 2007), *aff'd*, 581 F.3d 431 (6th Cir. 2009). For the sake of simplicity, I will refer both to the final corporate entity and its predecessors as Novelis throughout this Note, except where more accurate distinctions are needed for clarity.

group mergers. The district court relied on federal common law to determine that the license was not assignable[6] and relied on Ohio law to determine that a transfer had in fact occurred.[7] On that basis, the district court granted summary judgment in part for the plaintiff (while encouraging an appeal of its ruling).[8]

¶4 The Sixth Circuit affirmed the judgment of the district court.[9] In doing so, the court rejected Novelis's arguments that the non-assignability provision in the licensing agreement was not intended to cover intra-group mergers[10] and that a change in Ohio corporate law should be interpreted as vesting contracts in the new entity post-merger without a transfer.[11] The court rejected Novelis's contract intent claim based on the plain meaning of the contract. Furthermore, the court rejected Novelis's functionalist interpretation of Ohio corporate law in favor of a formalist interpretation.[12]

¶5 This Note argues that the formalist approach that should be applied for intellectual property licenses transferred by operation of law due to traditional corporate acquisitions should also be applied to transfers resulting from intra-group mergers. Part II of this Note provides a legal analysis of the circuit court decision in *Cincom*, concentrating on the conclusions of the respective courts in regard to corporate, contract, and intellectual property law. Part III explores the implications of the *Cincom* decision to both merger decision-making and contract negotiation. Part IV argues for the application of a formalist approach to non-acquisitive mergers. Part IV also explores and dismisses alternative approaches.

II. Legal Analysis of Appellate Court Decision

¶6 At the time that *Cincom* was decided, it had been well established that a transfer as the result of a merger could violate an anti-assignment provision of an intellectual property license.[13] However, it is worthwhile to reexamine whether the court properly determined that the license in question was not transferred by operation of law. If the license was not transferred by operation of law, then the next question is whether federal common law for copyrights or Ohio state common law for contracts should have been applied. Under either standard, it must be determined whether the anti-assignment provision applies to a transfer within a single operating company.

¶7 The decision in *Cincom* touches upon intellectual property, contract, and corporate law.[14] Part A analyzes the court's interpretation of the applicable corporate law. Part B

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6 *Id.* at *3.

7 *Id.* at *1–2.

8 *Id.* at *6–7 ("[The case] involves a controlling question of law as to which there is substantial ground for difference of opinion, and an immediate appeal from the Order may materially advance the ultimate termination of the litigation.").

9 *Cincom*, 581 F.3d at 433.

10 *Id.* at 437–38.

11 *Id.* at 438.

12 *Id.* at 438–39.

13 *See* Gardner v. Nike, Inc., 279 F.3d 774 (9th Cir. 2002); SQL Solutions, Inc. v. Oracle Corp., No. C-91–1079 MHP, 1991 WL 626458, at *1 (N.D. Cal. Dec. 18, 1991); PPG Indus., Inc. v. Guardian Indus. Corp., 597 F.2d 1090 (6th Cir. 1979). *Cf.* Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303 (7th Cir. 1972) (holding a license agreement non-assignable absent language in agreement consenting to assignability).

14 Other areas of the law were touched upon as well, but for the purposes of this Note, only intellectual property, contract, and corporate law will be considered.

examines the applicable contract law. Part C examines the intellectual property law applicable to *Cincom*.

A. Transfer by Operation of Law

¶8 One of the disadvantages of structuring a corporate acquisition as an asset purchase is that contracts to be transferred must be assigned, and third-party consents are required for any contracts containing anti-assignment provisions.[15] In a statutory merger, on the other hand, contracts transfer by operation of law. The Model Business Corporation Act of 1984 (MBCA) states that "every contract right possessed by, each corporation or eligible entity that merges into the survivor is vested in the survivor without reversion or impairment."[16] The official comment to the MBCA further states that "a merger is not a conveyance, transfer, or assignment" and that "it does not give rise to claims . . . based on a prohibited conveyance, transfer, or assignment . . . unless the contract specifically provides that it does not survive a merger."[17]

¶9 Novelis argued that, per its interpretation of the Ohio merger statute, the intra-group mergers resulted in the license residing with the end corporation without a legal transfer that would trigger the anti-assignment provision in the license.[18] Novelis attempted to distinguish the decision in *PPG Industries, Inc. v. Guardian Industries Corporation*, an earlier Sixth Circuit case in which the court found that a merger triggered the anti-assignability provision in a patent license, on the basis of a change in the language of the Ohio merger statute.[19] At the time *PPG Industries* was decided, the Ohio statutory merger law indicated that upon completion of a merger, all contracts were "deemed to be transferred to and vested in the surviving or new corporation."[20] A subsequent revision (prior to the Novelis merger transactions) to the law brought it in line with the current MBCA by pointedly removing the word "transfer" entirely.[21] The Sixth Circuit, however, reaffirmed its statement in *PPG Industries* that "a transfer is no less a transfer because it takes place by operation of law rather than by a particular act of the parties" notwithstanding the change in statutory language.[22]

¶10 The Sixth Circuit was correct in noting that a transfer had still taken place. Indeed, a transfer of some sort *did* occur in the sense that the legal entity that Cincom originally contracted with, Alcan Ohio, is no longer in existence; the license is held by a different legal entity.[23] The pertinent question is whether a transfer by operation of law triggers an anti-assignment provision. Courts have typically held that they do not,[24] but it is to

[15] *See* FRANKLIN A. GEVURTZ, CORPORATION LAW § 7.2.1(b) (2000).

[16] MODEL BUS. CORP. ACT § 11.07 (1984).

[17] *Id.*

[18] Cincom Sys., Inc. v. Novelis Corp., 581 F.3d 431, 437–38 (6th Cir. 2009).

[19] *Id.* at 438.

[20] *Id.* (citing PPG Indus., Inc. v. Guardian Indus. Corp., 597 F.2d 1090, 1096 (6th Cir. 1979) (quoting OHIO REV. CODE ANN. § 1701.81(A)(4) (West 1955))).

[21] *Id.* (quoting OHIO REV. CODE ANN. § 1701.82(A)(3) (West 2009)).

[22] *Id.*

[23] Cincom Sys. Inc. v. Novelis Corp., No. 1:05CV152, 2007 WL 128999, at *1 (S.D. Ohio Jan. 12, 2007), *aff'd* 581 F.3d 431 (6th Cir. 2009).

