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Introduction

Patent licensing rights traditionally have been personal and nontransferable.[1] Thus, unless express consent to assignment is contained in the licensing agreement, patent rights cannot be assigned or otherwise transferred to a third party. An exception to this rule has been recognized when two licensees merge to form a single corporation.[2] In this instance, the consolidated company is considered the successor rather than the assignee of the original company.[3] Accordingly, it is arguable that even though a patent right may be nontransferable to a third party, a license would fall within the ambit of the common law and statutory rule allowing all the rights, privileges and franchises of a constituent corporation to pass by operation of law to the surviving corporation in a merger.[4]

This line of reasoning has been rejected by the Sixth Circuit in *PPG Industries, Inc. v. Guardian Industries Corp.*,[5] a case of first impression, which held that the surviving corporation in a statutory merger did not acquire patent license rights where provisions in the original licensing agreement against assignment and transfer did not contain an exception for merger.[6]

1. The long line of federal cases recognizing patent rights as personal and nontransferable have as their principal case Hapgood v. Hewitt, 119 U.S. 226 (1886) which, in turn, relies on Oliver v. Rumford Chem. Works, 109 U.S. 75 (1883) and Troy Iron & Nail Factory v. Corning, 55 U.S. (14 How.) 193 (1852). *See generally* cases cited note 19 *infra*.

2. In Lane & Bodley Co. v. Locke, 150 U.S. 193 (1893), the Supreme Court announced that the rule of nonassignability was inapplicable to the case of merger. Citing Lightner v. Boston & A.R. Co., 15 F. Cas. 514 (C.C. Mass. 1869) (No. 8,343), the Court stated that "a license, though not usually transferable, is transmissible by succession to a corporation formed by the union of two licensees succeeding to the obligations of both, *for the reason that the consolidated company is the successor rather than the assignee of the original companies*." 150 U.S. at 196 (emphasis supplied). The Supreme Court has thus recognized that *Lightner v. Boston*, in the case of patent licenses, supplies a basis for the proposition that a merger is an exception to the general rule of nonassignability.

3. Lane & Bodley Co. v. Locke, 150 U.S. 193, 196 (1893).

4. As the Court of Appeals for the Eighth Circuit recognizes, it is well-settled statutory and common law rule that all the rights, privileges, franchises and liabilities of a constituent corporation vest in the successor corporation upon merger. Sun Pipe Line Co. v. Altes, 511 F.2d 280 (8th Cir. 1975). *See also* Western Auto Supply Co. v. Gamble-Skogmo, Inc., 348 F.2d 736, 741 (8th Cir. 1965), *cert. denied*, 382 U.S. 987 (1966); *In re* Penn Central Sec. Lit., 335 F. Supp. 1026, 1034 (E.D. Pa. 1971).

This rule is embodied in the MODEL BUSINESS CORPORATION ACT § 76(d) (1972) which outlines the effect of merger or consolidation. This section of the Model Act has been adopted by the legislatures in all states and the District of Columbia. COMM. ON CORP. LAWS, MODEL BUSINESS CORPORATION ACT ANNOTATED § 76 (2d ed. 1971, 1977 Supp.) [hereinafter referred to as the M.B.C.A. ANNOTATED § 76(d)]. See the full text of § 76 of the Model Act in note 40 *infra*.

5. 597 F.2d 1090 (6th Cir.), *cert. denied*, 100 S. Ct. 272 (1979).

Although the subject matter of *PPG Industries* concerns the effect of merger on nontransferable patent rights, unless isolated, Judge Lively's holding that a transfer is a transfer, whether it occurs by operation of law or by a particular act of the parties, could affect a substantial body of law predicated on the theory of continuity.[7] This would disrupt the orderly succession of corporate rights by merger, as envisioned by the common law and the Model Business Corporation Act.[8]

PPG Industries was predicated upon two theories, one factual and one legal. The factual theory was that the trial court interpreted the licensing contract incorrectly, and that the evidence indicated that the parties had agreed to prohibit the transfer of the license to a successor in the event of merger. The legal theory suggested that, even in the absence of an express clause prohibiting the transfer upon merger, the passage of rights by merger is the equivalent of assignment such that the general rule of patent nonassignability was controlling. Under both of these theories, Guardian was held liable for infringement. Since the licensing contract contained no *express* provisions regarding merger, and since the court's factual interpretation of the contract was the result of traditional rules of construction,[9] this comment will focus on the legal theory utilized by Judge Lively.

This comment will consider the competing principles of patent nonassignability and the free passage of rights by operation of law in order to assess their applicability to the merger situation. It will be suggested that the transfer of rights by operation of law is not the equivalent of assignment, and furthermore, that there is little justification for the treatment of patent rights as being distinct from other contract rights which would pass by operation of law to the surviving corporation in a merger.

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6. Although the cross-licensing agreements did not contain an express provision regarding the passage of the licenses to a successor in the event of merger, the court of appeals construed the contracts as impliedly prohibiting transfer by merger. *See* note 10 *infra*.

7. The theory of corporate continuity is illustrated in Vulcan Materials Co. v. United States, 446 F.2d 690 (5th Cir.), *cert. denied*, 404 U.S. 942 (1971). In *Vulcan Materials*, it was necessary for the court to distinguish merger from dissolution to determine whether a claimed capital expenditure was deductible under the Internal Revenue Code. The court defined merger as:

> [T]he absorbtion of one corporation by another, which retains its name and corporate entity with the added capital, franchises, and powers of the merged corporation. It is the uniting of two or more corporations by the transfer of property to one of them, which continues in existence, the others being merged therein.

446 F.2d at 694. The theory of continuity thus maintains that a corporation only loses its separate existence in a merger, and that all the franchises and powers of the merged corporation continue in the surviving corporation. *See* Fidanque v. American Maracaibo Co., 33 Del. Ch. 262, 92 A.2d 311 (1952); Argenbright v. Phoenix Finance Co., 21 Del. Ch. 288, 197 A. 124 (1936). *See generally* 15 W. FLETCHER, CYCLOPEDIA OF CORPORATIONS § 7041 (perm. ed. 1971, 1979 Supp.).

8. *See* note 40 *infra* for the full text of § 76(d) of the MODEL BUSINESS CORPORATION ACT.

