

# The Fed. Circ. In August: Considerations In Assignor Estoppel

By **Ben Katzenellenbogen and Paul Stewart** (August 31, 2022)

A recent decision in the U.S. Court of Appeals for the Federal Circuit addressed the scope of estoppel that attaches to assignment of a patent application, raising a number of questions regarding best practices for negotiating assignment agreements and wording employment agreements.

## Background

In the 2021 *Minerva Surgical Inc. v. Hologic Inc.* decision, the U.S. Supreme Court affirmed the continued viability of the doctrine of assignor estoppel, which often precludes the assignor of a patent or patent application from later challenging the validity of issued patent claims.[1]

However, the Supreme Court announced that the Federal Circuit had been applying the doctrine too broadly. On Aug. 11, Federal Circuit issued its decision applying the Supreme Court's new guidance.[2]

The Supreme Court and the Federal Circuit identified the relevant facts as including that the inventor filed a patent application on a surgical invention, assigned the patent application to his company, and, while the patent application was pending before the U.S. Patent and Trademark Office, sold the company for \$325 million.

The sale netted the inventor about \$8 million personally. As part of the sale, the inventor's company "warranted that it had 'no present knowledge from which it could reasonably conclude' that the assigned intellectual property rights were invalid or unenforceable," according to the Federal Circuit opinion.

After selling his first company, the inventor founded a new surgical company — Minerva — and developed a purportedly improved surgical device directed to solving the same problem as his prior invention.

The inventor's patent application and resulting patents were eventually acquired by Hologic. Hologic continued prosecution of patent applications claiming priority to the originally assigned application and eventually obtained a broad claim that may have specifically targeted Minerva's surgical device. Shortly after issuance, Hologic sued Minerva for infringing the new patent claim.

At trial, Minerva argued that the new patent claim was invalid. Hologic responded by arguing that Minerva and the inventor were estopped from disputing validity.

The district court and the Federal Circuit agreed with Hologic, applying assignor estoppel broadly to bar Minerva from challenging any claim that issued from the assigned application. The Supreme Court granted certiorari to determine the continued viability of the doctrine of assignor estoppel. The Supreme Court affirmed the doctrine, but with limitations, and remanded to the Federal Circuit.

## The Supreme Court's Opinion



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The Supreme Court held that an assignor can be, but is not always, estopped from disputing validity of the assigned patent. Rather, estoppel applies only when "the assignor's claim of invalidity contradicts explicit or implicit representations he made in assigning the patent."

The Supreme Court made several statements that broadly suggest patent assignments and patent applications may contain an implicit representation of validity. In particular, the Supreme Court stated:

When a person sells his patent rights, he makes an (at least) implicit representation to the buyer that the patent at issue is valid—that it will actually give the buyer his sought-for monopoly. In later raising an invalidity defense, the assignor disavows that implied warranty. And he does so in service of regaining access to the invention he has just sold.

The Supreme Court further noted that:

In applying for a patent, the inventor must ordinarily submit an oath—a statement attesting that he is "the original inventor" of the "claimed invention." ... An inventor presenting an application to the PTO thus states his good-faith belief that his claims are patentable—that they will result in a valid patent. When the inventor then assigns those claims to another, he effectively incorporates that assurance.

At the same time, the Supreme Court held that an assignment, or an inventor's oath or declaration during prosecution, does not necessarily contain a representation of validity and therefore does not always create an estoppel. The Supreme Court provided three examples of post-assignment events that would allow an inventor/assignee to challenge validity without contradicting a prior representation.

The first example in which an assignor may challenge validity is where the assignment is part of an employment agreement in which "[a]n employee assigns to his employer patent rights in any future inventions he develops during his employment" and "the employer then decides which, if any, of those inventions to patent."

In such a scenario, "the assignment contains no representation that a patent is valid" because, at the time of the assignment, "[t]he invention itself has not come into being" and so "the employee's transfer of rights cannot estop him from alleging a patent's invalidity in later litigation."

The second example is where "a later legal development renders irrelevant the warranty given at the time of assignment" such that the claims would have been patentable/valid at the time of assignment and invalid when later challenged. Under such a scenario, an "inventor may claim that the patent is invalid in light of that change in law without contradicting his earlier representation."

The third example is that "a change in patent claims" can "remove the rationale for applying assignor estoppel." The Supreme Court held that if, after the assignment, the assignee obtains new patent claims that are "materially broader than the old claims" that were assigned, then "the assignor did not warrant to the new claims' validity."

If the assignor "made no such representation, then he can challenge the new claims in litigation" because there is no inconsistency in position. The Court concluded that "[t]he limits of the assignor's estoppel go only so far as, and not beyond, what he represented in

assigning the patent application."

The Supreme Court remanded to the Federal Circuit to determine whether the new patent claim asserted in the litigation "is materially broader than the ones [the inventor] assigned." The court held that, if the claim is materially broader than what was assigned, the assignor could not have warranted its validity in making the assignment and, "without such a prior inconsistent representation, there is no basis for estoppel."