[24] *See* 15 WILLIAM MEADE FLETCHER ET AL., FLETCHER CYCLOPEDIA OF THE LAW OF PRIVATE CORPORATIONS § 7090 (perm. ed., rev. vol. 2008) (relying on Campbell v. Potash Corp. of Saskatchewan, Inc., 238 F.3d 792 (6th Cir. 2001); United States Can Co. v. NLRB, 984 F.2d 864 (7th Cir. 1993); Health

contract law and intellectual property law that we must look to determine whether the anti-assignment provision in question was violated.

B. Contract Interpretation

¶11 There is a strong presumption of assignability for contracts.[25] This is merely a default rule, however, and parties can contract around it. Courts will look first to the plain meaning of the contract.[26] Ohio state courts have long held that the plain meaning of the contract terms can be interpreted "in light of the surrounding circumstances and of the object intended to be accomplished,"[27] and the exclusion of surrounding circumstances in the inherently subjective interpretation of contract terms has been rightly criticized.[28] Courts have also interpreted contracts to treat transfers by operation of law differently than a transfer by assignment. Courts have typically interpreted a transfer by operation of law as circumventing an anti-assignment provision.[29] Rather, they have required a contract term explicitly prohibiting transfer by merger.[30] This reflects a strong presumption that parties did *not* intend for an anti-assignment provision to cover a transfer by operation of law. Courts still have, however, looked to the effect of the transfer on the other party.[31] This includes noting the lack of a substantive change when a wholly-owned subsidiary merges into its parent.[32]

¶12 The Sixth Circuit rejected the claim by Novelis that the contracting parties did not intend the anti-assignment clause to apply to intra-group mergers, stating that the plain text made clear that no transfers were permissible "without express written approval."[33] In doing so, the court relied on the statement of the Supreme Court of Ohio in *Cincinnati Ins. Co v. CPS Holdings, Inc.* that "when the language of a written contract is clear, a court may look no further than the writing itself to find the intent of the parties."[34] This analysis was limited in two respects. First, the plain meaning rule requires courts to look

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Alliance Network, Inc., v. Cont'l Cas. Co., 354 F. Supp. 2d 411 (S.D.N.Y. 2005); McNair v. Monsanto Co., 279 F. Supp. 2d 1290 (M.D. Ga. 2003); Taylor v. DaimlerChrysler AG, 237 F. Supp. 2d 789 (E.D. Mich. 2002); Phillips Petroleum Co. v. United States Steel Corp., 566 F. Supp. 1093 (D. Del. 1983); Lightner v. Boston & A. R. Co., 15 F. Cas. 514 (D. Mass. 1869)).

[25] *See* ROGER A. CUNNINGHAM ET AL., THE LAW OF PROPERTY § 6.71 (2d ed. 1993); RESTATEMENT (SECOND) OF CONTRACTS § 317 (1981) ("A contractual right can be assigned.").

[26] *See* JOSEPH M. PERILLO, CALAMARI AND PERILLO ON CONTRACTS § 3.10 (5th ed. 2003).

[27] Ed Schmidt Pontiac-GMC Truck, Inc. v. DaimlerChrysler Motors Co., 503 F. Supp. 2d 894, 899 n.6 (N.D. Ohio 2007) (quoting Morgan v. Boyer, 39 Ohio St. 324, 326 (Ohio 1883)).

[28] PERILLO, *supra* note 26, at § 3.10 n.6 (relying on 5 CORBIN, CONTRACTS § 24.7 (1998); JOHN HENRY WIGMORE, 9 WIGMORE ON EVIDENCE §§ 2461–62 (Chadbourn rev. 1981); 2 WILLISTON, CONTRACTS § 629 (4th ed. 1998); Margaret N. Kniffin, *A New Trend in Contract Interpretation: The Search for Reality as Opposed to Virtual Reality*, 74 OR. L. REV. 643 (1995); Eyal Zamir, *The Inverted Hierarchy of Contract Interpretation and Supplementation*, 97 COLUM. L. REV. 1710 (1997)); Arthur L. Corbin, *The Interpretation of Words and the Parol Evidence Rule*, 50 CORNELL L.Q. 161, 189 (1965); Joseph H. Levie, *The Interpretation of Contracts in New York Under the Uniform Commercial Code*, 10 N.Y. L.F. 350 (1964).

[29] *See* FLETCHER, *supra* note 24, § 7090.

[30] *Id.*

[31] *Id.*

[32] *Id.*

[33] Cincom Sys., Inc. v. Novelis Corp., 581 F.3d 431, 438 (6th Cir. 2009).

[34] *Id.* at 437 (quoting Cincinnati Ins. Co. v. CPS Holdings, Inc., 875 N.E.2d 31, ¶ 7 (Ohio 2007)).

to the four corners of the document for its meaning,[35] and another provision in the licensing contract stated that the "agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns" (successor provision).[36] The district and circuit courts failed to interpret the anti-assignability provision in light of the successor provision. Second, the language of the contract is not entirely clear. A lack of complete consistency in the treatment of the applicability of anti-assignability provisions to transfers by operation of law and the implication to the intent of the anti-assignability provision by the additional inclusion of a successor provision create uncertainty as to the intent of the parties. Regardless, the anti-assignability provision would not have been triggered by a transfer by operation of law purely under Ohio state law. To the extent that the decision of the court implied that this was not the case and that the anti-assignability provision would have been triggered but for the application of federal common law, the decision was poorly worded.

C. Federal Preemption

¶13 Copyrights and patents are creatures of federal law.[37] Copyright and patent *licenses* are contracts and as such are interpreted according to state law.[38] State contract law, however, must be applied "in a manner that does not conflict with federal copyright law and policy."[39] Where there is a true conflict between federal and state law, federal law controls.[40]

¶14 A patent has attributes of personal property, and an interest in a patent may be assigned or transferred.[41] A copyright has similar attributes.[42] Absent explicit language to the contrary, however, non-exclusive patent and copyright licenses are not assignable.[43] It is a presumption *against* assignability that governs under federal common law,[44] not the presumption *of* assignability under state common law.[45] While it is not obvious how a transfer by operation of law should be treated, the drafters of the Copyright Act were aware of the phenomenon, mentioning transfers by operation of law in conjunction with means of conveyances as ways in which ownership of a copyright could be transferred.[46]

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35 *See* PERILLO, *supra* note 26, § 3.10.