9. As Corbin has stated: "[A] condition that is truly 'implied' is substantially an express condition. It is a condition for the reason that the parties have so agreed; but their intention to make it so has not been expressed in definite language." 3A A. CORBIN, CORBIN ON CONTRACTS § 653, at 132 (2d ed. Supp. 1971). *See also* RESTATEMENT (SECOND) OF CONTRACTS § 267 (1973). *Contra*, S. WILLISTON, WILLISTON ON CONTRACTS §§ 610, 610A (3d ed. Supp. 1979) (Williston's position is that the courts may not "rewrite the contract for the parties." *Id.* § 610A).

I. THE BACKGROUND OF *PPG Industries, Inc. v. Guardian Industries Corp.*

The primary issue in this case was whether the surviving corporation in a statutory merger acquired the patent license rights of its constituent corporation, where provisions in the licensing agreement prohibited assignment or transfer and did not contain an exception for merger.[10] The issue arose as a consequence of a 1964 licensing agreement between two glass manufacturers

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10. There were eleven patents involved in this infringement suit. Two of the patents originated as a result of the development work carried out at PPG Industries. The other nine patents originated as a result of work carried out at Permaglass. The parties granted each other rights to "gas hearth system" patents in the following language:

> SECTION 3. GRANT FROM PERMAGLASS TO PPG
>
> 3.1. Subject to the reservation set forth in subsection 3.3 below, PERMAGLASS hereby grants to PPG an exclusive license, with right of sublicense, to use PERMAGLASS Technical Data in Gas Hearth Systems throughout the United States of America, its territories and possessions, and all countries of the world foreign thereto.
>
> 3.2. Subject to the reservation set forth in Subsection 3.3 below, PERMAGLASS hereby grants to PPG an unlimited exclusive license, with right of sublicense, under PERMAGLASS Patent Rights.
>
> 3.3. The licenses granted to PPG under Subsections 3.1 and 3.2 above shall be subject to the reservation of a nonexclusive, non-transferable, royalty-free, world-wide right and license for the benefit and use of PERMAGLASS.
>
> SECTION 4. GRANT FROM PPG TO PERMAGLASS
>
> 4.1. PPG hereby grants to PERMAGLASS a non-exclusive, non-transferable, royalty-free right and license to heat, bend, thermally temper and/or anneal glass using Gas Hearth Systems, under PPG Patent Rights, excepting in the Dominion of Canada, and to use or sell glass articles produced thereby, but no license, express or implied, is hereby granted to PERMAGLASS under any claim of any PPG patent expressly covering any coating method, coating composition, or coated article.
>
> . . . .
>
> SECTION 9. ASSIGNABILITY
>
> 9.1. This Agreement shall be assignable by PPG to any successor of the entire flat glass business of PPG but shall otherwise be non-assignable except with the consent of PERMAGLASS first obtained in writing.
>
> 9.2. This Agreement and the license granted by PPG to PERMAGLASS hereunder shall be personal to PERMAGLASS and non-assignable except with the consent of PPG first obtained in writing.
>
> . . . .
>
> SECTION 11. TERMINATION
>
> . . . .
>
> 11.2. In the event that a majority of the voting stock of PERMAGLASS shall at any time become owned or controlled directly or indirectly by a manufacturer of automobiles or a manufacturer or fabricator of glass other than the present owners, the license granted to PERMAGLASS under Subsection 4.1 shall terminate forthwith.

597 F. 2d at 1092.

The § 11.2 termination provisions only relate to the two patents granted to Permaglass by PPG. There were no express provisions regarding merger of stock voting control regarding the nine patents granted to PPG by Permaglass. Nevertheless, the court of appeals concluded that the parties intended that the license wouldn't pass to a successor in a merger because the patent was to be "personal" and "for the benefit and use of Permaglass." 597 F.2d at 195. If this was their intention, why were the two PPG patents treated differently than the nine Permaglass patents in the termination clause? Only the PPG patent licenses would terminate if Permaglass came under the control of a competitor glass manufacturer. Given the specificity of the termination clause for the two PPG patents, and the inconsistent treatment of the nine patents vis-a-vis the two patents, it is hard to agree with the court's construction that a general intent to prohibit transfer by merger of all eleven patents appear through an examination of §§ 3, 4, and 9 of the cross-licensing agreement. If the court's construction is inaccurate, and there was no implicit agreement to prohibit transfer in the event of merger, then the court's holding is only supported by its legal theory that the passage of right by merger is the equivalent of assignment, which theory is criticized by this comment.

and the subsequent merger of the licensee with a third glass manufacturer, Guardian Industries.

The licensee, Permaglass Inc., was a small Ohio glass fabricator who at first fabricated only flat glass pieces used in the appliance and automotive industries. As the company began to prosper, its managers developed new product lines and improved technologies. One development was a "gas hearth" or "air float" process by which glass could be tempered and fabricated while being supported on a bed of hot air. Permaglass soon moved this process from the experimental to the production stage, and the first gas hearth furnace became operational in 1963. At approximately the same time, Permaglass discovered that PPG Industries had been working, independently, on the same technology.

The two corporations soon entered into negotiations to ascertain their respective patent positions. These negotiations culminated in a cross-licensing agreement dated January 1, 1964. Under the terms of this agreement, Permaglass granted PPG an "unlimited exclusive license, with right of sublicense" to use the patent.[11] Permaglass reserved personal and nontransferable rights to use its own process. In return, PPG granted Permaglass a "nonexclusive, non-transferable, royalty-free right and license" to use the PPG gas hearth patents.[12] This cross-license also was personal and nontransferable and made no express provision for the event of merger.

In 1969, Permaglass merged with Guardian Industries Corporation, a manufacturer of windshields for the automotive industry. In economic terms, this consolidation was a textbook case of a front windshield manufacturer combining with a rear windshield manufacturer for the benefit of both. Permaglass had by this time entered into the fabrication of tempered glass for automobile side and rear windows. To increase its sales, the company needed a larger distribution system and a more reliable source of raw glass. Guardian manufactured front windshields, had a large national distribution system, and needed an outlet for its raw glass producing facility. Thus the merger not only solved the internal supply and marketing problems of both companies, it also made the resulting company more competitive in the original autoglass market since automobile manufacturers prefer to fill all of their glass needs from the same source.

