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## NOTES

### Playing Telephone: The Federal Circuit Misinterprets Precedent By Ignoring Context in *Sky Technologies, LLC v. SAP AG*

#### *I. Introduction*

Suppose Moneybags, Inc. is a lender that makes a loan to a startup technology company with few assets. Moneybags wants to encourage small businesses and the technology industry in particular, but most importantly it wants to make a nice profit for its shareholders. The only problem is that lending to technology companies is risky; lots of companies have good ideas but remarkably few successfully implement them and turn a profit. Moneybags wants some assurance that it will not be left high and dry if the technology company fails and stops repaying the loan. What can Moneybags do? As a lender, Moneybags usually requires borrowers to pledge some sort of collateral to secure the loan, but this company does not have sufficient tangible assets to cover its value.

The startup technology company responds with a different type of offer. It may not have a lot of tangible assets, but it is rich with assets that play an important role in an industrialized economy — ideas. The company holds a number of patents, which it plans to use to get rich. “We’ll use the patents as collateral for the loan,” the company tells Moneybags, “and if we default on our loan, you can take the patents just like you could any other asset.” Moneybags looks into the patents, makes some phone calls, and decides that the patents are probably valuable enough to secure the loan.

Subsequently the startup technology company goes kaput, like many technology startups are so apt to do. After the loan goes into default, Moneybags follows the usual foreclosure procedures and buys the patents at a public auction. Being accustomed to foreclosing personal property, Moneybags follows all of the requirements in the state Uniform Commercial Code (“UCC”). Because it has no experience with intellectual property, however, Moneybags does not know that patent transfers must usually be in writing to be valid. Consequently, it never gets a written patent assignment from the broke technology company. Some time later, Moneybags sues another company for patent infringement. Suddenly, the infringing company argues in court that Moneybags does not actually own the patents because it never received a written assignment of the title in accordance with federal patent rules. Is Moneybags’ ownership of these patents valid without a written assignment?

Faced with a similar situation, the United States Court of Appeals for the Federal Circuit held in *Sky Technologies, L.L.C. v. SAP AG* that the lender was the rightful owner.<sup>1</sup> In *Sky Technologies*, the court held that state law permits the transfer of a patent by foreclosure without a written assignment.<sup>2</sup> To reach this conclusion, the court relied on its prior decision<sup>3</sup> in *Akazawa v. Link New Technology International, Inc.*,<sup>4</sup> which permitted a patent transfer by operation of law without a written assignment in the context of intestate succession.<sup>5</sup> The court extended *Akazawa*'s rationale by concluding that a foreclosure is a transfer by operation of law, and held that a patent foreclosure is a valid transfer of title even without a written assignment.<sup>6</sup>

This note contends that the Federal Circuit reached the wrong conclusion in *Sky Technologies* by misapplying precedent; in particular, the court overextended *Akazawa*'s holding by applying it to foreclosures. Part II of this note discusses the law as it stood before the *Sky Technologies* decision, examining statutes and relevant cases. Part III then discusses the *Sky Technologies* decision, first discussing the facts and procedural history of the case and then summarizing the court's rationale. Part IV examines the court's reasoning and discusses (1) how the court incorrectly applied *Akazawa* and other precedent in holding that state law, rather than federal, determines the ownership of patents, including transfers; (2) how the court overextended *Akazawa*'s holding, that patents can be transferred by operation of law, by applying *Akazawa* to a class of transferee not anticipated by the federal patent act or by other precedent; and (3) the policy justifications and implications that inform and result from the *Sky Technologies* decision. This note concludes in Part V.

## II. Law Before The Case

An appreciation of the Federal Circuit's decision in *Sky Technologies* requires an understanding of the law before the decision. Patents are statutory creatures, existing because the government has chosen to give special recognition to the otherwise intangible property rights in inventions.<sup>7</sup> Though

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1. See 576 F.3d 1374 (Fed. Cir. 2009).

2. *Id.* at 1379.

3. See *id.*

4. 520 F.3d 1354 (Fed. Cir. 2008).

5. *Id.* at 1356.

6. *Sky Techs.*, 576 F.3d at 1379.

7. See U.S. CONST. art. I, § 8, cl. 8 (granting Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries"). Though the U.S. Constitution grants Congress the power to regulate patents, the patent laws themselves are codified in

patents are governed generally by statutes, it is up to courts to interpret these statutes and clarify their often murky provisions. Section A discusses the patent statutes relevant to the *Sky Technologies* decision, and Section B discusses case precedent.

#### A. Statutes

Patents are generally governed by federal statute. Title 35, section 261 of the United States Code governs the assignment of patent rights.<sup>8</sup> According to 35 U.S.C. § 261, rights in patents “shall be assignable in law by an instrument in writing.”<sup>9</sup> This section also requires assignments to be recorded with the Patent and Trademark Office (PTO); if not recorded with the PTO within three months, an assignment is void against a later claim.<sup>10</sup> The language of the statute clearly suggests that an assignment must be written and recorded to be valid.<sup>11</sup> Nevertheless, 35 U.S.C. § 261, by its terms, applies only to *assignments* and does not on its face state that assignment is the only way for patent rights to be transferred.<sup>12</sup>

Section 154 of title 35 concerns the contents of a patent.<sup>13</sup> According to this section, every patent must contain “a grant to the patentee, his heirs or assigns.”<sup>14</sup> Thus, the patent statutes anticipate three distinct categories of owners: patentees, heirs of patentees, and assigns of patentees.<sup>15</sup> Section B discusses how United States’ courts have treated issues of patent ownership.

#### B. Cases

Though federal statutes govern patents generally, it is up to the courts to provide guidance by putting flesh on the skeletal framework. Though the Constitution grants Congress the power to regulate patents, Congress did not immediately do so, and initially patent ownership was treated as a matter of common law.<sup>16</sup> Before the patent statutes were enacted, the Supreme Court weighed in on the issue of transfer of patent rights in *Ager v. Murray*.<sup>17</sup> In that case, the Court famously held that intellectual property interests, because of

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statutes. *See* 35 U.S.C. § 1 (2006).

8. 35 U.S.C. § 261 (2006).

9. *Id.*

10. *Id.*

11. *See id.*

12. *Id.*

13. *See* 35 U.S.C. § 154 (2006).

14. 35 U.S.C. § 154(a)(1).

15. *See id.*

16. *See* U.S. CONST. art. I, § 8, cl. 8.