36 Reply Brief of Appellants Novelis Corp. and Alcan Corp. (Final) at 7, Cincom Sys., Inc. v. Novelis Corp., 581 F.3d 431 (6th Cir. 2009) (No. 07-4142), 2008 WL 3973688.

37 17 U.S.C. §§ 101–1332 (2006) (copyright); 35 U.S.C. §§ 1–376 (2006) (patent).

38 ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1450 (7th Cir. 1996).

39 Cincom Sys. Inc. v. Novelis Corp., No. 1:05CV152, 2007 WL 128999, at *2 (S.D. Ohio Jan. 12, 2007), *aff'd*, 581 F.3d 431 (6th Cir. 2009).

40 *See* Carole A. Quinn & R. Scott Weide, *Violation of the* Erie *Doctrine: Application of a Rule of Federal Common Law to Issues of Patent License Transferability*, 32 CREIGHTON L. REV. 1121, 1134 (1999) (citing O'Melveny & Myers v. Fed. Deposit Ins. Corp., 512 U.S. 79, 87 (1994)).

41 35 U.S.C. § 261 (2006).

42 17 U.S.C. § 201 (2006).

43 Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp., 284 F.3d 1323, 1328 (Fed. Cir. 2002); *In re* Patient Educ. Media, Inc., 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1997).

44 *See* Hapgood v. Hewitt, 119 U.S. 226 (1886); Oliver v. Rumford Chem. Works, 109 U.S. 75 (1883); Troy Iron & Nail Factory v. Corning, 55 U.S. 193 (1852); Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972).

45 *See* CUNNINGHAM, *supra* note 25, § 6.71.

46 *See* JEROME K. MILLER, U.S. COPYRIGHT DOCUMENTS: AN ANNOTATED COLLECTION FOR USE BY

¶15 The Sixth Circuit in *Cincom* relied on federal common law to determine that the license in question was not assignable, stating that "federal common law governs 'questions with respect to the assignability of a patent [or copyright] license.'"[47] The court was justified in applying the precedent of an earlier patent case.[48] Relying on its decision in *PPG Industries*, the court concluded that in the context of intellectual property, "a license is presumed to be non-assignable and nontransferable in the absence of 'express provisions to the contrary.'"[49] Most importantly, the court found 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."[50]

¶16 The anti-assignability provision precluded the license in question in *Cincom* from being classified as exclusive. As there is a true conflict between presumptions of assignability by federal and state common law, the court in *Cincom* was correct in adopting the federal common law presumption against the assignability of intellectual property licenses.[51] A transfer by operation of law does not change this presumption.[52] The real question is whether the successor provision served as an adequate authorization of the intra-group mergers that led to the transfer of the license. "Successor" has no fixed legal meaning and should be interpreted in accordance with the surrounding circumstances.[53] The software covered by the license continued to be "used for the same operations on the same computer by the same people in the same place as set forth in the Licensing Agreement."[54] The corporation remained under the control of the same operating company. In *PPG Industries*, on the other hand, the license was transferred to a competitor, and no successor provision was present.[55]

¶17 The presumption against assignability does not differentiate between non-competitors and competitors, though, and the successor provision does not meet the high standard set forth by federal common law—it hardly qualifies as an "express authorization."[56] This was a contract between sophisticated parties. If Cincom and Novelis had intended the license to extend to subsidiaries or other corporate affiliates, then they would have drafted the contract explicitly to do so.[57] The court in *Cincom* was

EDUCATORS AND LIBRARIANS § 204(a) (1981).

[47] Cincom Sys., Inc. v. Novelis Corp., 581 F.3d 431, 436 (6th Cir. 2009) (quoting PPG Indus., Inc. v. Guardian Indus. Corp., 597 F.2d 1090, 1093 (6th Cir. 1979)).

[48] Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 439 (1984) (citing United States v. Paramount Pictures, Inc., 334 U.S. 131, 158 (1948); Fox Film Corp. v. Doyal, 286 U.S. 123, 131 (1932); Wheaton v. Peters, 33 U.S. 591, 657–58 (1834)).

[49] *Cincom*, 581 F.3d at 436 (quoting *PPG Indus*., 597 F.2d at 1095).

[50] *Id.* at 437.

[51] *See* Hapgood v. Hewitt, 119 U.S. 226 (1886); Oliver v. Rumford Chem. Works, 109 U.S. 75 (1883); Troy Iron & Nail Factory v. Corning, 55 U.S. 193 (1852); Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972).

[52] *PPG Indus.*, 597 F.2d at 1095–96.

[53] FLETCHER, *supra* note 24, § 7203.

[54] Reply Brief of Appellants, *supra* note 36, at 9.

[55] *PPG*, 597 F.2d at 1096–97.

[56] Cincom Sys., Inc. v. Novelis Corp., 581 F.3d 431, 436 (6th Cir. 2009) (quoting *PPG*, 597 F.2d at 1095).

[57] *See* ADVANCED MICRO DEVICES INC., FORM 8-K, at Ex.10.2 Patent Cross License Agreement (Nov. 17, 2009) (explicitly covering subsidiaries); SOUTHWEST IOWA RENEWABLE ENERGY, LLC, FORM 8-K, at Grain Feedstock Supply Agreement (Dec. 22, 2008) (subsidiaries not mentioned).

correct in interpreting federal common law to prohibit the transfer, despite its intra-group nature.

D. Final Analysis

¶18 The Sixth Circuit ultimately came to the correct decision in *Cincom*. The treatment of a transfer by operation of law was correct in the context of intellectual property common law. However, the court should have clarified whether such a transfer would have triggered the anti-assignability provision in a non-intellectual property contract. By strictly applying a presumption against the assignability of non-exclusive licenses, the court advanced the interests of the federal intellectual property system in giving intellectual property owners strong control over their property. Both parties received their bargained-for contract. Cincom presumably chose to seek a restricted license agreement in order to protect against transfer to a competitor. More relevant to this analysis, Novelis presumably accepted the restricted license agreement in order to minimize the cost of the license.[58] The court should not facilitate *ex post* buyer's remorse.