Guardian was the surviving entity in the merger and it continued to operate the furnace units that had been constructed and operated by

11. The patent statute specifically permits the issuance of exclusive licenses. Patent Act of 1952, 35 U.S.C. § 261 (1976). The grant of an exclusive license precludes the licensor from granting other licenses, although the licensor may reserve the right to practice the invention himself. Rollman v. Commissioner, 244 F.2d 634 (4th Cir. 1957); Agrashell, Inc. v. Composition Materials, 40 F.R.D. 395 (S.D.N.Y. 1966).

12. Nonexclusive licenses have no statutory basis, and are merely a waiver of infringement under the licensed invention. L.L. Brown Paper Co. v. Hydroloid, Inc., 32 F. Supp. 857 (S.D.N.Y. 1939), *aff'd* 118 F.2d 674 (2d Cir. 1941). "In its simplest form, a license means only leave to do a thing which the licensor would otherwise have a right to prevent. Such a license grants to the licensee merely a privilege that protects him from a claim of infringement by the owner of the patent monopoly." Western Elec. Co. v. Pacent Reproducer Corp., 42 F.2d 116, 118 (2d Cir. 1930). *See generally* Scaffetta, *Nonexclusive Patent Licensees: The Lack of Right to Sue for Infringement*, 45 GEO. WASH. L. REV. 1 (1976).

Permaglass. PPG soon filed suit in federal court claiming patent infringement by Guardian through its use of the apparatus and process licenses which had been granted to Permaglass. Guardian raised the defense that it was a valid licensee because it had succeeded by merger to all the rights, privileges and franchises which had been granted to Permaglass. The trial court dismissed the action on the merits, holding that there had been no assignment or transfer of patent rights. Rather, under the Delaware and Ohio merger statutes,[13] the rights had passed to Guardian by operation of law. The court noted that the "continuity of interest inherent in a statutory merger distinguishes it from an ordinary assignment or transfer case. Different policy considerations are involved and they justify different treatment."[14] On appeal, the court of appeals for the Sixth Circuit reversed and held that the merger transferred the license to the successor by specific act of the parties (*i.e.* the intent to merge) and thus was equivalent to assignment.[15] Accordingly, Guardian was held to have infringed upon PPG's patent rights.

While this holding provides clear guidance for the issue of the effect of merger on patent rights, its rationale does not clearly flow from the holdings of earlier patent cases, from case law relating to the passage of rights in a merger, or from the merger statutes as represented by the Model Business Corporation Act.[16] Moreover, Judge Lively's dismissal of the theory of continuity as being too "metaphysical"[17] could disturb areas of law beyond that

13. Both the Delaware and the Ohio merger statutes follow § 76(d) of the MODEL BUSINESS CORPORATION ACT. *See* DEL. CODE ANN. tit. 8, § 259(a) (1976); OHIO REV. CODE ANN. § 1701.81 (A)(4) (Page 1978).

14. 428 F. Supp. at 796. The court in Segal v. Greater Valley Terminal Corp., 83 N.J. Super. 120, 199 A.2d 48 (1964), concluded that different policy considerations require that the passage of assets in a statutory merger be distinguished from ordinary assignment. The court noted:

> One who deals with a corporation must realize that the beneficial ownership of that corporation can be changed at any time. Merger is only one of the ways which that change can be made. To deny the benefit of a merging corporation's nonassignable contracts in a merger authorized by statute would sharply limit the utility of such statutes.

83 N.J. Super. at 124, 199 A.2d at 51.

15. Patent rights may still be transferred to the successor corporation in a merger, but only by the rules governing assignment. Thus, should the parties wish transfer by merger, they should make express provision in the contract. It is interesting to note that, in a 1969 patent licensing agreement, Permaglass and Guardian provided that the licenses under that agreement were not assignable "except to a successor to the entire business to which this agreement relates . . . ." 597 F.2d at 1097. The 1969 agreement, however, was not intended to modify the 1964 agreement which was the subject of the litigation. *Id.*

16. *See* note 40 *infra* for the full text of the MODEL BUSINESS CORPORATION ACT § 76(d).

17. 597 F.2d at 1096. Judge Lively referred to an earlier case decided by the Third Circuit, Koppers Coal & Transp. Co. v. United States, 107 F.2d 706 (3d Cir. 1939), in which the court of appeals disparaged the theory of continuity by characterizing it as a theory whereby "the underlying assets of the constituent corporation are taken up into the resultant corporation precisely as specks of dust floating in drops of water are taken into a single merged drop." 107 F.2d at 707. Thus, the theory of continuity was dismissed as "metaphysical" and completely at odds with the merger statute. *Koppers* held, as did the court of appeals in *PPG Industries*, that a transfer by merger was not "wholly by operation of law" since a merger necessitates the voluntary act and participation of the constituent corporation. *Id.* at 708. Despite the eloquence of *Koppers'* language, it appears that this holding, and not the theory of continuity, is completely at odds with the merger statutes which state that "all property . . . shall be taken and deemed to be transferred to and vested in such corporation without further act of deed." *See* the full text of the MODEL BUSINESS CORPORATION CODE § 76(d) note 40 *infra*. A fair reading of the stat-

governing the drafting of patent licenses. The following section will discuss these interrelated themes.

II. Patent Rights are Generally not Assignable Without the Consent of the Grantor

Although the Congress has specified that any interest in a patent has the attributes of property and may be assignable,[18] patent licenses have long been held to be personal to the licensee and nontransferable to a third party absent an express grant allowing assignment.[19] This rule of construction owes its existence to a long line of federal cases predicated upon the 1886 Supreme Court case of *Hapgood v. Hewitt*.[20] This case established a sturdy foundation for a general rule of nonassignability; however, it does not provide guidance for the issue of whether patent rights may pass to a successor corporation in a merger, because it does not specify that transfer by operation of law is the equivalent of assignment. This section will analyze the rule of assignability in order to assess its applicability to the merger situation.