17. 105 U.S. 126 (1881).

their intangible nature, could not be transferred by operation of law without a written assignment.<sup>18</sup> Murray had obtained a judgment against Ager for defaulting on a promissory note, but with the exception of a single patent, Ager had no property to satisfy the judgment.<sup>19</sup> Murray asked the court to stop any future transfers of the patent while the suit was pending and requested that the patent be sold to satisfy the judgment.<sup>20</sup> The Court used an analogous argument from an earlier copyright case, holding that a patent's abstract nature makes it impossible to seize in the conventional sense.<sup>21</sup> Because a patent cannot be seized in the traditional sense, the Court held that "[t]he debtor's interest in the patent-rights is property, assignable by him, and which cannot be taken on execution at law."<sup>22</sup> Thus, patent rights could not be transferred as a matter of law, at least to settle a money judgment. As an alternative, the Court suggested using a court order to compel an assignment by the debtor.<sup>23</sup> It is important to note that *Ager's* reasoning did not involve statutory interpretation; the Court relied exclusively on common law principles because the Patent Act was not yet on the books.<sup>24</sup>

Skipping forward into the twentieth century, the Federal Circuit began relaxing the strict writing requirement suggested by *Ager*. In *H.M. Stickle v. Heublein, Inc.*, the Federal Circuit considered a case where the inventor died, leaving the patent rights with the rest of his estate in a will.<sup>25</sup> The facts of *Stickle* are complex but can be summarized as follows: Mr. Stickle invented and patented a new type of taco-shell fryer and founded a company, La Hacienda, to manufacture these machines.<sup>26</sup> La Hacienda sold the machines to Heublein, Inc., who used them to produce taco shells.<sup>27</sup> Heublein later hired Stickle to design a different type of fryer to replace the ones La Hacienda was currently selling to Heublein.<sup>28</sup> Stickle did so, but Heublein was not satisfied, and Stickle grew ill and ultimately died before the matter was resolved.<sup>29</sup> Stickle's brother-in-law took over control of La Hacienda when Stickle became ill, and the

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18. *See id.* at 131.

19. *Id.* at 127.

20. *Id.*

21. *See id.* at 130 (citing *Stephens v. Cady*, 55 U.S. 528, 531 (1852)).

22. *Id.* at 131.

23. *Id.* at 130.

24. *See id.* at 127-131.

25. 716 F.2d 1550 (Fed. Cir. 1983).

26. *Id.* at 1553-54.

27. *Id.*

28. *Id.*

29. *Id.* at 1554-56.

lawsuit resulted from continuing disagreement over contract and licensing issues.<sup>30</sup>

Throughout the trial, Heublein maintained that the suit should be dismissed because the plaintiffs failed to establish that they owned the patent and thus lacked the rights to sue over it.<sup>31</sup> The plaintiffs, including Stickle's wife, argued that Stickle's will operated to transfer the patent under the Texas probate code.<sup>32</sup>

With almost no discussion, the Federal Circuit found that the patent rights transferred by operation of law under the Texas probate code, which provides for a testator's entire estate to vest immediately in a will's beneficiaries.<sup>33</sup> Thus, without even mentioning *Ager* or 35 U.S.C. § 261, the court effectively created an exception to the writing requirement when the patent is part of an estate transferred by will at the patentee's death.<sup>34</sup> Though it was only a minor point in the ultimate resolution of the case, this finding opened the door for subsequent cases to relax the writing requirement in patent transfers.

By using the Texas probate code to decide the issue of patent ownership, *Stickle* raised a significant question of federalism in patent ownership. Though the United States Constitution clearly gives Congress authority over issuing patents,<sup>35</sup> the Federal Circuit has held that states retain authority over the property aspect of patent ownership.<sup>36</sup> On the other hand, when patent ownership raises the constitutional issue of standing, the Federal Circuit has treated it as a matter of federal law.<sup>37</sup> In *DDB Technologies, L.L.C. v. MLB Advanced Media, L.P.*, the Federal Circuit held that the question of patent ownership should be treated as a matter of federal law when it raises standing issues, which implicate constitutional concerns.<sup>38</sup> Assuming these cases were correctly decided, they create a difficulty in resolving patent issues: federal law

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30. *Id.* at 1556.

31. *Id.* at 1557.

32. *Id.*

33. *See id.* at 1557-58.

34. *See id.*

35. *See* U.S. CONST. art. I, § 8, cl. 8 (granting Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”).

36. *See, e.g.,* *Akazawa v. Link New Tech. Int'l, Inc.*, 520 F.3d 1354, 1357-58 (Fed. Cir. 2008) (holding that this principle applies to foreign property law by analogue); *Int'l Nutrition Co. v. Horphag Research Ltd.*, 257 F.3d 1324, 1329 (Fed. Cir. 2001) (holding that this principle requires enforcement of a contractual provision to use French law in a patent ownership dispute); *Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1572 (Fed. Cir. 1997) (holding that “who owns the patent rights . . . is a question exclusively for state courts”).

37. *See DDB Techs., L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1289-90 (Fed. Cir. 2008) (treating the validity of an automatic patent assignment clause as a question of federal law because the claim involved the issue of standing).

38. *See id.*

governs patent issuance and contents, but state law governs patent ownership. As a result, any court deciding a patent issue will first have to categorize the nature of the dispute and decide whether to apply state or federal law.

After the *Stickle* opinion, the Federal Circuit struggled with its implications. Some opinions chose not to expand *Stickle*'s exception to other contexts. For example, in *Arachnid, Inc. v. Merit Industries, Inc.*,<sup>39</sup> the Federal Circuit considered a contractual assignment clause, in which the parties agreed that the inventions "will be assigned" if certain conditions were met.<sup>40</sup> The court held that the assignment clause did not serve to automatically transfer legal title upon satisfaction of the conditions.<sup>41</sup> The opinion did not mention *Stickle*, nor did it refer to the writing requirements found in *Ager* and 35 U.S.C. § 261; nevertheless, the decision is consistent with the writing requirement and a very narrow reading of *Stickle*.<sup>42</sup> The Federal Circuit could have allowed state contract law to allow a transfer by operation of law in the same manner that *Stickle* allowed a transfer via state probate law. Faced with an opportunity to relax the writing requirement, however, the court declined to do so by holding the contractual assignment clause ineffective.<sup>43</sup>

The Federal Circuit followed a similar path in *Gaia Technologies, Inc. v. Reconversion Technologies, Inc.*<sup>44</sup> Relying on *Arachnid*'s reasoning, the court held that an oral agreement to assign a patent at a later time did not itself serve as an assignment or confer standing to sue for patent infringement.<sup>45</sup> Furthermore, the court held that the minutes of the meeting, though they documented the agreement, could not serve as a written assignment because they "[were] a memorialization of an [oral] agreement" rather than a written agreement conveying title.<sup>46</sup>

The Federal Circuit did not continue this trend forever. In 2008, the court handed down *Akazawa v. Link New Technology International, Inc.*<sup>47</sup> In *Akazawa*, the court extended the *Stickle* holding even further by allowing a patent transfer without a writing in the context of intestate succession.<sup>48</sup> Yasumasa Akazawa was the inventor listed on a patent, and he died intestate with his wife and daughters as his only heirs.<sup>49</sup> His daughters assigned their

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39. 939 F.2d 1574 (Fed. Cir. 1991).

40. *See id.* at 1580-81.

