

DIAMOND COATING TECHS., LLC v. HYUNDAI MOTOR AM., Appeal Nos. 2015-1844, 2015-1861 (Fed. Cir. May 17, 2016). Before Wallach, Bryson and Taranto. Appealed from C.D. Cal. (Judge King).

Background:

In 2011, Diamond Coating and Sanyo Electric Co. signed a Patent Assignment and Transfer Agreement ("PATA"), which allegedly operated to convey to Diamond Coating various rights to and interests in U.S. Patent Nos. 6,066,399 and 6,354,008. Diamond Coating later sued Hyundai Motor in the Central District of California, alleging infringement of the two patents, but did not join Sanyo Electric Co. in the suits. The district court dismissed the actions, finding that the PATA between Sanyo Electric and Diamond Coating was not sufficient to confer "patentee" status on Diamond Coating, and thus, Diamond Coating did not have standing to sue Hyundai Motor for infringement by itself. Diamond Coating appealed.

Issue/Holding:

Did the district court err in dismissing the infringement suits? No, affirmed.

Discussion:

Citing *Vaupel v. Meccanica*, the Federal Circuit first stated that to determine whether a provision in an agreement constitutes an assignment or a license (which, contrary to an assignment, leaves title in the patent owner), one must examine the substance of what was granted. While the district court had found that many of the terms of the PATA weighed against finding a transfer of all substantial rights from Sanyo Electric Co. to Diamond Coating, the Federal Circuit noted that merely two characteristics of the PATA were sufficient to resolve the issue: (1) whether the assignee has the exclusive right to make, use and sell the patented products; and (2) the nature and scope of the assignor's retained right to sue accused infringers and license the patent.

With respect to the first characteristic, the Federal Circuit found that Diamond Coating did not possess sufficient rights to make, use or sell the patented invention. In particular, the PATA provided Sanyo Electric Co. (i.e., the previous owner) a license to make, use, distribute, lease, sell and exploit any products covered by the patents-in-suit. In addition, the PATA limits Diamond Coating to the "prosecution, maintenance, licensing, litigation, enforcement and exploitation" of the patents-in-suit, and explains that Diamond Coating should engage in "no other business or activity." Thus, the Federal Circuit held that Diamond Coating unquestionably failed to acquire all substantial rights in the patents-in-suit.

With respect to the second characteristic, the Federal Circuit found that Sanyo Electric Co. retained significant control over Diamond Coating's enforcement and litigation activities. In particular, the PATA conditions Diamond Coating's litigation and enforcement activities on Sanyo Electric Co.'s best interests. In addition, the PATA cabins Diamond Coating's authority to license the patents-in-suit. Specifically, the PATA states that Diamond Coating "shall not license the patents-in-suit jointly with patents owned by another party absent Sanyo's prior written consent." Finally, the PATA also limits Diamond Coating's discretion to refrain from suing certain companies. Thus, the Federal Circuit found that Diamond Coating is not a "patentee" under 35 U.S.C. §281, and therefore does not have status to sue accused infringers.