The rule of patent nonassignability arises independently of the patent statute.[21] It derives from the case of *Hapgood v. Hewitt* which, in turn, relied for authority on the earlier Supreme Court decisions in *Troy Iron & Nail Factory v. Corning*[22] and *Oliver v. Rumford Chemical Works*.[23] These three cases supply the fundamental principles for the view that patent licenses, unless otherwise provided, are personal and nontransferable.

In *Hapgood*, the Court considered the effect of an assignment on the

ute indicates that the legislature intends that the assets should pass by operation of law and not by act of the parties.

18. The Patent Act of 1952, 35 U.S.C. § 261 (1976) provides:

Section 261. *Ownership; assignment*

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

19. Lane & Bodley v. Locke, 150 U.S. 193 (1893); 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. (14 How.) 193 (1852); Unarco Indus., Inc. v. Kelly Corp., 465 F.2d 1303 (7th Cir. 1972), *cert. denied*, 410 U.S. 929 (1973); Rock-Ola Mfg. Corp. v. Filben Mfg. Co., 168 F.2d 919 (8th Cir.), *cert. denied* 335 U.S. 892 (1948); Bowers v. Lake Superior Contracting, 149 F. 983 (8th Cir. 1906); Woods Harvester Co. v. Minneapolis Harvester Co., 61 F. 256 (8th Cir. 1894). *See generally* A. DELLER, DELLER'S WALKER ON PATENTS § 409 (2d ed. 1965).

This view has not been shared universally. In a well-reasoned opinion, Justice Traynor rejected the federal view that patent rights are nonassignable noting that such a view "misconceives the policy of the federal patent statute and the relation between federal and state law in the area of patent rights." Farmland Irrigation Co. v. Dopplmaier, 48 Cal. 2d 208, 215, 308 P.2d 732, 740 (1957). Arguing that there is no specific federal policy governing the transferability of patents in merger, and that none of the *Hapgood* line of cases had been decided after Erie v. Tompkins, 304 U.S. 64 (1933), Traynor applied the California policy of the free transferability of contracts. As indicated by the subsequent *Unarco* and *Rock-Ola* cases, Traynor's analysis has had little impact on federal cases which have considered the assignability of patents after *Erie*.

20. 119 U.S. 226 (1886).

21. *See* note 18 *supra*.

22. 55 U.S. (14 How.) 193 (1852).

23. 109 U.S. 75 (1883).

grant of an equitable patent license.[24] The controversy arose when a small manufacturer of agricultural equipment, Hapgood & Company, hired the defendant to manage the production of "sulky" plows and to design an improved iron plow.[25] After the defendant completed the work in 1877, he left the company and obtained letters patent on his improved design. Subsequently, believing that they had obtained an equitable license to use the improved design because it had been designed while the defendant was in their employ, Hapgood & Company assigned its license rights to a third party.[26] Hapgood & Company then brought suit to enforce the transfer of the letters patent to its assignee on the theory that patent rights are freely assignable. The Supreme Court concluded that Hapgood & Company had obtained an equitable license to use the patented plow design, but it held that "[w]hatever license resulted to the Missouri Corporation [Hapgood & Company], from the facts of the case, to use the invention, was one confined to that corporation, and not assignable by it."[27] For this proposition the Court cited *Troy Iron & Nail Factory v. Corning* and *Oliver v. Rumford*. In *Troy*, after concluding that the parties impliedly had agreed to prohibit transfer, the Court held that "[a] mere license to a party, without having his assigns or equivalent words to them, showing that it was meant to be assignable, is only the grant of a personal power to the licensee, and is not transferable by him to another."[28] Similarly, in *Oliver*, after the Court held that the parties impliedly had prohibited transfer, the Court noted:

> It is apparent that licenses of this character must have been granted to such individuals as the grantor chose to select because of their personal ability or qualifications to make or furnish a market for the self-raising flour and thus for the acid [the invention], all of which was to be purchased from the grantor. The license was to be made revocable by the grantor on the failure of Morgan to per form his covenants and agreements.[29]

In each of these cases the facts indicate that the parties had intended that the license be personal, and that the licensor was dependent upon the personal qualities of the licensee as a condition of the grant. None of the cases cites a policy which would allow the generalization of such a conclusion into a fixed rule that all licenses are personal and nontransferable. The bases for the *Hapgood* rule are the *Troy* and *Oliver* cases. But as Justice Traynor observed in a 1957 California patent case: "The statement in the Troy

24. Equitable licenses, or "shop rights," are implied licenses that usually arise when an employee perfects a patentable device or process in the course of his employ. Equitable licenses consistently have been held to pass to the resultant corporation in a merger. *See, e.g.*, Papazian v. American Steel & Wire Co., 155 F. Supp. 111 (N.D. Ohio 1957); Neon Signal Devices, Inc. v. Alpha-Claude Neon Corp., 54 F.2d 793 (W.D. Pa. 1931); Wilson v. J.G. Wilson Corp., 241 F. 494 (E.D. Va. 1917).

25. The sulky, or riding plow, was arranged so that the plow was carried on a frame supported by wheels, and that the driver of the horses rode on the frame. During the year 1876, the officers of Hapwood & Company thought it desirable to substitute an iron frame for the wooden one. 119 U.S. at 229.

26. Although the Hapgood Plow Company did become the successor to the assets of Hapgood & Company, it did so by assignment and not by statutory merger. *Id.* at 227.

27. *Id.* at 234.

28. Troy Iron & Nail Factory v. Corning, 55 U.S. (14 How.) 193, 216 (1852).

29. Oliver v. Rumford Chem. Works, 109 U.S. 75, 83 (1883).

case, however, was not necessary to the decision, and in Oliver v. Rumford Chemical Works there were provisions in the license calling for the personal skill of the licensee even under ordinary rules of construction."[30] Traynor concluded that the federal rule of nonassignability "misconceives the policy of the federal and state law in the area of patent rights."[31] His criticism illustrates a conceptual flaw in the federal rule of nonassignability. What policy is served by a *presumption of nontransferability*? At first glance, the stated congressional policy that all "patents shall have the attributes of personal property . . . [and] shall be assignable in law"[32] is disserved by such a presumption. Moreover, if it is the protection of the inventor that is sought, it is unclear how a presumption that patent holders rely more on the personal qualities of the licensee than do other holders of property promotes the protection of inventions. Such a presumption is more appropriate in a world of guilds and artisans than in the highly commercial world of today. It is clear that if an inventor does wish that his patented process or apparatus only be used by certain individuals or industries, he could quite easily place such restrictions in his grant.

