

Vague Assignment Clause in License Agreement Leads to Arbitration of Dispute

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Whether you are the licensor or licensee to a software license agreement, having clearly defined terms is key. One of the terms that cannot be overlooked is the assignment clause. Is the licensee allowed to assign the license to a successor in interest? If so, under what conditions? A recent federal court decision sheds some light on the subject.

In 2003, QAD, Inc. licensed its software to Elan Nutrition pursuant to a software license agreement. The assignment clause in the agreement allowed Elan to transfer the software license to a successor, provided: (a) the successor is not a competitor; (b) Elan gives QAD written notice; (c) the license is up to date on maintenance; and (d) the assignment otherwise complies with applicable law. The clause further provided that "[t]he new entity shall enter into a separate QAD standard license agreement with QAD within thirty (30) days after the effective date of such assignment or transfer." The agreement also contained an arbitration clause covering any dispute arising under the agreement.

In 2010, Elan purported to assign the license agreement to Conagra Foods, claiming that all four prerequisites to assignment had been met. QAD argued that the assignment was not effective because Conagra did not enter into a new license agreement. When Conagra began using the QAD software, QAD filed a suit in federal court in California against Conagra alleging copyright infringement. Conagra filed a motion to compel arbitration based on the clause in the agreement. The court stated that the assignment clause was "at best, ambiguous" and subject to more than one interpretation. The court pointed out that the new license agreement wasn't required to be entered into prior to the assignment taking effect but, instead was to be within 30 days after the effective date of an assignment. Accordingly, the court granted Conagra's motion to compel arbitration of QAD's dispute. Review the court's opinion.

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