III. IMPLICATIONS

¶19 The decision of the Sixth Circuit in *Cincom* has implications for corporate acquisitions as well as non-acquisitive mergers, and for both intellectual property license and non-intellectual property contract negotiations. Part A explores the implications for corporate acquisitions. Part B examines implications for non-acquisitive, or intra-group, mergers. Part C and Part D look at intellectual property and non-intellectual property contract negotiations, respectively.

A. Implications for corporate acquisitions

¶20 The approach taken in *Cincom* diminishes one of the advantages of a statutory merger over an asset purchase: since contracts transfer by operation of law, the purchaser will not need to seek third-party consents for contracts containing anti-assignability provisions.[59] Consequently, the *Cincom* decision could potentially affect the stock versus asset purchase decision analysis by a potential purchaser. The decision in *Cincom* does not, however, appear to only be applicable to intellectual property licenses.

¶21 The decision in *Cincom* has numerous potential implications for corporate acquisitions. For example, the increased risk generated by the decision will lead to additional due diligence[60] and may have a net effect of chilling acquisition activity. A portion of the added value of the acquisition will be captured by the licensor of the intellectual property in question, rather than go to the acquirer.

[58] Motion from Cincom Sys., Inc. for Summary Judgment in Support at 8–10, Cincom Sys. Inc. v. Novelis Corp., No. 1:05CV152, 2007 WL 128999 (S.D. Ohio Jan. 12, 2007) (No. 1:05CV152), 2006 WL 3669974 (Cincom had a policy of charging its initial license fee when it approved a transfer of a license agreement. The inability to charge an additional, higher fee when there was a transfer likely would have led Cincom to demand a higher annual fee from Novelis.).

[59] *See* GEVURTZ, *supra* note 15, § 7.2.1(b).

[60] *See* James J. Fuld, *Some Practical Aspects of a Merger*, 60 HARV. L. REV. 1092 (1947).

¶22 Furthermore, corporations considering acquisitions will need to give greater scrutiny to contractual obligations of the target company, particularly in regard to intellectual property licenses. The prospect of other courts following the lead of the Sixth Circuit by taking a strict view of intellectual property assignability creates additional risk of sloppy due diligence, which leaves the acquirer vulnerable to potentially expensive litigation. The somewhat vague language in the decision may give some companies pause as to its effect on non-intellectual property contracts. Corporations engaging in an acquisition do have the significant advantage, however, of being able to hedge against this risk in the representations and warranties provisions of the purchase agreement.

¶23 There are two risks associated with the prospect of other courts following the lead of the Sixth Circuit by taking a strict view of contract assignability. The first risk is that a license lacking language in the contract allowing for assignment will be overlooked, and the acquirer will be vulnerable to potentially expensive litigation by the licensor. The second risk is that the licenses uncovered by due diligence will need to be renegotiated, allowing the licensor to capture a slice of the value added by the acquisition. This will result in both transaction costs (the cost to negotiate) and contract costs (the cost from the negotiation). If the original contract terms have subsequently become unfavorable to the licensor, the licensor will have the opportunity to negotiate more favorable terms. Regardless, there is a hold-up problem.[61] The licensor will be able to negotiate more favorable terms than it otherwise would because of the potentially tremendous costs to the acquirer if the license is not renegotiated.[62]

¶24 If the licensor can meet the traditional four-factor test, there is a significant risk that a court will grant an injunction preventing the acquirer from using a patent entirely.[63] This could detract significantly from the value the acquirer expected to result from the merger. It may even lead to a potential acquirer passing over an otherwise value-added acquisition: "Oftentimes, a proposed merger or acquisition 'gets canned or valued down' following conflicts over intellectual property rights."[64] However, this reflects the proper allocation of value between the licensee, potential acquirer, and the patent owner. It also provides protection for the intellectual property owner against its property falling into the hands of a competitor.

¶25 The additional costs[65] and risks[66] resulting from the *Cincom* decision may have a net chilling effect on acquisition. This effect will likely only be negligible in the

[61] *See* Alan Devlin et al., *Success, Dominance, and Interoperability*, 84 IND. L.J. 1157, 1190–91 (2009) (noting that the problem has been mitigated somewhat by recent decisions moving away from the automatic granting of injunctions). *See also* eBay Inc. v. MercExchange, LLC, 547 U.S. 388 (2006).

[62] The acquirer will be left with the option of either: (1) accepting the litigation risk of not renegotiating the original license, (2) terminating the acquisition, or (3) dropping the license from the acquisition. The obvious inferiority of either of these options will give the licensor significant leverage in negotiations. The acquirer is also likely working under considerable time pressure. *See generally* LEIGH L. THOMPSON, THE MIND AND HEART OF THE NEGOTIATOR (4th ed. 2009) (2001).

[63] *See eBay*, 547 U.S. at 391 (citing Amoco Prod. Co. v. Vill. of Gambell, 480 U.S. 531, 542 (1987); Weinberger v. Romero-Barcelo, 456 U.S. 305, 311–13 (1982)). Note that this applies only to patent, not copyright, licenses.

[64] Shannon D. Kung, Comment, *The Reverse Triangular Merger Loophole and Enforcing Anti-Assignment Clauses*, 103 NW. U. L. REV. 1037, 1066 (2009) (quoting Lee Copeland, *Due Diligence*, COMPUTERWORLD (Mar. 6, 2006), http://www.computerworld.com/news/2000/story/0,11280,42836,00.html).

[65] The acquirer will incur additional costs due to: (1) the additional due diligence necessary, (2) the cost to renegotiate licenses, and (3) the cost from the license renegotiations.

aggregate. The possible decrease in acquisition activity is outweighed by the policy interest in protecting the property rights of the licensor and in enforcing an arm's length contract.

B. Implications for non-acquisitive corporate mergers

¶26 The decision in *Cincom* portends greater implications for non-acquisitive corporate mergers than for corporate acquisitions. Companies do not complete due diligence of the same rigor or scope for intra-group mergers as for acquisitions (nothing in the record suggests that Novelis reviewed the license agreement prior to the intra-group mergers)[67] and they cannot protect themselves contractually with representations and warranties. While the various risks of lackadaisical acquisition due diligence are well-documented, far less attention is paid to due diligence for internal reorganizations.[68] Despite not undergoing any substantive business change, a corporation may face a permanent injunction preventing it from utilizing the patent license it contracted for at arm's length.[69] The risks discussed above are simply not a common factor in the business decision to reorganize a corporate family.