Despite its inapt beginnings, the rule of patent license nonassignability is a rule to which federal courts have consistently adhered.[33] Although many of these cases can be explained on the ground that the language of the licensing contract clearly excludes assignability,[34] many others have followed the holding of *Hapgood v. Hewitt* as an unquestioned rule of patent law.[35] For example, citing *Troy* and *Hapgood*, the Seventh Circuit recently held that:

> We are of the opinion that the question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law. Therefore, we hold federal law applies to the question of the assignability of the patent license in question. . . . The long standing federal rule of law with respect to the assignability of patent license agreements provides that these agreements are personal to the licensee and not assignable unless expressly made so in the agreement.[36]

Similarly, in *Wood Harvester Co. v. Minneapolis*, the Eighth Circuit considered that "the absence of any words of assignability in [a] license shows an intent to make it run to the [licensee] alone, as clearly as if words of nonassignabil-

30. Farmland Irrigation Co. v. Dopplmaier, 48 Cal.2d 208, 215, 308 P.2d 732, 740 (1957).

31. *Id.* at 213, 308 P.2d at 737.

32. The Patent Act of 1952, 35 U.S.C. § 261 (1976).

33. *See* note 19 *supra*.

34. *See, e.g.*, Rock-Ola Mfg. Corp. v. Filben Mfg. Co., 168 F.2d 919, 922 (8th Cir.), *cert. denied*, 335 U.S. 892 (1948); Reynolds Spring Co. v. L.A. Young Indus., Inc., 101 F.2d 257, 260 (6th Cir. 1939); Niagara Fire Extinguisher Co. v. Hibbard, 179 F. 844, 845 (7th Cir. 1910).

35. Lane & Bodley Co. v. Locke, 150 U.S. 193, 195-96 (1893); Kenyon v. Automatic Instr. Co., 63 F. Supp. 591, 593 (W.D.S.D.) *rev'd on other grounds*, 160 F.2d 878 (6th Cir. 1947); Neon Signal Devices, Inc. v. Alpha-Claude Neon Corp., 54 F.2d 793 (W.D. Pa. 1931); Bowers v. Lake Superior Contracting, 149 F. 983 (8th Cir. 1906); Wood Harvester Co. v. Minneapolis-Esterley Harvester Co., 61 F. 256 (8th Cir. 1894). *See also* A. DELLER, DELLER'S WALKER ON PATENTS § 409 (2d ed. 1965).

36. Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972), *cert. denied*, 410 U.S. 929 (1973).

ity had been incorporated therein."[37]

By such analysis, the federal courts have created a fixed rule of nonassignability based upon the theory that a licensor relies on the personal qualities of the licensee. Regardless of the merits of this rule of nonassignability, it does not appear to be applicable to the merger situation. To the contrary, under the theory of corporate continuity, merger fulfills the presumed reliance upon the licensee's personal qualities, since all the qualities and assets of the merging corporation continue in the successor corporation. At the very least one could argue that, in the absence of a policy prohibiting transfer in a merger, the presumption that all rights and privileges pass by operation of law in a merger should prevail. The next section will analyze such a presumption to determine its applicability to the passage of patent rights upon merger.

III. All Rights, Privileges, and Franchises of a Constituent Corporation Pass by Operation of Law to the Surviving Corporation

The merger of one corporation with another does not contemplate the winding up of the business of the merging corporation and the liquidation of its assets. Rather, a primary object of merger is to continue the business of the constituent, or merging, corporation. The extent to which the surviving corporation may enjoy the assets of the former corporation, however, depends upon the legislatures that govern merger, since it is the sovereign who confers the authority to consolidate.[38] With respect to the effect of merger or consolidation, the legislatures of all jurisdictions of the United States have adopted section 76(d) of the Model Business Corporation Act[39] which states that in the event of merger, the "surviving or new corporation shall thereupon and thereafter possess all the rights, privileges, immunities, and franchises . . . of each of the merging or consolidating corporations . . . [and such property] shall be taken and deemed to be transfered to and vested in such single corporation without further act or deed. . . ."[40]

37. 61 F. 256, 258 (8th Cir. 1894).

38. Clearwater v. Meredith, 68 U.S. (1 Wall.) 25 (1863); Pearce v. Madison & I.R. Co., 62 U.S. (21 How.) 441 (1860); Roddy v. Norco Local 4-750, Oil Chem. & Atomic Workers Int'l Union, 359 So. 2d 957 (La. 1978). The sovereignty which determines the existence or nonexistence of a power in a corporation is the state. Rudolph Wurlitzer Co. v. Commissioner, 81 F.2d 971 (6th Cir. 1936).

39. M.B.C.A. Annotated § 76(d), at 401-03.

40. *Id.* The statute provides as follows:

Section 76 EFFECT OF MERGER OR CONSOLIDATION

Upon the issuance of the certificate of merger or the certificate of consolidation by the Secretary of State, the merger or consolidation shall be effected.

When such merger or consolidation has been effected:

(a) The several corporations parties to the plan of merger or consolidation shall be a single corporation, which, in the case of merger, shall be that corporation designated in the plan of merger as the surviving corporation, and, in the case of a consolidation, shall be the new corporation provided for in the plan of consolidation.

(b) The separate existence of all corporations parties to the plan of merger or consolidation, except the surviving or new corporation, shall cease.

(c) Such surviving or new corporation shall have all the rights, privileges, immunities and powers and shall be subject to all the duties and liabilities of a corporation organized under this Act.

Some states have supplemented the basic language of the Model Act to make clear that the transmission of rights by merger is not governed by the usual rules of law with respect to assignment.[41] For example, in 1977, Colorado added a sentence to its version of section 76(d) that reads:

> Such transfer to and vesting in the new or surviving corporation *shall be deemed to occur by operation of law*, and no consent or approval of any other person shall be required in connection with any such transfer or vesting *unless such consent or approval is specifically required in the event of merger of consolidation by law or by express provision in any contract*, agreement, decree, order, or other provision to which any constituent corporation is a party or by which it is bound.[42]

Thus, in Colorado, general provisions of nontransferability, such as those involved in the patent licenses in *PPG Industries*, would not operate to hinder the passage of rights to the surviving corporation unless the particular contract contained *express provision* prohibiting transfer upon merger.