41. *See id.* at 1581.

42. *See id.* at 1577-82.

43. *See id.* at 1580-81.

44. 93 F.3d 774 (Fed. Cir. 1996).

45. *See id.* at 779.

46. *Id.*

47. 520 F.3d 1354 (Fed. Cir. 2008).

48. *See id.* at 1356-57.

49. *Id.* at 1355.

interests in the patent to their mother, Hitomi, who then executed a written assignment of all of her rights in the patent to Akira Akazawa, plaintiff in the infringement action.<sup>50</sup> Link, the defendant, filed for summary judgment on the ground that Akira lacked standing to sue for infringement because Yasumasa's estate made no written assignment to his heirs.<sup>51</sup> At trial, the district court focused almost entirely on the terms of 35 U.S.C. § 261, which states that a patent "shall be assignable in law by an instrument in writing."<sup>52</sup> The trial court reasoned that without a written assignment from the estate, Yasumasa's heirs had received no rights in the patent, and therefore the subsequent conveyances were ineffective to transfer rights.<sup>53</sup>

On appeal, the Federal Circuit took a very different approach. Instead of relying entirely on § 261, the court held that "there is nothing that limits assignment as the only means for transferring patent ownership," and that patent rights may instead be transferred "by operation of law."<sup>54</sup> In support of this holding, the court cited 35 U.S.C. § 154(a)(1), which states that "[e]very patent shall contain . . . a grant to the patentee, his heirs or assigns."<sup>55</sup> In the plain language of § 154(a)(1), "assigns" and "heirs" are distinct categories, and the court held that § 261 of the Patent Act — which imposes a writing requirement for patent *assignments* — applies only to transfers within the "assigns" category and not to the patentee's heirs.<sup>56</sup>

The court also relied heavily on the *Stickle* decision; though the court recognized that it was not directly controlling because it involved testamentary rather than intestate succession, the *Stickle* opinion nevertheless allowed a patent transfer by operation of state probate law instead of federal patent law.<sup>57</sup> To support this position, the court looked to *Jim Arnold Corp. v. Hydrotech Systems*,<sup>58</sup> which held that patent ownership is a state court question.<sup>59</sup> In doing so, the court read that holding expansively; though *Jim Arnold Corp.*'s holding concerned only whether the state court had jurisdiction, here the court read it to mean that state law controls in patent ownership cases.<sup>60</sup>

Having established that state law generally controls patent ownership, *Akazawa* held that the same doctrine should apply when foreign law, rather than

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50. *Id.*

51. *See id.*

52. *See id.* at 1355-56 (quoting 35 U.S.C. § 261 (2006)).

53. *See id.*

54. *Id.* at 1356.

55. *Id.* (quoting 35 U.S.C. § 154(a)(1) (2006)) (internal quotation marks omitted).

56. *See id.*

57. *See id.* at 1356-57.

58. 109 F.3d 1567 (Fed. Cir. 1997).

59. *Akazawa*, 520 F.3d at 1357 (citing *Jim Arnold Corp.*, 109 F.3d at 1572).

60. *See id.*



state law, controls.<sup>61</sup> To reach that conclusion, the court drew support from its earlier decision in *International Nutrition Co. v. Horphag Research Ltd.*,<sup>62</sup> which granted comity to a French court's determination of title ownership in a patent dispute between two foreign corporations.<sup>63</sup> In *Akazawa*, once the court held that Japanese intestacy law should control the ownership of the patents, it followed that Yasumasa's wife and daughters could have received title to patent upon his death by operation of that law.<sup>64</sup> Instead of deciding this question on appeal, however, the court remanded the issue for determination by the district court.<sup>65</sup>

### III. Statement of the Case

In the wake of *Akazawa*, the United States Court of Appeals for the Federal Circuit took an opportunity to test the outer limits of its holding. In *Sky Technologies L.L.C. v. SAP AG*, the court considered whether patents may be transferred by operation of law through foreclosure in the same way that *Akazawa* had done with intestate succession.<sup>66</sup>

#### A. Facts

*Sky Technologies* presented a complicated factual scenario. In 1996, Jeffrey Conklin obtained the patents at issue via his company, TradeAccess, which later changed its name to Ozro, Incorporated.<sup>67</sup> Conklin assigned all of his personal rights in the patents to the company, as did the other investors.<sup>68</sup> These assignments were properly executed and recorded with the PTO.<sup>69</sup> In 2001, Ozro took out loans from Silicon Valley Bank (SVB) and Cross Atlantic Capital Partners, Incorporated. (XACP) and executed security agreements with each company, using these patents as collateral.<sup>70</sup> The security agreements explicitly gave both lenders the right of remedies under the Massachusetts UCC in the event of default, including the right to take possession of the collateral and sell it.<sup>71</sup> Later, SVB transferred its security interest to XACP by assignment

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61. *See id.* at 1357-58.

62. *See id.* at 1357-58 (citing *Int'l Nutrition Co. v. Horphag Research Ltd.*, 257 F.3d 1324 (Fed. Cir. 2001)).

63. *See Int'l Nutrition Co.*, 257 F.3d at 1330.

64. *See Akazawa*, 520 F.3d at 1358.

65. *Id.*

66. *See* 576 F.3d 1374, 1376 (Fed. Cir. 2009).

67. *Id.*

68. *Id.*

69. *Id.*

70. *Id.* at 1376-77.

71. *Id.* at 1377.

and recorded it with the Patent and Trademark Office; as a result, XACP owned the full security interest for the patents.<sup>72</sup>

In 2003, Ozro defaulted on the loan, and XACP foreclosed on the patents.<sup>73</sup> XACP issued a foreclosure notice to Ozro's creditors announcing that the patents would be sold at a public auction, in accordance with UCC provisions.<sup>74</sup> Before the auction, however, Conklin's new company, Sky Technologies LLC (Sky Technologies), negotiated with XACP to obtain the patent rights.<sup>75</sup> They came to an agreement that XACP would do its best to get the patents, bidding up to \$4,031,844 for them at the auction, and transfer them to Sky Technologies.<sup>76</sup>

XACP foreclosed on the patents on July 14, 2003, and purchased all of the patents at the public auction.<sup>77</sup> During these foreclosure proceedings, however, Ozro never made a written assignment of the patents to XACP, nor did XACP demand one.<sup>78</sup> After the auction, XACP assigned all of its rights in the patents to Sky Technologies in accordance with the agreement.<sup>79</sup> According to Sky Technologies, SAP AG (a German corporation doing business in the U.S. via a subsidiary company incorporated in Delaware) was selling software that infringed on several of the patents.<sup>80</sup> Believing itself to be the owner of the patents, Sky Technologies sued SAP for patent infringement in 2006.<sup>81</sup>

### *B. Procedural History*

After Sky Technologies filed suit in 2006, SAP moved to dismiss the claim, arguing that Sky Technologies lacked ownership of the patents, and, as a result, did not have standing to bring the suit.<sup>82</sup> The district court held that title to the patents transferred by operation of law to XACP under the foreclosure provisions in the Massachusetts UCC, even though there was never a written assignment executed by Ozro.<sup>83</sup> The district court reasoned that under *Akazawa*, patent ownership is governed by state law, and it interpreted the

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72. *See id.*

73. *Id.*

74. *Id.*

75. *See id.*

76. *Id.*

77. *Id.* at 1378.