¶27 These risks could result in significant unexpected costs[70] or the loss of the use of intellectual property.[71] If management becomes aware of the risks during the planning stage, they may choose to abort the intra-group mergers entirely. It is unlikely, however, that a licensor would refuse to renegotiate a license if the proposed transaction would not result in any substantive change to a licensee. Rather, they would merely have the opportunity to capture some of the added value of the intra-group mergers. As the originally negotiated price likely reflected the licensee's willingness to forgo a provision allowing it to transfer the license during an intra-group merger, the additional value received is warranted.

C. Effect on initial intellectual property license negotiations

¶28 *Cincom* gives attorneys another factor to consider when negotiating intellectual property licenses. It adds another layer of complexity to the process. As such, it will lead to higher transactions costs—that is, the cost *to* negotiate. The interest of licensees in the assignability of the license will give the licensor additional leverage.[72]

¶29 The additional complexity will also increase risks associated with the contract. The contracting parties may fail to properly address their intent regarding the assignability of the license during a corporate reorganization. Initial awareness of the *Cincom* decision is not likely to be widespread. There also remains a large degree of uncertainty regarding the effect of the *Cincom* decision on other courts. A prudent planning attorney will

[66] The acquirer will encounter: (1) the risk of overlooking licenses and (2) the risk that licenses will need to be renegotiated.

[67] Motion from Cincom Sys., *supra* note 58, at 8.

[68] *See* Copeland, *supra* note 64.

[69] *See* eBay Inc. v. MercExchange, LLC, 547 U.S. 388, 391 (2006) (citing Amoco Prod. Co. v. Vill. of Gambell, 480 U.S. 531, 542 (1987); Weinberger v. Romero-Barcelo, 456 U.S. 305, 311–13 (1982)).

[70] *See supra* note 65.

[71] *See eBay*, 547 U.S. at 391 (citing *Amoco Prod. Co.*, 480 U.S. at 542; *Weinberger*, 456 U.S. at 311–13).

[72] *See supra* note 62.

explicitly address the effect of internal reorganizations on license anti-assignment provisions going forward. At the initial negotiating stage, the additional cost to secure such a provision should be negligible as the licensor does not have the same negotiating leverage it would have *ex post*.[73]

D. Effect on non-intellectual property contracts

¶30 While *Cincom* involved an intellectual property license, its applicability to non-intellectual property contracts is unclear. Of particular concern is the language dismissive of the traditional effect on anti-assignability provisions of transfers by operation of law. The *Cincom* court only interpreted Ohio law, and the decision is only binding authority in regard to Sixth Circuit decisions applying Ohio law.

¶31 The decision in *Cincom* will lead to additional complexity and risk in non-intellectual property contract negotiations as well as in intellectual property license negotiations. This will lead to both additional contract risks[74] and transaction costs.[75] A savvy planning attorney will address the effect of intra-group mergers on anti-assignment provisions for non-intellectual property contracts as well.

IV. POLICY ANALYSIS

¶32 Proper conclusions regarding the treatment of licenses in corporate reorganizations require an understanding of the various and competing interests involved. The federal government and intellectual property owners have an interest in maintaining strong property rights and freedom of contract for intellectual property owners.[76] This conflicts with the general aim of contract and corporate law to allow for the free flow of assets.[77] In more narrow terms, the owner of a copyright or patent that licenses that property has two primary interests: (1) generating the maximum revenue from the license and (2) preventing the license from falling into the hands of a competitor.[78] The licensee, on the other hand, is interested in getting the maximum value out of the intellectual property at the lowest cost (a cost-benefit analysis analyzing the two in tandem) and retaining as much freedom as possible to engage in various business transactions. Setting aside questions of federal preemption and other primarily legal concerns, this section will evaluate how well various approaches meet these interests.

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[73] *See supra* note 62.

[74] *See supra* note 66.

[75] *See supra* note 65.

[76] *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 442 (1984) ("The staple article of commerce doctrine must strike a balance between a copyright holder's legitimate demand for effective—not merely symbolic—protection of statutory monopoly, and the rights of others to freely engage in substantially unrelated areas of commerce.").

[77] *See* CUNNINGHAM, *supra* note 25, § 6.71.

[78] The owner is also interested in preventing the license from falling into the hands of any party that is not pre-approved for that matter. There is a certain amount of tension between delegating the use of the intellectual property to another party in order to generate revenue from it while attempting to retain as much control over it as possible. *See* Sung Yang, *Considerations for the Patent Holder: The Transfer of Patent Licenses in the Context of a Merger*, 42 IDEA 515, 515 (2002).

¶33 The formalist approach utilized in *Cincom* is economically efficient. It forces parties to accept the terms bargained for *ex ante* and provides robust protection of the licensor's property rights.

¶34 Courts are currently divided between functional and formalist approaches to the assignability of contracts transferred due to an acquisition (very little case law addressing non-acquisitive mergers exists).[79] Part A looks at a "pure" functionalist approach. Part B looks at the slightly more restrictive "adverse effects" approach established in *Trubowitch v. Riverbank Canning Co*.[80] Parts C and D consider the merits of more carefully tailored functionalist approaches. Part E looks at a strict formalist approach—the most restrictive approach considered in the Note.

A. Pure Functionalist Approach

¶35 The pure functionalist approach is adopted in *TXO Production Co. v. M.D. Mark, Inc*.[81] The court in *TXO Production*—interpreting Delaware, Texas, and Ohio corporate law—found that a merger did not result in a transfer of the contracts of the merging corporation.[82] Rather the contracts transferred by operation of law, and there was no contract assignment. Thus, the court held that the anti-assignment provision of the contract in question was not triggered.[83]

¶36 If the pure functionalist approach had been applied to *Cincom*, the anti-assignment provision would not have been triggered, so the court would never have gotten to the point of applying either federal common law in regard to intellectual property or state law in regard to contract interpretation. Novelis would have prevailed at the summary judgment stage (if not earlier).[84] The court in *Cincom* explicitly rejected *TXO Production*, despite the *TXO Production* court's interpretation of Ohio corporate law.[85]