Even in the absence of a clear statutory presumption of the free transferability of rights, under the case law of numerous jurisdictions, the passage of rights by merger long has been distinguished from assignment. For example, two Illinois cases, *Albers v. McNichols*[43] and *Essex International, Inc. v. Clamage*,[44] illustrate the view that usually nontransferable instruments of guaranty pass to the surviving corporation in a merger.[45] In *Albers*, the defendant, seeking recovery under an instrument of guaranty, argued that 1) a party cannot gain benefit under a guaranty unless he is named in the original instrument, and 2) that the constituent corporation cannot transfer the guaranty to the surviving corporation in a merger because the instrument is non-negotiable. The trial court held for the defendant. The plaintiff argued on appeal that the trial court erred in failing to distinguish between assignment and succession by merger. The court of appeals agreed with the plaintiff and reversed the judgment. The court supported its holding by quoting from a similar New York case, *Bank of Long Island v. Young*[46] (the New York

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> (d) Such surviving or new corporation shall thereupon and thereafter possess all the rights, privileges, immunities, and franchises, of a public as well as of a private nature, of each of the merging or consolidating corporations; *and all property* real, personal and mixed, and all debts due on whatever account, including subscriptions to shares, and all other choses in action, and all and every other interest of or belonging to or due to each of the corporations so merged or consolidated, *shall be taken and deemed to be* transferred to and vested in such single corporation without further act or deed; and the title to any real estate, or any interest therein, vested in any of such corporations shall not revert or be in any way impaired by reason of such merger or consolidation;
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> . . . .

Id. (Emphasis supplied).

41. Discussing the 1977 addition to the Colorado Corporation Code, it has been noted that "the addition makes it clear that contracts which provide that they 'cannot be assigned without the consent of the parties hereto' do transfer to the surviving corporation in a merger or consolidation, unless the contract specifically requires consent to transfer in the event of a merger or consolidation." Maer & Giacomini, *The 1977 Revisions to the Colorado Corporation Code*; 7 COLO. LAW. 911, 926 (1978).

42. COLO. REV. STAT. § 7-7-105(2) (Supp. 1979) (emphasis supplied).

43. 301 Ill. App. 551, 23 N.E.2d 220 (1939).

44. 440 F.2d 547 (5th Cir. 1971) (applying Illinois law).

45. An instrument of guaranty is an agreement to guarantee the payment of the obligation of a third party to a creditor.

46. 101 A.D. 88, 91, 91 N.Y.S. 849, 850-51 (1905).

and Illinois merger statutes are parallel):

> The legislature did not contemplate that the property of one bank merger in another should rest in the corporation in which the merger takes place by operation of any assignment, or that such transfer should be attended with the usual rules of law with respect to assignment. The scheme is that the corporation which is merged with another should lose its identity only so far as its separate existence is concerned, and that it should be swallowed up in the other, and become an integral part thereof, carrying into the corporation which survived all its rights, powers, liabilities and assets except the indicia of a corporate body distinct from that into which it is merged.[47]

Essex v. Clamage also addressed the question of whether a corporate merger would discharge the obligation of a debtor under a guarantee. The court of appeals for the Seventh Circuit held that, although Illinois recognized the general rule of nonassignability of guarantees, merger does not affect an assignment because the essentials of the original contract are not materially altered from that first contemplated.[48] Thus,

> a merger involving a creditor corporation does not discharge a guarantor any more than does a new change in corporate name. Unless there is some material change either in the business dealings between the debtor and the creditor or in the risk undertaken by the guarantor, the obligation of the guarantor is not discharged.[49]

Accordingly, there are dual rationales supporting the general rule that instruments of guaranty pass to the surviving corporation even though they are not transferable to a third party: 1) the legislatures intend that all property should pass freely upon merger, and 2) merger, unlike assignment, does not materially alter the expectations of the parties since all of the qualities of the former corporation survive in the resulting corporation.[50]

These principles have been applied to many other types of nonassignable contracts: municipal licenses,[51] liability insurance contracts,[52] real estate leases,[53] federal contract claims,[54] and equitable licenses.[55] In each of these

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47. 301 Ill. App. at 554, 23 N.E.2d at 222.

48. Essex v. Clamage, 440 F.2d 547 (5th Cir. 1971).

49. 440 F.2d at 550. This rule recognizing that instruments of guaranty pass to the successor in a merger, despite the fact that they are generally non-negotiable, has also been recognized in New York and Ohio. Metro Corrugated Containers v. Owens-Illinois Glass Co., 85 F. Supp. 359 (E.D.N.Y. 1960) (applying Ohio and New York law); Pantex Pressing Mach. v. United States, 71 F. Supp. 859 (Ct. Cl. 1947) (construing federal tort claims statute and holding that merger did not affect an assignment); Bank of Long Island v. Young, 101 A.D. 88, 91 N.Y.S. 849 (1905).

50. *See, e.g.*, Metro Corrugated Containers v. Owens-Illinois Glass Co., 185 F. Supp. 359 (E.D.N.Y. 1960); Chase Nat'l Bank v. Burg, 32 F. Supp. 230 (D. Minn. 1940); Bank of United States v. Glickman, 241 A. D. 92, 271 N.Y.S. 90, *aff'd* 265 N.Y. 539, 193 N.E. 309 (1934); W. H. McElwain Co. v. Primavera, 180 A. D. 288, 167 N.Y.S. 815 1917).

51. Diamond Parking, Inc. v. Seattle, 78 Wash. 2d 778, 479 P.2d 47 (1971).

52. Syracuse Lighting Co. v. Maryland Cas. Co., 226 N.Y. 25, 122 N.E. 723 (1919).

53. Dodier Realty & Inv. Co. v. St. Louis Nat'l Baseball Club, 361 Mo. 981, 238 S.W.2d 321 (1951); Segal v. Greater Valley Terminal Corp., 83 N.J. Super. 120, 199 A.2d 48 (1964).