78. *See id.*

79. *Id.*

80. *See* Plaintiff's Second Amended Complaint at ¶¶ 2-3, 14-28, *Sky Techs. LLC v. SAP AG*, No. 2:06-cv-440 (E.D. Tex. Feb. 6, 2007), 2007 WL 1089966.

81. *See Sky Techs.*, 576 F.3d at 1378.

82. *Id.*

83. *Id.*

Massachusetts UCC as allowing transfer of a patent by foreclosure.<sup>84</sup> As a result, the district court held that Sky Technologies had standing to bring the infringement suit.<sup>85</sup> SAP filed a motion to certify the question of Sky Technologies's standing for an interlocutory appeal, which the district court granted, finding "substantial grounds for difference of opinion."<sup>86</sup>

On appeal, the question was "whether XACP had legal right, title, and interest in the patents-in-suit to transfer all of those rights to Sky, thereby providing Sky with standing to bring the underlying infringement claim."<sup>87</sup> The Federal Circuit held that the rights and title did transfer by operation of law from Ozro to XACP with the foreclosure.<sup>88</sup> Thus, XACP was able to transfer rights and title to Sky Technologies, giving it standing to bring the infringement suit.<sup>89</sup>

### C. Rationale

In its decision, the court focused primarily on applying precedent to the facts of the case. In interpreting *Akazawa*, the court noted that state law generally controls questions of patent ownership.<sup>90</sup> The court also recognized that where the constitutional issue of standing is involved, federal law may be implicated.<sup>91</sup> In describing the division of power, the court noted that "federal law is used to determine the validity and terms of an assignment, but state law controls any transfer of patent ownership by operation of law not deemed an assignment."<sup>92</sup> Under federal law, patent assignments must be in writing, as stated in 35 U.S.C. § 261, though the requirement actually harkens all the way back to the Supreme Court's decision in *Ager*.<sup>93</sup> Instead of finding this writing requirement controlling in the case, however, the court read *Akazawa*'s holding broadly.<sup>94</sup>

The court interpreted *Akazawa* to allow for patent transfers by operation of law without a written assignment.<sup>95</sup> Under this interpretation, assignments are

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84. *See id.*

85. *Id.*

86. *Id.* (internal quotation marks omitted).

87. *Id.* at 1379.

88. *See id.*

89. *See id.* at 1380-81.

90. *See id.* at 1379.

91. *Id.* (citing *DDB Techs., L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008)).

92. *Id.*

93. *See id.* (citing 35 U.S.C. § 261 (2006)).

94. *See id.* at 1379-80.

95. *See id.* at 1380 (citing *Akazawa v. Link New Tech. Int'l, Inc.*, 520 F.3d 1354, 1356 (Fed. Cir. 2008)).

not the only means by which to transfer title.<sup>96</sup> In *Akazawa*, transfer was done by intestate succession; here, the court extended the concept to foreclosure.<sup>97</sup> For support, the court focused on *Akazawa*'s strong choice of words: "[T]here is nothing that limits assignment as the only means of transferring patent ownership."<sup>98</sup> If the transfer is by operation of law, and not by assignment, then the rule requiring a written assignment should not apply.<sup>99</sup> Because non-assignment patent transfers can avoid the writing requirement under *Akazawa*, and because the foreclosure proceeding was not a patent assignment,<sup>100</sup> the lack of a written transfer from Ozro to XACP was immaterial to the decision.

After relying on precedent to determine that state law can allow patent transfer by operation of law, the court turned to the state statutes governing the foreclosure.<sup>101</sup> The security agreement between Ozro and XACP gave XACP "the right to exercise all the remedies of a secured party upon such default under the Massachusetts UCC,"<sup>102</sup> so the Massachusetts UCC provisions controlled the resulting ownership dispute.<sup>103</sup> UCC section 9-610 allows a party to sell the collateral when the debtor defaults, and section 9-617 states that the buyer gets all of the debtor's rights in the collateral upon purchase.<sup>104</sup> By following the appropriate foreclosure procedures, including giving notice to Ozro's creditors, XACP acquired all of Ozro's rights in the patents-in-suit when it bought them at auction.<sup>105</sup> SAP argued that UCC section 9-619 concerning transfer statements imposed a writing requirement of its own, so that even if the court did not find 35 U.S.C. § 261 controlling, the transfer still failed.<sup>106</sup> The court rejected this argument, however, stating that the purpose of transfer statements in the UCC is to make title clear when transferred to a third party and to provide assurance for third party buyers; in other words, it does not *require* a writing, but merely states that such a writing will be recognized.<sup>107</sup> Thus, the court concluded because XACP followed the UCC procedures, it had acquired good title to the patents and was able to transfer them to Sky Technologies.<sup>108</sup>

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96. *See id.* (citing *Akazawa*, 520 F.3d at 1356).

97. *See id.*

98. *Id.* (quoting *Akazawa*, 520 F.3d at 1356).

99. *See id.*

100. *See id.*

101. *See id.* at 1380-81.

102. *Id.* at 1377 (quoting the security agreement between Ozro and XACP).

103. *See id.* at 1380.

104. *See id.* at 1380-81.

105. *Id.* at 1380-81.

106. *See id.* at 1381.

107. *See id.*

108. *See id.*

To reach its holding that foreclosure can transfer patent ownership by operation of law, the court had to contend with 35 U.S.C. § 154. Section 154(a)(1) contemplates three classes of patent owners: patentees, patentees' heirs, and patentees' assigns.<sup>109</sup> That section, SAP argued, limited *Akazawa*'s holding because *Akazawa* dealt only with a transfer to a patentee's heirs.<sup>110</sup> Because a transfer by foreclosure is not a transfer to the patentee herself nor to the patentee's heirs, it must be a transfer to the patentee's assigns, and therefore requiring a written assignment.<sup>111</sup> This argument did not persuade the court, which stated that § 154 "fails to specifically address transfers of patent ownership."<sup>112</sup> Instead, the court held this section merely describes a patent's contents and does not impose limitations on patent ownership or transfer.<sup>113</sup>

The last argument addressed by the court was SAP's claim that the Massachusetts UCC, if it permits a patent transfer without a writing, conflicts with § 261 and is therefore preempted by federal law.<sup>114</sup> The court rejected this argument with almost no discussion.<sup>115</sup> The court had already held that § 261 applies only to assignments and that foreclosure under the UCC is a non-assignment transfer by operation of law, so it found no conflict between the state and federal laws.<sup>116</sup> The court held that because the state law did not conflict with federal law, there was no preemption issue, and this argument lacked merit.<sup>117</sup>

After the court addressed the legal arguments it considered the policy implications of its decision. First, the court reasoned that to hold otherwise — that foreclosure did not transfer patent title without a written assignment — would invalidate a number of patent transfers that would otherwise be valid.<sup>118</sup> Second, the court made an economic argument, stating that a contrary holding would reduce the value of patents.<sup>119</sup> Requiring a written assignment in foreclosure, in the court's view, would effectively limit the patent's usefulness as collateral and consequently make patents less valuable as assets.<sup>120</sup> Last, the court stated that requiring secured parties to obtain written assignments from

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109. 35 U.S.C. § 154(a)(1) (2006).