### **The Federal Circuit's Decision**

Hologic argued that the new claim was subject to a representation of validity because it was not materially broader than another claim — Claim 31 — that had been part of the patent application before it was assigned.

Thus, neither the new patent claim asserted in the litigation, nor the claim to which the Federal Circuit compared its breadth, was not part of the patent application when the inventor's company assigned the application to the acquirer and made the representation of validity.

The Federal Circuit addressed two questions: (1) Did the inventor warrant the validity of Claim 31 at the time of assignment; and (2) Is Claim 31 materially broader than the claim asserted in the litigation.

The Federal Circuit observed that Claim 31 was not part of the application at the time of the assignment or acquisition; it had been part of the application previously. Prior to the acquisition, the patent examiner determined the application contained claims that were directed to a device and claims that were directed to a method, and required the inventor pursue one or the other.

The inventor elected to pursue the method claims and canceled the apparatus claims — subject to a right to pursue them later. The canceled apparatus claims included Claim 31, which the examiner had previously found allowable.

Minerva argued that it made no representations in the assignment regarding the validity of then-canceled Claim 31 because Claim 31 was not part of the application at the time of assignment.

The Federal Circuit disagreed. The Federal Circuit found it immaterial that Claim 31 had been canceled prior to the assignment/acquisition. The Federal Circuit held that "an assignee would have understood that the restriction requirement and subsequent cancellation in response to the restriction requirement meant that the patent applicant could later prosecute Claim 31's subject matter."

The Federal Circuit further observed that a patent applicant "can file a divisional application with the non-elected claims and proceed separately with prosecution on the merits of those claims."

The Federal Circuit also found that the express terms of the assignment conveyed, not just the rights to the pending patent application, "but also the rights to any continuation, continuation-in-part, or divisional patent applications not yet filed."

Therefore, canceled Claim 31 "traveled with" the application and its assignment. The Federal Circuit observed that the inventor signed an oath when originally presenting the application,

"in which he stated his implicit good-faith belief that the claims in the application are patentable and would result in a valid patent."

This good-faith belief extended to Claim 31, which was pending at the time of the oath. The Federal Circuit found that "[t]he representations in that oath were further reaffirmed twice[.]"

First, by defending the claim and overcoming the patent examiner's anticipation rejection before its cancellation, and second, by warranting that the assignor "had 'no present knowledge from which it could reasonably conclude' that these assigned intellectual property rights were invalid or unenforceable."

Therefore, the Federal Circuit found that the assignor "represented (whether implicitly or explicitly) that the subject matter of [the canceled Claim 31] was not invalid."

The Federal Circuit then determined that the claim asserted in litigation was not materially broader than Claim 31 and affirmed the finding of assignor estoppel.

### **Practical Considerations**

The Supreme Court tasked the Federal Circuit with determining whether the asserted claim was materially broader than the claims the inventor assigned. The Federal Circuit held that the assigned claims were not limited to claims that were pending when the application was assigned; the assigned claims included a previously presented claim that was canceled prior to assignment.

The Federal Circuit did not attempt to identify other circumstances under which claims not pending at the time of assignment may generate an assignor estoppel.

To the contrary, the Federal Circuit noted that its holding in this regard was "limited to the facts of this case." Thus, the holding may be limited to claims that were previously presented, determined to be allowable, and canceled only because of a restriction requirement.

However, the Federal Circuit may decide there are additional circumstances in which claims not present in an assigned application may be deemed to have been part of that application and subject to assignor estoppel.

For example, it is unclear whether an examiner's finding of allowability may prove critical in future cases, if prior presentment of claims will be required or sufficient.

Regardless of the ultimate scope of assignor estoppel, potential assignees of patent rights may wish to consider taking steps now that may help insulate patent claims from later invalidity challenges by an assignee.

For example, companies negotiating an acquisition of patent rights, or a company owning patent rights, may want to seek express warranties about the validity of assigned patents and applications, or representations regarding the validity of all pending or previously presented claims.

Of course, assignors of patent rights may oppose including such provisions, or may seek to include an express disclaimer of any implied warranties or representations about the validity of assigned patents or patent applications.

Additionally, employers may wish to review employment agreements that assign future inventions to the employer. Employers may wish to consider including provisions requiring the employee-inventor to execute subsequent assignments for each patent application filed by the employer, and to include in each subsequent assignment an express representation of validity.

The Federal Circuit or Supreme Court may limit the ability of parties to contract around the Supreme Court's language regarding the effect of prospective assignments, but it is certainly a good time for employers to review and potentially update the terms of their assignment provisions.

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[1] *Minerva Surgical, Inc. v. Hologic, Inc.*, 141 S. Ct. 2298 (2021).

[2] *Hologic, Inc. v. Minerva Surgical, Inc.*, Nos. 2019-2054, 2019-2081 (Fed. Cir. Aug. 11, 2022).