54. Seaboard Air Line Ry. v. United States, 256 U.S. 655 (1921). In *Seaboard*, a successor corporation sought payment for transportation services. The claim was acquired through merger. The government defended with the argument that a federal claims statute prohibits assignment of claims against the United States. The Supreme Court held that since the claim-

cases a primary rationale was that the principles governing merger are distinct from rules of ordinary assignment.[56] A significant case in the area of non-assignable contracts is *Diamond Parking, Inc. v. Seattle*.[57] In *Diamond Parking*, the city of Seattle sought the payment of licensing fees from a newly formed corporation that was operating several parking lots. The corporation had acquired licenses to operate the lots through statutory merger with three parking lot companies.[58] The city argued that since the licenses were nonassignable, the corporation had to pay new licensing fees to operate the parking lots. The corporation argued that it had acquired the licenses through statutory merger, not by assignment, and thus was authorized to operate under the licenses granted to the constituent corporations in the merger. The Supreme Court of Washington held that the Washington version of section 76(d) of the Model Business Corporation Act governed the construction of the Seattle ordinance which rendered the licenses nontransferable.[59] The Court noted the legislative purpose underlying the merger statute:

> It was the evident legislative intent, in enacting these provisions, to encourage the continuation of businesses so that their obligations can be discharged. A corporation cannot reasonably be expected to discharge its obligations and liabilities if it is deprived of its valuable assets, and the value of a license in carrying on a business can hardly be questioned . . . . The statute does not provide that the surviving corporation shall succeed to the rights, privileges and franchises of the merger corporations, provided those rights, privileges and franchises are made assignable by the authority which granted them. It provides, without condition, that they shall pass upon the merger.[60]

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ant had acquired his interest by operation of law and not by assignment, the claim should be allowed. The Court noted:

> As agreed and provided by the laws of the two states, the rights, privileges, franchises, and all property, real, personal, and mixed, and all debts on every account, as well as stock subscriptions and other things in actiŏn belonging to each of the constituents, were transferred to and vested in the consolidated corporation without further act or deed "as effectually as they were in the former companies."

256 U.S. at 656.

55. Papazian v. American Steel & Wire Co., 155 F. Supp. 111 (N.D. Ohio 1957); Neon-Signal Devices, Inc. v. Alpha-Claude Neon Sign Corp., 54 F.2d 793 (W.D. Pa. 1931); Wilson v. J.G. Wilson Corp., 241 F. 494 (E.D. Va. 1917).

56. Counsel for Guardian only relied on two classes of cases (shop rights and real estate leases) to support his argument that rights of a constituent corporation may pass by merger, even though they may not otherwise be transferable. 597 F.2d at 1094. The court of appeals concluded that these types of cases were explainable by other factors and could not be used to support such a proposition.

57. 78 Wash.2d 778, 479 P.2d 47 (1971).

58. It is interesting to note that in *Diamond Parking*, the owner of the surviving corporation had also owned all of the stock of the three constituent corporations. Thus, under the guise of an "assignment," the city of Seattle was trying to charge the same operator twice for the same licenses because he had changed the form of his corporate existence.

59. SEATTLE CODE § 10.02.050 (1967) provided that: "No license issued under the provisions of this chapter shall be transferable or assignable, unless specifically otherwise provided for." Because of the legislative policy of the Washington version of the MODEL BUSINESS CORPORATION ACT, WASH. REV. CODE § 23A.20.060 (1969), this ordinance, which parallels the assignment in the *PPG Industries* contract, was held to not prohibit the passage of the license by merger.

60. 78 Wash.2d at 782, 479 P.2d at 49.

Thus, the city's theory that the merger effected an assignment was found to be in irreconcilable conflict with the legislative intent to promote merger:

> If a surviving corporation must pay an additional license fee in order to continue to enjoy a license lawfully acquired by one of the merging corporations, an additional burden is attached. It is not acquired subject to the *same* burdens and the restriction which attached thereto in the hands of the consolidating corporations.[61]

Accordingly, to require the surviving corporation to repurchase the licenses it had acquired from the merging corporation would have been a tax on the merger, which was contrary to the intent of the Model Business Corporation Act.

There is very little difference between the situation in *Diamond Parking* and that presented by *PPG Industries*. Although the subject matter differs—a nonassignable patent license versus a nonassignable municipal license—the legal theory is the same. As was pointed out in *Diamond Parking*, there are different policy considerations in a merger as compared to an assignment. The next section will assess *PPG Industries* in light of this theme.

IV. THE PASSAGE OF PATENT RIGHTS BY MERGER IS NOT THE EQUIVALENT OF ASSIGNMENT

The legal issue in *PPG Industries* was whether generally nontransferable patent licenses may pass to the surviving corporation in a statutory merger. The district court found that the continuity of interest inherent in a statutory merger distinguishes it from ordinary assignment or transfer,[62] and held that the patent licenses pass to the resulting corporation by operation of law. The court of appeals reversed and held that the merger had effected a transfer of rights in violation of the licensing agreement.[63] Because the licensing agreement contained *no express* provisions prohibiting transfer in the event of merger, the court's conclusion 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 . . . ,"[64] effectively equates the general rules governing the assignment of patent licenses with those governing the passage of rights by merger. This is the first instance in which these two competing principles have been utilized to determine the effect of statutory merger on nonassignable patent licenses. But, given the lack of a clear federal policy favoring the nontransferability of patents in the merger context, and given a strong statutory presumption of the free passage of rights, it is doubtful that the holding in *PPG Industries* may be properly taken as support for the proposition that generally nonassignable rights do not pass to the surviving corporation in a merger.

First, the court appeals found that the cases cited by Guardian in support of their theory that patent licenses pass to successors by operation of law could not be used for support, because their facts took them outside the gen-

61. *Id.* at 783, 479 P.2d at 50.

62. 428 F. Supp. at 796. For a general discussion of the policy considerations involved in statutory merger, *see* W. FLETCHER, CYCLOPEDIA OF CORPORATIONS § 7086 (perm. ed. Supp. 1979).

63. 597 F.2d at 1090.