110. *See Sky Techs.*, 576 F.3d at 1381.

111. *See id.*

112. *Id.*

113. *See id.*

114. *See id.*

115. *See id.*

116. *See id.*

117. *See id.*

118. *See id.*

119. *See id.*

120. *See id.*

defaulted debtors would not be practical.<sup>121</sup> This argument had similar consequences as the court's economic argument; if lenders know that they will have to get a written assignment from the debtor in addition to a foreclosure in the event of a default, the lender will be less willing to accept patents as collateral.<sup>122</sup> These policy considerations provided practical support for the court's legal reasoning described above.

In the end, the court's decision can be described generally with three main assertions: (1) state law controls patent ownership;<sup>123</sup> (2) *Akazawa*'s reasoning allows for transfers by operation of law that do not invoke the writing requirement for patent assignments;<sup>124</sup> and (3) public policy concerns would be hindered by a contrary holding.<sup>125</sup>

#### IV. Analysis

*Sky Technologies* was decided incorrectly because the court relied on generalizations about the law that are not supported by a thorough study of precedent, and it failed to recognize important distinctions drawn by earlier cases. This part begins with a discussion of the court's misuse of precedent in deciding that state law exclusively controls issues of patent ownership. Next, this part contends that the court misinterpreted the holding in *Akazawa* by extending it to cover the foreclosure scenario. Finally, this section discusses the public policy implications of the court's decision.

##### *A. The Court Improperly Held that State Law Exclusively Controls Issues of Patent Ownership by Making Unsupported Generalizations and Ignoring Important Distinctions Made in Earlier Decisions*

Though the court's generalization that state law, rather than federal, controls patent ownership was stated as though it is well-settled law, the matter is in fact more complex and merits more discussion than it was given in the opinion. In *Akazawa*, the Federal Circuit stated this rule directly but used it only indirectly.<sup>126</sup> Because the *Akazawa* case involved transfer by Japanese intestacy law, the court stated generally that state law controlled patent transfers, then held that by analogy foreign law controls a patent transfer between foreign citizens.<sup>127</sup> Thus, even though *Akazawa* stated the principle that "state law . . .

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121. *See id.*

122. *See id.* at 1381-82.

123. *See id.* at 1379.

124. *See id.* at 1379-80.

125. *See id.* at 1381-82.

126. *Akazawa v. Link New Tech. Int'l, Inc.*, 520 F.3d 1354, 1357 (Fed. Cir. 2008).

127. *See id.*

governs patent ownership,” the actual rule used in the decision was narrower — foreign law controls ownership when the patentee is a foreign citizen.<sup>128</sup>

The *Akazawa* court used two earlier Federal Circuit cases to support the proposition that state law governs issues of patent ownership:<sup>129</sup> *Jim Arnold Corp. v. Hydrotech System, Inc.*<sup>130</sup> and *International Nutrition Co. v. Horphag Research Ltd.*<sup>131</sup> In *Jim Arnold Corp.*, the holding was based on subject matter jurisdiction, not on regulatory authority or choice of law.<sup>132</sup> The court held that there was no federal jurisdiction over the patent ownership claim because the ownership dispute arose under state contract law, not under the Patent Act.<sup>133</sup> Because the Federal Circuit’s decision was limited to jurisdiction, and because the chief issue concerned contract interpretation rather than patent validity, it does not lend as much support to the claim “that state law, not federal law, typically governs patent ownership” as the *Akazawa* court seemed to suggest.<sup>134</sup>

*Akazawa* also relied on *International Nutrition Co.* for support.<sup>135</sup> In that case, the Federal Circuit extended *Jim Arnold Corp.*’s reasoning and held by analogy that granting comity to a French court’s decision regarding patent ownership was appropriate because the ownership dispute did not arise out of the Patent Act.<sup>136</sup> At first glance, this case might seem to better support the *Sky Technologies* decision than *Jim Arnold Corp.* because the issue was about which law to apply, rather than whether the court could exercise jurisdiction.<sup>137</sup> On the other hand, the holding in *International Nutrition Co.* only determined whether to grant comity to a foreign decision and did not decide whether state or federal law controlled patent ownership.<sup>138</sup>

In *H.M. Stickle v. Heublein, Inc.*,<sup>139</sup> which was discussed in *Akazawa*<sup>140</sup> but not directly cited or discussed in *Sky Technologies*,<sup>141</sup> the court considered this matter settled — possibly because the parties did not argue it — and did not address the issue in deciding that the Texas probate code allowed the transfer

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128. *See id.*

129. *See id.* at 1357-58.

130. 109 F.3d 1567 (Fed. Cir. 1997).

131. 257 F.3d 1324 (Fed. Cir. 2001).

132. *See Jim Arnold Corp.*, 109 F.3d at 1572.

133. *See id.*

134. *See Akazawa*, 520 F.3d at 1357.

135. *See id.* at 1357-58.

136. *See Int’l Nutrition Co.*, 257 F.3d at 1329.

137. *See id.* at 1329-30.

138. *See id.*

139. 716 F.2d 1550 (Fed. Cir. 1983).

140. *See Akazawa*, 520 F.3d at 1356-57.

141. *See Sky Techs., L.L.C. v. SAP AG*, 576 F.3d 1374, 1378-82 (Fed. Cir. 2009).

of patent by will upon the patentee's death.<sup>142</sup> Thus, *Stickle* seems to support *Sky Technologies*'s proposition that state law controls, but the support it provides is tenuous because the opinion does not explain the court's reasoning.

