

## Federal Circuit Patent Bulletin: *Diamond Coating Techs., LLC v. Hyundai Motor Am.*

May 17, 2016

*“Nunc pro tunc assignments are not sufficient to confer retroactive [patentee status].”*

On May 17, 2016, in *Diamond Coating Techs., LLC v. Hyundai Motor Am.*, the U.S. Court of Appeals for the Federal Circuit (Wallach,\* Bryson, Taranto) affirmed the district court’s dismissal of Diamond’s suit alleging infringement of U.S. Patents No. 6,066,399 and No. 6,354,008, which related to hard carbon thin films used in electronic devices and semiconductors. The Federal Circuit stated:

In 2011, Diamond and Sanyo signed the Patent Assignment and Transfer Agreement (PATA) and the Ancillary Agreement. When the patents-in-suit issued, the inventors assigned the patents to Sanyo. Sanyo then conveyed to Diamond various rights to and interests in the patents-in-suit via the PATA. . . .

Agreements transferring patent rights occur by assignment or license. “An assignment of patent rights operates to transfer title to the patent, while a license leaves title in the patent owner” and transfers something less than full title and rights. “To create an assignment, a contract must transfer: (1) the entire exclusive patent right, (2) an undivided interest in the patent rights, or (3) the entire exclusive right within any geographical region of the United States.” “An agreement that does not transfer one of these three interests is merely a license.” . . .

[T]wo characteristics of the PATA resolve the issue before us. We “have never . . . establish[ed] a complete list of the rights” that “must be examined to determine whether a [patentee] has transferred away sufficient rights to render an [other party] . . . the owner of a

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patent.” However, we have observed that (1) “the exclusive right to make, use, and sell . . . is vitally important,” and (2) “the nature and scope of the [patentee’s] retained right to sue accused infringers [and license the patent are] the most important factor[s] in determining whether an [agreement] . . . transfers sufficient rights to render the [other party] the owner of the patent.” . . .

Diamond does not possess sufficient rights to make, use, or sell the patented invention. We have held that a “licensor’s retention of a limited right to develop and market the patented invention indicates that the licensee failed to acquire all substantial rights.” Sanyo retains a right and license to make, use, and sell products covered by the patents-in-suit. Section 2.4(a) of the PATA provides Sanyo with “a world-wide, royalty-free, non-exclusive, non-sublicensable, non-transferable . . . right and license . . . to practice the methods and to make, have made, use, distribute, lease, sell, offer for sale, import, export, develop and otherwise dispose of and exploit any” products covered by the patents-in-suit, including any “foundry or contract manufacturing activities . . . that [Sanyo] . . . currently undertake[s] . . . or may undertake in the future.” Indeed, the PATA does not even grant Diamond a right to practice the patents-in-suit. Section 5.1.1 of the PATA limits Diamond to the “prosecution, maintenance, licensing, litigation, enforcement and exploitation” of the patents-in-suit and explains that Diamond “shall engage in no [other] business or activity.” Thus, in this respect, Diamond unquestionably failed to acquire all substantial rights in the patents-in-suit. . . .

“Retaining control of [licensing or litigation] activities is [] critical to demonstrating that the patent has not been effectively assigned to the licensee.” Sanyo retained significant control over Diamond’s enforcement and litigation activities. First, the PATA conditions Diamond’s litigation and enforcement activities on Sanyo’s best interests. Section 5.1.4 of the PATA states that Diamond, “in its reasonable sole discretion,” “shall pursue the licensing, litigation, enforcement and other exploitation of the [patents-in-suit] to generate revenue for so long as [Diamond] determines in good faith, taking into consideration the best interests of [Diamond] and [Sanyo], that it is commercially reasonable to do so.” Second, the PATA cabins Diamond’s authority to license the patents-in-suit. Section 5.2.2 of the PATA explains that Diamond “shall not” license the patents-in-suit jointly with patents owned by another party absent Sanyo’s prior written consent. Third, the PATA and Ancillary Agreement limit Diamond’s discretion to refrain from suing certain companies. . . .

The PATA and the Ancillary Agreement therefore did not convey all of the substantial rights in the patents-in-suit to Diamond. Accordingly, we hold that Diamond is not a “patentee” under 35 U.S.C. § 281.

Following the District Court’s decision in *Diamond*, Diamond and Sanyo executed nunc pro tunc agreements, purportedly “to clarify the parties’ original intent; namely, to grant full ownership of the patents in question to [Diamond].” Diamond asserts these nunc pro tunc agreements effectively establish Diamond’s status as a patentee. We conclude they do not. . . . “Nunc pro tunc assignments are not sufficient to confer retroactive [patentee status].”