¶37 The pure functionalist approach has its benefits. It provides a clear rule for corporations incorporated in states with substantially similar corporate law provisions to those in Delaware, Texas, and Ohio (which includes a majority of corporations).[86] This simplifies merger due diligence and the resultant decision-making.[87] A lack of ambiguity advances the general goal of the Model Business Corporation Act to promote uniformity in commercial transactions.[88] Clear rules also help alleviate ever-present concerns about adjudicatory efficiency,[89] concerns that must be taken into consideration when

[79] *See generally* Kung, *supra* note 64 (discussing split between functionalist and formalist approaches).
[80] 182 P.2d 182 (Cal. 1947).
[81] 999 S.W.2d 137 (Tex. App. 1999).
[82] *Id.* at 142 (relying on DEL. CODE ANN. tit. 8, § 259 (1991); OHIO REV. CODE ANN. § 1701.82(A)(3) (West 1997); TEX. BUS. CORP. ACT ANN. art. 5.06 (West 1998); MODEL BUS. CORP. ACT ANN. § 11.06 cmt. (1996 Supp.)).
[83] *Id*.
[84] Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 586 (1986) (holding that to survive summary judgment the party bearing the burden of proof must show more than a "metaphysical doubt as to the material facts").
[85] Cincom Sys., Inc. v. Novelis Corp., 581 F.3d 431, 439 (6th Cir. 2009).
[86] STEPHEN M. BAINBRIDGE, CORPORATE LAW § 1.2(A) (2d ed. 2009).
[87] Kung, *supra* note 64, at 1060.
[88] *Id*. (citing generally to the MODEL BUS. CORP. ACT §§ 3.02–3.08 (1984)).
[89] Martin H. Redish, *Summary Judgment and the Vanishing Trial: Implications of the Litigation Matrix*, 57 STAN. L. REV. 1329, 1337 (2005) ("[T]he desire to achieve accuracy, while of great importance, must be tempered by the often-competing considerations of efficiency and the need to avoid imposition of excessive

considering substantive as well as procedural questions. The pure functionalist approach also protects the preference for the assignability of contracts[90] and does not expose a company engaging in an internal restructuring that results in no substantive change to its business in the risk of liability for breaching an anti-assignment provision.[91]

¶38 Overall, however, the disadvantages of the pure functionalist approach outweigh its advantages. The protection it affords companies engaging in internal restructuring is overly broad—it also protects companies merging with potential competitors of a licensor. The reasoning employed by the *TXO Production* court would apply equally to a corporation engaging in a reverse triangular merger with a direct competitor of a licensor. In addition, it provides no additional protection to intellectual property owners. While the *TXO Production* court accurately portrays the interests both in not chilling internal reorganizations and in protecting the owners of intellectual property, its holding is not narrowly tailored in such a way as to avoid having a negative effect on competing interests.

B. Adverse Effect Approach

¶39 In *Trubowitch*, the California Supreme Court adopted an adverse effect test.[92] *Trubowitch* has been widely relied upon by courts adopting a functionalist approach[93] and has also been extended to cover intellectual property licenses.[94] In determining whether a non-intellectual property contract was breached due to a forward triangular merger,[95] the court concluded that an anti-assignment clause does not prevent assignment by operation of law,[96] and "if an assignment results merely from a change in the legal form of ownership of a business, its validity depends upon whether it affects the interests of the parties protected by the nonassignability of the contract."[97]

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adjudicatory burdens.") (citing Mathews v. Eldridge, 424 U.S. 319, 335 (1976) (The three factors to be balanced:

> "First, the private interest that will be affected by the official action; second, the risk of an erroneous deprivation of such interest through the procedures used, and the probable value, if any, of additional or substitute procedural safeguards; and finally, the Government's interest, including the function involved and the fiscal and administrative burdens that the additional or substitute procedural requirement would entail.")).

[90] CUNNINGHAM, *supra* note 25, § 6.71.

[91] *See supra* note 66.

[92] Trubowitch v. Riverbank Canning Co., 182 P.2d 182 (Cal. 1947).

[93] *See* Sun World Corp. v. Pennysaver, Inc., 637 P.2d 1088 (Ariz. Ct. App. 1981); People *ex rel.* Dep't of Pub. Works v. McNamara Corp., 104 Cal. Rptr. 822 (Cal. Ct. App. 1972); Sexton v. Nelson, 39 Cal. Rptr. 407, 413–14 (Cal. Ct. App. 1964).

[94] Synenergy Methods v. Kelly Energy Sys., Inc., 695 F. Supp. 1362 (D.R.I. 1988); Superbrace, Inc. v. Tidwell, 21 Cal. Rptr. 3d 404 (Cal. Ct. App. 2004).

[95] To effect a forward triangular merger, the acquirer sets up a subsidiary as a shell corporation. The shell is merged with the target corporation, resulting in the shell subsidiary as the surviving entity. *See* BAINBRIDGE, *supra* note 86, § 3.4.

[96] *Trubowitch*, 182 P.2d at 188 ("[A] provision against assignment in a contract or lease does not preclude a transfer of the rights thereunder by operation of law.") (citing Gazlay v. Williams, 210 U.S. 41, 47 (1908); Cal. Packing Corp. v. Lopez, 279 P. 664, 664 (Cal. 1929); Francis v. Ferguson, 159 N.E. 416 (N.Y. 1927); Farnum v. Hefner, 21 P. 955 (Cal. 1889)).

[97] *Id.* (citing Gulf States Creosoting v. Loving, 120 F.2d 195, 199 (4th Cir. 1941); Fisher v. Berg, 290 P. 984 (Wash. 1930); Model Baking Co. v. Dittman, 266 S.W. 802, 803 (Tex. Civ. App. 1924); Walker v. Mason, 116 A. 305 (Pa. 1922); Bradford & Carson v. Montgomery Furniture Co., 92 S.W. 1104 (Tenn. 1906)).