More recently, the Federal Circuit addressed a similar issue in *DDB Technologies, L.L.C. v. MLB Advanced Media, L.P.*<sup>143</sup> In that case, the Federal Circuit considered "whether the question of automatic assignment is governed by federal or state law."<sup>144</sup> The court held that the automatic assignment clauses were related to the constitutional issue of standing and treated the question as one of federal law.<sup>145</sup> This case would seem to suggest that *Sky Technologies* should have treated this issue as one of federal law, because both involved the constitutional issue of standing. Nonetheless, the court in *Sky Technologies* distinguished its situation from that in *DDB*.<sup>146</sup> Because *DDB* involved an assignment, it fell under the scope of 35 U.S.C. § 261; *Sky Technologies* did not, the court reasoned, involve an assignment, so *DDB* was not applicable.<sup>147</sup> Judge Newman's dissent in *DDB* seems to anticipate the position later taken in *Akazawa* and *Sky Technologies*: he argued that the majority overreached in finding federal preemption, and held fast to the line of cases finding state law controlling.<sup>148</sup>

Overall, the question of state law's role in determining patent ownership is complex. The court in *Sky Technologies* relied most directly on *Akazawa*, which is understandable because that case was recent and contained directly supportive language.<sup>149</sup> On the other hand, *Akazawa*'s language about state law was mere dicta.<sup>150</sup> The issue in *Akazawa* was whether foreign intestacy law should be recognized as transferring title of a U.S. patent; consequently, the language about state law controlling patent ownership was not essential to the holding.<sup>151</sup> Therefore, it would have been appropriate for the court in *Sky Technologies* to devote more discussion to the matter. Though *Akazawa* stated that the "case law is clear" on the question,<sup>152</sup> a study of the prior cases demonstrates the matter was not so clearly settled.

A brief review of prior cases shows that the question of whether state law exclusively controls patent ownership was not clearly settled before *Sky*

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142. See *H.M. Stickle*, 716 F.2d at 1557-58.

143. 517 F.3d 1284 (Fed. Cir. 2008).

144. *Id.* at 1289-90.

145. *Id.* at 1290.

146. See *Sky Techs.*, 576 F.3d at 1379.

147. See *id.*

148. See *DDB Techs.*, 517 F.3d at 1296 (Newman, J., dissenting).

149. See *Sky Techs.*, 576 F.3d at 1378-80.

150. See *Akazawa v. Link New Tech. Int'l, Inc.*, 520 F.3d 1354, 1357 (Fed. Cir. 2008).

151. See *id.* at 1355, 1357.

152. See *id.* at 1357.



*Technologies*. *Stickle*, which the *Sky Technologies* court did not cite directly but relied on indirectly through *Akazawa*, is somewhat weak support for the proposition, because its holding that the state probate code controlled patent transfers with a will contained almost no discussion on the matter and did not directly address choice of law.<sup>153</sup> Later, in *Jim Arnold Corp.* — cited in *Sky Technologies* via *Akazawa* — the Federal Circuit held only that state court jurisdiction is appropriate in cases regarding patent ownership.<sup>154</sup> *International Nutrition* provides more support for the idea that state law controls patent ownership, but like *Akazawa*, used the state-law-controls principle only by analogy to reach a decision granting comity to a foreign court.<sup>155</sup> *DDB Technologies*' holding also suggests treating the matter as one of federal law where standing is implicated, as it was in *Sky Technologies*.<sup>156</sup> The court in *Sky Technologies* distinguished *DDB Technologies* by relying on its own holding that foreclosure transfers a patent by operation of law instead of by assignment.<sup>157</sup> On the other hand, if that holding were erroneous, then *DDB Technologies* would be directly on point, and the court should have declined the question as one of federal law because it raises issues of standing.<sup>158</sup>

These cases indicate that the matter is far from clear in case law, and the court in *Sky Technologies* would have been wise to give the matter thorough analysis and discussion in the opinion instead of relying on *Akazawa*'s bold statement of the principle. It is worth noting that one well-known commentator would have agreed with the decision, at least in a pre-*DDB Technologies* setting.<sup>159</sup> In an article, Thomas L. Bahrck explained that transfer of patents by foreclosure is governed by state law because federal law does not directly address patent foreclosure.<sup>160</sup> In the article, Bahrck explicitly noted that some states “allow traditional foreclosure proceedings concerning intangible property.”<sup>161</sup> In *Sky Technologies*, however, the court erred when it used such a simplistic analysis in the wake of *DDB Technologies*. The court should have followed the lead of *DDB Technologies* and treated the question as one of federal law because the case involved an issue of standing.

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153. See *H.M. Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1557-58 (Fed. Cir. 1983).

154. See *Sky Techs.*, 576 F.3d at 1379 (citing *Akazawa* 520 F.3d at 1357 (citing *Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1572 (Fed. Cir. 1997))).

155. See *Int'l Nutrition Co. v. Horphag Research Ltd.*, 257 F.3d 1324, 1329 (Fed. Cir. 2001).

156. See *DDB Technologies, L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1289-90 (Fed. Cir. 2008).

157. See *Sky Techs.*, 576 F.3d at 1379.

158. See *DDB Techs.*, 517 F.3d at 1289-90.

159. See Thomas L. Bahrck, *Security Interests in Intellectual Property*, 15 *AIPLA Q.J.* 30, 48 (1987).

160. *Id.*

161. *Id.*

*B. The Court Misinterpreted Akazawa's Holding Allowing Patent Transfer by Operation of Law*

As the primary foundation for its decision, the court in *Sky Technologies* cited *Akazawa's* holding that state law can provide for a non-assignment patent transfer by operation of law.<sup>162</sup> As the court interpreted *Akazawa*, a transfer by operation of law removes the writing requirement by sidestepping the rules applicable to patent assignments.<sup>163</sup> In interpreting the holding this way, the Federal Circuit misread *Akazawa*, which stated this principle in the context of a discussion of the applicability of 35 U.S.C. § 261's writing requirement for patent assignments to transfer to a patentee's heirs by intestate succession.<sup>164</sup> *Akazawa* allowed an exception to the writing requirement for patent transfers, but based its argument for the exception within the language of the Patent Act itself.<sup>165</sup> On the other hand, the court in *Sky Technologies* created an exception to the long-held writing requirement without textual support from the Patent Act.<sup>166</sup>

The writing requirement for patent transfers has a long history, and it is necessary to trace its path to judge the holding in *Sky Technologies*. The Supreme Court created the writing requirement in *Ager v. Murray*, the granddaddy of all patent transfer cases.<sup>167</sup> Because the Patent Act had not yet been passed, *Ager* did not interpret a federal statute; instead, it relied strictly on common law principles, which distinguishes it from later cases.<sup>168</sup> In *Ager*, the Court reasoned that because intellectual property could not be seized by a creditor in the same way as tangible property, a patent assignment must be in writing.<sup>169</sup> In the Court's view, the primary concern is certainty — because a patent cannot be held in the hand or seized at will, a writing provides definitive proof of ownership.<sup>170</sup> The Court's language is very telling: “The debtor's interest in the patent-rights is property, assignable by him, *and which cannot be taken on execution at law.*”<sup>171</sup> This language seems to indicate that the Court intended to expressly disallow the precise sort of unwritten transfer authorized by *Akazawa* and *Sky Technologies*.

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162. *See Sky Techs.*, 576 F.3d at 1380.

163. *See id.* at 1380-81.

164. *See Akazawa v. Link New Tech. Int'l, Inc.*, 520 F.3d 1354, 1536 (Fed. Cir. 2008).

