

Contract Rights Vs. Patent Invalidity: 2 Key Cases To Watch

By **Howard Susser** and **Eric Kaviar** (June 17, 2021, 5:32 PM EDT)

Two important pending higher court cases explore the delicate balance between parties' rights to contract privately and the public policy in the Leahy-Smith America Invents Act of using inter partes review to remove invalid patents from the public domain.

The U.S. Court of Appeals for the Federal Circuit is currently hearing a case, *Kannuu Pty Ltd. v. Samsung Electronics Co. Ltd.*,^[1] about whether a patent owner, by agreement, can avoid an IPR challenge with a forum selection clause.

A separate case before the U.S. Supreme Court, *Minerva Surgical Inc. v. Hologic Inc.*,^[2] asks whether a patent assignor, such as an employee-inventor of a company assignee, is estopped from later challenging the validity of the patent she assigned under the long-existing doctrine of assignor estoppel. Below in that case, following earlier Federal Circuit precedent, the doctrine of assignor estoppel was enforced as viable in a trial, but it could not stop the same assignee from pursuing an IPR.

A Supreme Court decision confirming assignor estoppel but leaving open an IPR by that same assignor could create an exception that swallows the rule for prior owners and employee-inventors, and those in privity, when an alleged infringer finds invalidating prior art to assert. The holding and rationale of the *Minerva* opinion could also affect the *Kannuu* case should the Supreme Court touch on that exception to parties' rights to contract away an IPR.

In *Kannuu*, the question on appeal is whether an agreement can prohibit an IPR when the parties entered into a nondisclosure agreement that included a forum selection clause for New York City courts for actions relating to the NDA. *Kannuu* shared substantial information, including about its patent portfolio. Though Samsung declined to take a license, it allegedly adopted the same technology, and *Kannuu* sued in the U.S. District Court for the Southern District of New York on its issued patents.

In response, Samsung filed several IPR petitions, two of which were granted. Both the Patent Trial and Appeal Board and the federal judge, on a motion for preliminary injunction, declined to enforce the forum selection clause to prohibit the IPRs. That preliminary injunction denial is on appeal to the Federal Circuit.



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The case before the Federal Circuit has been briefed and is set for oral argument in July. An amicus brief by a group of law professors argues that the district court misinterpreted and misapplied the rule created in the 1969 *Lear Inc. v. Adkins* decision.[3] There, the Supreme Court held that, based on policy grounds of voiding invalid patents, licensee estoppel cannot absolutely prohibit a patent licensee from challenging the validity of a licensed patent. Because a forum selection clause does not block all challenges to validity, but only where the challenge occurs, the professors contend that forum selection clauses should be enforced as reasonable pricing provisions commonly found in all kinds of patent contracts.

Interestingly, Kannuu supplemented its briefing to present to the court the March Federal Circuit case, *New Vision Gaming & Development Inc. v. SG Gaming Inc.*,[4] in which, in dissent, U.S. Circuit Judge Pauline Newman argued that the enforceability of a no-PTAB forum selection clause issue should have been decided as a threshold matter because, in her view, contracting to a selected forum is protected by the U.S. Constitution. As the Supreme Court in the 1931 *O'Gorman & Young Inc. v. Hartford Fire Insurance Co.* case held: "That the right to contract about one's affairs is a part of the liberty of the individual protected by [the Constitution] is settled by the decisions of this court and is no longer open to question." [5]

It remains to be seen whether the Federal Circuit panel, or later en banc full court, adds the Constitution to the side of the scale weighing in favor of private contract rights.

Samsung primarily argues the facts of the particular case on appeal, namely, that the dispute did not relate to the NDA, and thus did not trigger the forum selection clause, and that the NDA did not contain a clear enough waiver. Samsung also presses the policy argument that IPRs are different from district court trials and that enforcement of the forum selection clause to foreclose an IPR does not result in forum selection, such as between two sister courts, but elimination of an important forum Congress chose to create to remove invalid patents.

In *Minerva*, the Supreme Court has taken up the issue of whether a patent assignor, such as an employee-inventor, should continue to be prevented under the long-established equitable doctrine of assignor estoppel from challenging the validity of the patent she assigned, if she, later with her own competing business, is accused of infringing. The case is fully briefed, including with multiple amici curiae briefs, and argued, and a decision is pending.

This case, too, explores the tension between the rights of contracting parties and the consequent equities when patent validity is in question. In *Minerva*, the U.S. District Court for the District of Delaware below, and the Federal Circuit on appeal, applied the long-standing doctrine to prevent an invalidity defense of an infringement action against a former employee-inventor who later developed a new product arguably under the broad patent he assigned to his employer 10 years earlier.

Interestingly, the briefing notes a split in authority in lower tribunals as to the doctrine whereas courts enforce the assignor estoppel doctrine, but the PTAB and courts in which the issue has been raised allow IPR petitions by assignors, somewhat undermining the doctrine. This suggests the prospect that the Supreme Court may address this perceived split and wade into the issue of whether IPRs can be blocked by contract or upon equitable principles.