¶40 To meet the test under the *Trubowitch* rule permitting transfer, the anti-assignment provision notwithstanding, two conditions must be met: (1) the transfer must have occurred through a change in the legal form of a business, and (2) the licensor will not be adversely affected by the transfer.[98]

¶41 As a transfer due to merger, the assignment of the copyright license in question in *Cincom* met the first prong of the *Trubowitch* test. It is also very unlikely that Cincom would have been adversely affected by the merger (at least in the traditional sense). The corporations involved in the reorganization were all part of the same umbrella company. Novelis was the substantial equivalent of Alcan Ohio from a business standpoint. The question arises: if Cincom was not affected adversely, why did it pursue legal action? Cincom had a policy of charging its standard initial license fee as a condition of approval of an assignment; Novelis sought to avoid that additional cost.[99]

¶42 A primary concern of a copyright or patent owner negotiating a license is that it will end up in the hands of a company with which the owner would not have directly contracted. The second prong of the *Trubowitch* test would appear to address this, but its weakness is the difficulty of determining whether the licensor is adversely affected. The licensor must resort to legal action to protect its property right, and then a court must make judgments on a business outcome. The first prong of the test is overly broad. By including all mergers, it encompasses any number of transactions that involve the transfer of the license to a substantially different business. Although the primary concern of the intellectual property owner is transfer to a competitor, there are various other factors that affect the strategic decision the licensor makes regarding which company to license its property to and which valuation to use in negotiating the price. The licensor chose to negotiate both for the anti-assignment provision and to not include subsidiaries or other related corporations within the scope of the license. The intellectual property owner has a right to have these contract and property rights protected in a more robust fashion than the adverse effect test provides.

C. Corporate Income Tax Reorganization Approach

¶43 The general rule in corporate law is to respect the form of the transaction,[100] unlike in contract law which sometimes considers surrounding circumstances for contract interpretation.[101] There is little differentiation made between acquisitive and non-acquisitive mergers in the eyes of the law.[102] One significant example of putting substance over form in regard to mergers is the treatment for corporate income tax purposes.[103] This Note will focus on F-reorganizations, with some consideration of D-reorganizations.[104]

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[98] SQL Solutions v. Oracle Corp., No. C-91-1079 MHP, 1991 WL 626458, at *5 (N.D. Cal. Dec. 18, 1991).

[99] Motion from Cincom Sys., *supra* note 58, at 8–9.

[100] *See* Hariton v. Arco Elecs., 188 A.2d 123 (Del. 1963). *But see* BAINBRIDGE, *supra* note 86, § 12.4.

[101] *See* PERILLO, *supra* note 26, § 3.10; Morgan v. Boyer, 39 Ohio St. 324, 326 (Ohio 1883).

[102] Delaware corporate law respects the form of the transaction. *See Hariton*, 188 A.2d at 123. *But see* BAINBRIDGE, *supra* note 86, § 12.4.

[103] DOUGLAS A. KHAN ET AL., CORPORATE INCOME TAXATION §§ 9.04, 9.05 (6th ed. 2009).

[104] For corporate income tax purposes, reorganizations are known by the letter corresponding to one of seven subparagraphs of § 368(a)(1) of the Internal Revenue Code. KHAN, *supra* note 103, § 9.04; 26 U.S.C. § 368(a)(1) (2006). Other types of non-acquisitive reorganizations are G-reorganizations

¶44 An F-reorganization is defined as "a mere change in identity, form, or place of organization of one corporation, however effected."[105] While a formalist reading of the 1982 changes to the F-reorganization provision of the Code[106] would reduce it to virtually nil, in practice the Internal Revenue Service (the Service) has made evident that multiple corporations can be involved in the reorganization as long as one operating company is involved.[107]

¶45 Unfortunately, the Service has given little additional guidance as to what constitutes a single operating company.[108] The Service has stated there must be no change in the shareholders or corporate assets,[109] but the absolute shareholder continuity requirement has eroded substantially over time.[110]

¶46 Multiple transactions are not considered together for the F-reorganization analysis.[111] The three separate corporate changes involved in the larger Novelis corporate reorganization[112] would be viewed independently. The final transaction, the change from Alcan Fabrication Corporation to Novelis easily meets the F-reorganization test. A "mere change in identity, form, or place" is the quintessential F-reorganization.[113] The other two transactions are more problematic. The change in state of incorporation falls under the traditional definition of an F-reorganization.[114] While the other two transactions may not qualify as F-reorganizations, together they are structured as quintessential divisive D-reorganizations.[115]

¶47 There are benefits to courts piggybacking off of corporate income tax rules to determine whether a merger should trigger an anti-assignment provision. Corporate income tax already recognizes the value in differentiating between acquisitive and non-acquisitive mergers and as such provides pre-existing doctrine. Tax law is concerned with substance over form, which is appropriate for responding to a transfer due to intra-group mergers, because only a change in form occurs. Because the corporate tax reorganization approach allows for differentiation between substance and form, the drawbacks to an approach encompassing corporate acquisitions are avoided. The federal government also looks to substance over form in areas of the law other than tax.[116]

(bankruptcy reorganizations), E-reorganizations (recapitalizations), and some D-reorganizations (divisive reorganizations). KHAN, *supra* note 103, §§ 9.04, 9.05.

[105] 26 U.S.C. § 368(a)(1)(F).

[106] The Internal Revenue Code, Title 26 of the United States Code.

[107] Rev. Rul. 96-29, 1996-1 C.B. 50.

[108] KHAN, *supra* note 103, § 9.05.13.

[109] Rev. Rul. 96-29, 1996-1 C.B. 50. There is an exception if dissenters owning less than one percent of the outstanding corporate shares do not participate in the transaction.

[110] KHAN, *supra* note 103, § 9.05.13.

[111] *Id*.

[112] Alcan Ohio first merged into Alcan Corporation, a corporate affiliate (1). Alcan Corporation then merged into its three Texas subsidiary corporations: Alcan Products Corporation, Alcan Primary Products Corporation, and Alcan Fabrication Corporation (2). Alcan Fabrication Corporation subsequently changed its corporate name to Novelis Corporation (3). Cincom Sys. Inc. v. Novelis Corp., No. 1:05CV152, 2007 WL 128999, at *1 (S.D. Ohio Jan. 12, 2007).

[113] KHAN, *supra* note 103, § 9.05.13 (quoting 26 U.S.C. § 368(a)(1)(F) (2006)).

[114] *Id*.

[115] *Id.* § 9.05.13, n.194 ("In general, a corporate division . . . qualifies as a D reorganization if it involves two steps: the drop-down of a trade or business to a controlled subsidiary, followed by the qualifying spin-off of the subsidiary.") (D reorganizations are also given tax-free treatment).