165. *See id.*

166. *See Sky Techs.*, 576 F.3d at 1380-81.

167. 105 U.S. 126 (1881).

168. *See id.* at 128-129. The modern patent scheme was created by the Patent Act of 1952, which imposes a writing requirement. Patent Act of 1952, 35 U.S.C. § 261 (2006).

169. *See Ager*, 105 U.S. at 129-31.

170. *See id.* at 130-31.

171. *Id.* at 131 (emphasis added).

The Federal Circuit in *Sky Technologies* distinguished *Ager* and did not find it applicable to the case.<sup>172</sup> First, the court read *Ager* as applying only to patent transfers between a purchaser and a seller.<sup>173</sup> Second, the court distinguished *Ager* by reading it as limited to patent *assignments*, and not applicable to transfers by operation of law; in the Court's words, *Ager* "required [the patentee] to execute a writing to *assign* title."<sup>174</sup> These attempts to distinguish *Ager* were mistaken, however. *Ager*'s concern regarding the incorporeal nature of intellectual property and its plain language regarding transfer by operation of law sharply contrast with the proposed limitation to the buyer-seller relationship.<sup>175</sup> Furthermore, *Ager* clearly prohibits transfer by execution of law without a written assignment; by its plain language, *Ager* includes transfer by operation of law in its holding.<sup>176</sup> Admittedly, *Ager* is over a century old, and it predates the Patent Act.<sup>177</sup> Nonetheless, the Supreme Court has not revisited *Ager*'s holding, either to overrule it or distinguish it, and the Patent Act did not countermand it. As a result, *Ager* is still good law and should still be treated as binding by lower courts.

Furthermore, the fact that 35 U.S.C. § 261, requiring a writing for a patent assignment, was enacted after *Ager* should not limit *Ager*'s direct applicability to *Sky Technologies*.<sup>178</sup> The court mentioned *Ager* only as the origin of 35 U.S.C. § 261's writing requirement.<sup>179</sup> Because 35 U.S.C. § 261 was enacted after *Ager* was decided, it should be considered the current authority on patent transfers. By the Federal Circuit's reasoning, 35 U.S.C. § 261 applies only to patent *assignments*.<sup>180</sup> However, the language of *Ager* suggested a more expansive holding; it not only required a writing for assignments, it also prohibited transfers by "execution at law."<sup>181</sup> Assuming *arguendo*, that the court correctly reasoned that transfers by foreclosure are outside the scope of 35 U.S.C. § 261, *Ager* still flatly prohibits an unwritten patent transfer by execution of law. Thus, a patent foreclosure is either covered by 35 U.S.C. § 261, in which case it is invalid without a written assignment, or else it is a transfer under execution of law, in which case it is prohibited by *Ager* without a written assignment. By either interpretation, a written assignment is required.

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172. *See Sky Techs., L.L.C. v. SAP AG*, 576 F.3d 1374, 1379-80 (Fed. Cir. 2009).

173. *See id.*

174. *See id.* at 1379 (emphasis added).

175. *See Ager*, 105 U.S. at 131.

176. *See id.*

177. *See* Patent Act of 1952, 35 U.S.C. § 261 (2006); *Ager*, 105 U.S. 126.

178. *See* Patent Act of 1952, 35 U.S.C. § 261 (2006); *Ager*, 105 U.S. 126.

179. *See Sky Techs.*, 576 F.3d at 1379.

180. *See id.* at 1380.

181. *See Ager*, 105 U.S. at 131.

*Ager* is older and more out-of-mind than more recent cases such as *Akazawa*, but because it is a Supreme Court decision, it should have been afforded more weight in the court's reasoning.

Even within the scope of more recent Federal Circuit decisions the *Sky Technologies* holding is on unsure footing. The court indirectly relied on the *Stickle* case, which was not mentioned in the opinion but featured prominently in *Akazawa*.<sup>182</sup> In *Stickle*, the court applied the Texas probate code to transfer a patent using a patentee's will.<sup>183</sup> The patent ownership question, however, was not a main focus of the case — it was merely a threshold through which the court passed to reach its ultimate decision.<sup>184</sup> Furthermore, the opinion did not mention transfer by operation of law, nor the assignment requirements of 35 U.S.C. § 261, nor *Ager*, nor any other major patent cases.<sup>185</sup> The fact that the court permitted the transfer by probate law is significant, but without any discussion of why, it is impossible to draw a meaningful rule from the case — it is possible that counsel simply failed to bring *Ager* and 35 U.S.C. § 261 to the court's attention.

Although the *Sky Technologies* court did not mention *Stickle*, that case influenced the court's opinion indirectly through subsequent cases. *Stickle*'s primary influence on *Sky Technologies* was through *Akazawa*, which cited *Stickle* as an earlier example of using probate law to transfer patent rights without a written assignment.<sup>186</sup> Despite citing it for support, the *Akazawa* court recognized that *Stickle* did not fully resolve the issue because it involved a will rather than intestate succession.<sup>187</sup> Thus, *Akazawa* had to consider other possible justifications to support its holding that state (or foreign) law can permit a patent transfer by intestate succession without falling under 35 U.S.C. § 261's writing requirement.<sup>188</sup>

The *Akazawa* court recognized that 35 U.S.C. § 261 imposes a writing requirement for patent assignments.<sup>189</sup> To reach its holding that title was nevertheless transferred, the court relied on 35 U.S.C. § 154(a)(1) to conclude that 35 U.S.C. § 261 did not apply.<sup>190</sup> The court concluded that because the Patent Act contemplated "heirs" as a distinct class from "assigns," the writing

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182. See *Sky Techs.*, 576 F.3d at 1378-82; *Akazawa v. Link New Tech. Int'l, Inc.*, 520 F.3d 1354, 1356-57 (Fed. Cir. 2008).

183. See *H.M. Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1557-58 (Fed. Cir. 1983).

184. See *id.* at 1557-58.

185. See *id.*

186. See *Akazawa v. Link New Tech. Int'l, Inc.*, 520 F.3d 1354, 1356-57 (Fed. Cir. 2008).

187. *Id.* at 1357.

188. See *id.* at 1355-58.

189. *Id.* at 1355-56.

190. See *id.* at 1356.

requirement for assignments did not apply to transfers under intestate succession.<sup>191</sup> Thus, the Federal Circuit held that the lower court erred when it focused exclusively on 35 U.S.C. § 261 because 35 U.S.C. § 154(a)(1) created an exception that applied to the case.<sup>192</sup>

During the discussion regarding the interplay between 35 U.S.C. § 261's writing requirement for assignments and 35 U.S.C. § 154(a)(1)'s classes of patent ownership, the *Akazawa* court stated that nothing limits assignment as the only permissible means of transfer.<sup>193</sup> *Sky Technologies* referred to this language but isolated the quote from its context.<sup>194</sup> United States Code Title 35 Section 154(a)(1) provides for three distinct classes of patent owners: the patentee, the patentee's heirs, and assigns.<sup>195</sup> Both *Stickle* and *Akazawa* dealt with transfers to this second category, and so it was entirely reasonable for those cases to find transfers to heirs outside of the typical assignment rules. *Sky Technologies*, on the other hand, did not involve either a patentee or a patentee's heirs, which left only the third class of patent owners: assigns, to which 35 U.S.C. § 261's requirements directly apply.