On the general merits of whether assignor estoppel will survive, the influential amicus brief for the U.S. argued that a cabined doctrine should remain:

Courts should ... apply assignor estoppel only where the assignor sells patent rights for valuable consideration in an arm's-length transaction, then either contests the validity of a claim materially identical to a claim issued or pending at the time of the assignment, or otherwise contradicts pre-assignment representations about the patent's validity. As may be relevant here, assignor estoppel should not apply where the claim asserted to be invalid is broader than or otherwise different from the patent rights that were assigned.

It would appear somewhat contradictory to honor the doctrine of assignor estoppel blocking a particular party's prior art invalidity defense in the federal district court litigation, but leave open the option for that same assignor to pursue an IPR asserting the precise defense, arguably with an easier burden of proof, that ordinarily stays the litigation in which he is estopped. Indeed, with assignor estoppel in play, every assignor-defendant with any plausible prior art defense would have to try an IPR as his sole forum in which to challenge validity.

The driver behind that IPR exception is the language of the IPR statute, and it may be up to Congress to correct that paradox. In the 2018 *Arista Networks Inc. v. Cisco Systems Inc.* decision,^[6] the Federal Circuit did not apply assignor estoppel and found a patent unpatentable in part in an IPR, where the patent owner had other patent claims that survived and were allegedly infringed.

In so doing, the Federal Circuit ruled that assignors are not estopped and can challenge a patent's validity through an IPR based on the language of the America Invents Act that allows a petition by any person, without regard to existence of a patent dispute, which, the court held, "leaves no room for assignor estoppel" in that administrative body context.

The Federal Circuit analyzed the arguments and policies underlying assignor estoppel and considered the argument that allowing an IPR could result in forum shopping because the defense would be allowed in courts and before the U.S. International Trade Commission, but not the PTAB.

While these actions are pending, employers who own rights to employee inventions should consider using both forum selection clauses and express estoppel/waiver provisions as to validity challenges by the assigning employee. Clarity in agreements should reflect as much as possible an arm's length transaction as to each independent patent application — as opposed to the omnibus preinvention assignment clause of an employment agreement — and representations as to the assigned patent's validity, as per the U.S. amicus brief's view of the prospective doctrine.

That brief also asks whether the assigned patent claims are identical to those later asserted, recognizing the common scenario in which employees sign off on the original application and may have little to no involvement as to later-filed continuations or continuations-in-part and the scope of claims therein.

Companies could, it seems, refresh the assignment with each new claim set and provide new consideration for enforceability purposes, thus allowing a surviving estoppel to prohibit challenges to those later evolving claims under a doctrine that applies on a claim-by-claim basis. An employment contract could obligate the employee to cooperate in that process, possibly even for a trailing period of time post-employment — a legal issue outside the scope of this article.

Depending on the outcome of these cases, the employment and patent law bars may have to imagine and test new creative ways to protect patents from challengers who already received their consideration by contract. For example, would a fee-shifting clause be enforceable when an assignor challenges his own

patent or a party chooses a forum prohibited by an agreement, and the patentee ultimately prevails?

If forum selection contract clauses or assignment contracts blocking IPRs are to ever completely be viable and protected, the loophole may need to be closed by Congress.

The IPR statute already confers on the PTAB discretion to deny a petition for IPR, where, for example, another proceeding involving the patent is before the U.S. Patent and Trademark Office, and the PTAB can "take into account whether, and reject the petition or request because, the same or substantially the same prior art or arguments" were already made in the file history.[7]

Congress could amend that section to let the PTAB take into further account "whether there are prior contract waivers or estoppels between the [IPR] petitioner and the patent owner."

Though the PTAB is not necessarily in the best position to adjudicate contract rights — forum selection, assignment, or otherwise — its call could be based on the four corners of submitted agreements and would be discretionary as to whether the patent owner has made a sufficient showing to cause the PTAB to decline the petition.

While the issue of assignor estoppel as to an IPR is not central to the main issue before the Supreme Court in *Minerva*, it may be addressed directly or indirectly by the Supreme Court in the decision on overall policies. But, even if not, the decision will surely cover the contours of the balance between private contractual rights and public policy to void invalid patents, which is also at the heart of the *Kannuu* case.

Whether as to the enforceability of a forum selection clause in *Kannuu*, or the prospect of encouraging assignor forum shopping in *Minerva*, the tensions between enforcing legal and equitable contract rights on the one hand, and the letter and spirit of the America Invents Act on the other, is before these courts. The Federal Circuit will likely have the *Minerva* Supreme Court decision in hand before ruling, and certainly before any potential rehearing en banc.

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[1] *Kannuu Pty Ltd. v. Samsung Electronics Co., Ltd.*, (Fed. Cir. 2021), on appeal from (SDNY 2021).

[2] *Minerva Surgical, Inc. v. Hologic, Inc., et al.*, petition for cert. granted (Sup. Ct. 2021).

[3] *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

[4] *New Vision Gaming & Dev., Inc. v. SG Gaming, Inc.*, 996 F.3d 1378 (Fed. Cir. 2021).

[5] *O'Gorman & Young, Inc. v. Hartford Fire. Ins. Co.*, 282 U.S. 251, 267 (1931).

[6] *Arista Networks, Inc. v. Cisco Sys., Inc.*, 908 F.3d 792, 803 (Fed. Cir. 2018).

[7] 35 U.S.C. § 325(d).