[116] *See, e.g.,* Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 771 (1984) ("The coordinated activity of a parent and its wholly owned subsidiary must be viewed as that of a single

¶48 One significant drawback to a substance-oriented approach is that it can lead to uncertainty and increased litigation.[117] This is a lesser consideration for corporate income tax than for intellectual property law, because in tax the government retains the decision to challenge the tax treatment claimed by the corporation. Tax cases can be tried in specialized legislative courts. The lack of well-defined doctrine in corporate income tax law regarding non-acquisitive reorganizations exacerbates this uncertainty.[118] More importantly, ignoring the intent of contracting parties prevents *ex ante* planning and changes *ex post* the bargained-for benefit. Another drawback to piggybacking off doctrine in another area of the law is the risk that the interests of the two respective areas of law will diverge at some point in the future.

D. A Specifically-Tailored Approach

¶49 The non-acquisitive reorganization approach used in corporate income tax may not be appropriate to lift wholesale into this particular area of the law, but it could still be leveraged. Any approach must protect intellectual property owners from having their licenses fall into the hands of competitors. They should also be protected from a fundamental and sudden change in the business and identity of the licensee. Courts should articulate a clear approach so that parties can contract around any functionalist exceptions to the default rule against assignability if they truly intend to do so.

¶50 Rather than looking only at the discrete corporation that holds the license, courts could consider the entire operating company. A sophisticated party does not contract with a wholly-owned subsidiary without considering and acknowledging the presence and influence of the corporate parent.[119] If this is true, there is no change in their interests in relation to the operating company *due to the intra-group mergers*.[120] If the mergers result in no change to the operating company, the anti-assignability provision would not be triggered as a matter of contract law. This would provide most of the advantages of any clean rule[121] by giving the licensor the information it needs to evaluate the effect of a merger by the licensee on its property rights.[122] By viewing a merger in its totality, rather than as a series of individual transactions, this approach avoids the risk that companies will structure their transactions to circumvent anti-assignability provisions. This approach would, however, provide a windfall for current licensees that negotiated their licenses according to the understanding that a contract signed just for the subsidiary would apply only to the subsidiary. It would also introduce uncertainty regarding what constitutes an acceptable merger, thus potentially leading to more litigation.

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enterprise for purposes of § 1 of the Sherman Act.").

[117] *See* Redish, *supra* note 89, at 1337.

[118] *See* KHAN, *supra* note 103, § 9.05.13.

[119] *See supra* note 57.

[120] If their interests in relation to the operating company have changed, it is due to circumstances changing as time passes. This is an inevitable risk inherent to licensing, and the law should not give licensors a "free pass" to mitigate it *ex post*.

[121] *See* Redish, *supra* note 89, at 1337.

[122] As a (presumably) sophisticated party, the licensor is well-qualified to judge whether the operating company it previously contracted with was fundamentally changed by the merger. Of greater concern is putting the evaluation in the hands of judges if the licensor *does* decide to pursue recourse, but that concern is somewhat less important due to its removal of one step from the initial decision.

E. Formalist Approach

¶51 A number of courts have taken a formalist approach when interpreting anti-assignment provisions triggered by mergers, particularly for intellectual property licenses.[123] The formalist approach holds that mergers violate anti-assignment provisions, interpreting those provisions using only the plain meaning.[124] The functionalist approach taken by some courts has been criticized in favor of a strict formalist approach.[125]

¶52 The court in *Cincom* followed the formalist approach; under the formalist approach, Novelis violated the anti-assignment provision in its license with Cincom. The plain meaning of the contract prohibited assignment, and the merger clearly resulted in a transfer of the license.

¶53 A formalist approach offers several attractive advantages. It furthers the goal of federal intellectual property law of giving the owner quasi-monopolistic control. This robust protection of property rights encourages innovation. It corresponds with the most common approach of corporate law by respecting the form of a transaction.[126] It also offers additional advantages due to its clear guidance for corporate lawyers.[127] It prevents parties from, in effect, renegotiating a contract *ex post* through the court system.

¶54 However, there are some drawbacks to a strict formalist approach. It may subvert the intent of the contracting parties—they may very well have assumed and intended the contract to not be affected by an intra-group merger—by preventing the use of surrounding circumstances to supplement the plain meaning of the contract.[128] In addition, it provides broad protection of the property rights of licensors by providing for the enforcement of anti-assignability provisions in instances of limited harm to the licensor.[129] In doing so, it restricts the alienability of contracts, in contravention to the general policy favored by courts[130] and the general principle that anti-assignment provisions are to be narrowly interpreted.[131] Overall, however, the respect shown by the formalist approach to the contract and property rights of the intellectual property is laudable, and it is preferable to any of the other approaches discussed.

V. CONCLUSION

¶55 *Cincom* is not a shocking result given existing precedent, but it will still likely catch many companies off-guard. This is largely because a decision that sorts out the competing interests of several areas of the law can seem illogical when viewed through

[123] *See* Gardner v. Nike, Inc., 279 F.3d 774 (9th Cir. 2002); PPG Indus., Inc. v. Guardian Indus. Corp., 597 F.2d 1090 (6th Cir. 1979); Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303 (7th Cir. 1972); SQL Solutions v. Oracle, No. C-91-1079 MHP, 1991 WL 626458, at *1 (N.D. Cal. Dec. 18, 1991).

[124] Kung, *supra* note 64, at 1049.

[125] *Id.* at 1049–52.

[126] *See* Hariton v. Arco Elecs., 188 A.2d 123 (Del. 1963). *But see* BAINBRIDGE, *supra* note 86, § 12.4.

[127] *See* Redish, *supra* note 89, at 1337.

[128] *See* PERILLO, *supra* note 26, § 3.10.

[129] It should be noted that, as a practical matter, this is a somewhat limited concern as the choice to enforce the anti-assignment provision remains with the licensor; if the licensor suffers no harm from the assignment the licensor can simply choose not to pursue legal action. But this still *is* a concern.

[130] *See* CUNNINGHAM, *supra* note 25, § 6.71.

[131] *See* RESTATEMENT (SECOND) OF CONTRACTS § 317 (1981) (“A contractual right can be assigned.”).

the prism of a single set of interests. The Sixth Circuit decision is unfortunately likely only to exacerbate, rather than alleviate, confusion and uncertainty around the treatment of anti-assignment provisions in relation to mergers. This is a concern that courts should address by continuing to apply the formalist approach taken in *Cincom*, while using clear language regarding the treatment of non-intellectual property contracts.