64. *Id.* at 1096.

eral rule of nonassignability. Thus, in the court's view, the surviving corporation in *Lightner v. Boston & A.R. Co.*[65] retained patent licenses from a merger because the licensor had chosen both of the constituent corporations as licensees. Accordingly the patent licenses pass to the successors in the so-called "shop rights" cases because of the doctrine of equitable estoppel.[66] Similarly, the court considered that real estate leases pass to successors in a merger because of the policy against restraints on alienation. But, as the Supreme Court later recognized in *Lane & Bodley Co. v. Locke*,[67] the court in *Lightner v. Boston* held that a license "is transmissible by succession to a corporation formed by the union of two licensees succeeding to the obligations of both, *for the reason that the consolidated company is the successor rather than the licensee of the original companies* . . .,"[68] and not because the constituent corporations were licensees. Similarly, several of the "shop rights" and real estate lease cases cited by Guardian do distinguish between an assignment of property from an acquisition of corporate property by a successor corporation in a merger.[69] Thus, the proposition that the rules of assignment are distinct from the rules governing merger is supportable.

Second, it is uncertain whether the general rule of patent nonassignability based on *Hapgood v. Hewitt* can be extended from a third-party assignment context to the merger situation. No clear federal policy emanates from the cases that would inhibit the passage of rights through merger. To the contrary, in view of the congressional intent that patent licenses shall have all the attributes of property,[70] and considering the view of section 76(d) of the Model Business Corporation Act and of the cases relating other nonassignable contracts to the merger statutes,[71] it is doubtful that any fixed rule

65. 15 F. Cas. 514 (C.C. Mass. 1869) (No. 8,343).

66. See note 24 *supra*.

67. 150 U.S. 193 (1893).

68. *Id.* at 196 (Emphasis supplied). In *Lane & Bodley*, the Supreme Court cited the following factors as being relevant to the application of the *Lightner v. Boston* rule (that a license is transmissible to the successor in a merger):

> In the present case, it clearly appears that the company was organized on the same basis as the firm; that the business of the company was to be the same as that carried on by Locke & Bodley, and to be carried on in the same premises; that the entire property and assets of the firm and its liabilities and obligations were devolved upon the company; Locke himself, in his evidence, repeatedly speaks of the Lane & Bodley company as the successor to the firm.

Id. This appears to be an early formulation of the theory of continuity. See note 7 *supra*.

69. *See* Neon Signal Devices, Inc. v. Alpha-Claude Neon Corp., 54 F.2d 793 (W.D.Pa. 1931); *cf.* Segal v. Greater Valley Terminal Corp., 83 N.J. Super. 120, 199 A.2d 48 (1964) (In *Segal*, the New Jersey Court of Appeals considered the effect of merger on a non assignment clause in a real estate lease. Although the court did note that for real estate there is a general doctrine disfavoring restraints on alienation, the court held on separate grounds that merger was not the equivalent of assignment, because the legislature had mandated that

> [T]he rights, privileges, powers, franchises 'and all and every interest' of each constituent corporation shall vest in the successor corporation. The passage of such interest under the statute, whether labeled an assignment, sub-lease, or transfer, is by operation of law and it will not operate as a breach of a covenant barring assignment.

Id. at 123, 199 A.2d at 50. *Accord*, Dodier Realty & Inv. Co. v. St. Louis Nat'l Baseball Club, 361 Mo. 981, 238 S.W.2d 321 (1951) (holding that the merger sections of the National Banking Act, 12 U.S.C. § 34(a) (1946), precluded a claim that an assignment had been effected). *See generally* 3a G. THOMPSON, THOMPSON ON REAL PROPERTY § 1212, 68,73 (Supp. 1980).).

70. Patent Statute of 1952, 35 U.S.C. § 261 (1976).

71. *See* note 40 *supra* for the full text of the Model Business Corporation Act.

of construction can be drawn based on licenses where there are no express provisions regarding merger.

Finally, the view that a transfer by operation of law is the equivalent of transfer by act of the parties is clearly inconsistent with the language of the merger statutes as represented by the Model Act, section 76(d), which provides that all rights, privileges, and franchises in a merger are transferred to and vested in the surviving corporation without further act or deed.[72] This language has been interpreted as authorizing the transfer of property by operation of law and not by act of the parties.[73] Therefore, the principles governing the transfer of property are not equivalent to the principles governing assignments and transfers.

V. Conclusion

The Sixth Circuit Court of Appeals broke new ground with its analysis of the effect of statutory merger on generally nonassignable patent licenses. The precedential value of *PPG Industries*, however, is uncertain because the court utilized two distinct approaches for its conclusion that several patent licenses had not passed from a constituent corporation to the surviving corporation in a merger. In its first approach, the court applied traditional rules of construction to conclude that the parties had intended to prohibit the transfer of the licenses in the event of merger. This analysis serves as useful instruction to future drafters of patent licensing contracts to include express provision for merger in the agreement. The second approach is more problematical.

The court devised a sophisticated legal theory to affect the curious metamorphosis of a transfer by operation of law to a general rule of patent license nontransferability. The court's conclusion that "[a] transfer is no less a transfer because it takes place by operation of law rather than by particular acts of the parties . . ."[74] effectively equates the general rules governing the passage of rights by merger with the principles of assignment and transfer. This equation irreconcilably conflicts with the statutory rules of merger and departs from a large body of law predicated on the theory of corporate continuity. The holding in *PPG Industries* is expansive, but it should be limited

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72. *Id.*

73. As was held in American Cement Corp. v. Dunetz Bros., Inc., 47 Misc.2d 747, 752, 263 N.Y.S.2d 119, 123 (Sup. Ct. 1965), discussing the effect of merger on a nontransferable lien, the court considered the New York version of § 76(d) of the Model Act:

> More comprehensive language could not be employed to indicate the intention that any right, privilege, or property of any and every nature and kind that was vested in the old corporations should be by operation of law transferred to and vested in the new corporation unimpaired by the act of consolidation. It would be contrary to the expressed intention of the Legislature by a narrow construction to cut down or limit the broad and comprehensive language of this statute.

74. 597 F.2d at 1096.

to its facts with the view that the parties had agreed to prohibit transfer upon merger. Otherwise, this case provides a basis for the disruption of the orderly succession of corporate rights as envisioned by the common law and the Model Business Corporation Act.

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