While the *Sky Technologies* opinion did address this matter, it did so in a very terse way by simply stating that "[s]ection 154 does not restrict patent ownership to these three classes," and that it does not "specifically address transfers of patent ownership."<sup>196</sup> Admittedly, 35 U.S.C. § 154 does not address patent transfers, but it is part of a larger title of patent law and should be interpreted in accordance with the other sections in the title.<sup>197</sup> *Akazawa* read the statutes together and stated a theory that was consistent with both.<sup>198</sup> In *Sky Technologies*, however, the court reached a different conclusion, holding that 35 U.S.C. § 154(a)(1) did not limit patent ownership to the three classes.<sup>199</sup> Thus, *Sky Technologies* extended *Akazawa*'s holding to cover a new class of transfers while simultaneously rejecting *Akazawa*'s rationale.<sup>200</sup>

The discussion in *Akazawa* about transfers by operation of law, which provides the foundation for the holding in *Sky Technologies*, is located in the same paragraph as its reliance on 35 U.S.C. § 154(a)(1), and does not make sense out of that context.<sup>201</sup> By relying on *Akazawa*'s language regarding

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191. *See id.*

192. *See id.*

193. *See id.*

194. *Sky Techs., L.L.C. v. SAP AG*, 576 F.3d 1374, 1380 (Fed. Cir. 2009).

195. 35 U.S.C. § 154(a)(1) (2006).

196. *Sky Techs.*, 576 F.3d at 1381.

197. *See* 35 U.S.C. §§ 151-318 (2006).

198. *See Akazawa*, 520 F.3d at 1356.

199. *See Sky Techs.*, 576 F.3d at 1381.

200. *See id.*

201. *See Akazawa*, 520 F.3d at 1356.

transfer by operation of law outside the context, *Sky Technologies* overextended its holding and stands on dubious footing.

Outside of the context of transfers to heirs, the Federal Circuit has otherwise disallowed transfers without a writing. In *Arachnid, Inc. v. Merit Industries, Inc.*,<sup>202</sup> the court held that an automatic assignment clause in a contract could not transfer patent rights by operation of law.<sup>203</sup> As a result, without a written assignment the clause did not provide the would-be assignee with legal title, and therefore did not provide standing in a patent infringement suit.<sup>204</sup> Similarly, in *Gaia Technologies, Inc. v. Reconversion Technologies, Inc.*,<sup>205</sup> the court held that an oral agreement to assign a patent during a board meeting was insufficient to transfer title, even with written documentation of the agreement in the form of the meeting's minutes.<sup>206</sup> These cases are easily distinguishable from the decisions in *Stickle* and *Akazawa* in that they both involve patent transfers between commercial interests, whereas *Stickle* and *Akazawa* both involve transfers to heirs. This distinction supports the view, rejected by the court in *Sky Technologies*, that the two decisions allowing non-assignment transfers by operation of law were limited in their scope by 35 U.S.C. § 154(a)(1).

In *Sky Technologies* the Federal Circuit extended *Akazawa*'s holding past its scope. Both *Arachnid* and *Gaia* illustrate a trend of enforcing the writing requirement imposed by *Ager* and 35 U.S.C. § 261 in cases not involving the patentee's heirs. By extending *Akazawa*'s holding while simultaneously rejecting its reasoning, *Sky Technologies* created an improper exception to the traditional writing requirement for patent transfers.

### C. Policy Implications

In addition to the legal arguments discussed *supra*, the policy implications of *Sky Technologies* merit attention. In the opinion, the court addressed three concerns: (1) invalidation of otherwise valid holdings; (2) reduction in the value of patents; and (3) impracticability of forcing secured parties to obtain written assignments from defaulting debtors.<sup>207</sup> The first concern — that patents obtained by foreclosure would be invalidated — would have been unavoidable if the court had held otherwise. Though it would be impossible to completely avoid this consequence, the effect could have been hedged or minimized through a carefully worded holding; for example, the court could have allowed

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202. 939 F.2d 1574 (Fed. Cir. 1991).

203. *See id.* at 1580-81.

204. *Id.* at 1581.

205. 93 F.3d 774 (Fed. Cir. 1996).

206. *Id.* at 779.

207. *Sky Techs., L.L.C. v. SAP AG*, 576 F.3d 1374, 1382 (Fed. Cir. 2009).

for secured parties who foreclosed patents in the time before the matter was settled to seek a judicial determination that they are the rightful owners of the patent. Additionally, the Supreme Court in *Ager* offered a century-old solution: if the debtor is not around or refuses to execute a written assignment to the secured party, the secured party could ask the court to appoint a trustee to execute it in the debtor's place.<sup>208</sup> By choosing its language carefully and providing alternatives, the court could have minimized the number of otherwise valid patents obtained by foreclosure from being invalidated.

The second policy concern raised by the court was that patent values might be diminished if the court required a written assignment to transfer patent rights in the event of a default.<sup>209</sup> The underlying theory here seems to be that by not creating a new means of transferring an already transferrable patent, it becomes less valuable as an asset. A contrary holding, however, would not have limited the ability to use a patent as collateral in a secured transaction. The patent could still be collateral, and if the debtor defaulted, the patent could still be foreclosed. The only difference would arise in those cases in which the secured party failed to obtain a written assignment of the patent during foreclosure. Once again, *Ager*'s solution could apply: if the debtor refused to assign the patent, the court could appoint a trustee to do so in the debtor's place.<sup>210</sup> The court's third concern — that it would not be practical to force secured parties to get written assignments from defaulting debtors — could be handled with the same procedure. Thus, by recognizing the court's ability to force an assignment or appoint a trustee to execute it, most of the policy concerns raised by *Sky Technologies* disappear.

The decision also raises other concerns that are not discussed by the court. Judicial economy is such a concern, but could be argued both ways. On one hand, requiring a foreclosing party to force an assignment or request that a trustee be appointed requires more work for the courts and possibly creates unnecessary steps. On the other hand, the uncertainty in title that results from allowing unwritten and unrecorded patent transfers will likely result in more patent ownership disputes. Any time the title chain is not clear and not in writing, ownership disputes are more likely to erupt. And unlike physical or real property, with intangible property like patents, it is sometimes difficult to show possession and create a presumption of ownership. While the judicial economy concern could certainly be argued both ways, the concern would be reduced by requiring a written assignment. Requiring a written assignment in a foreclosure would promote certainty and clarity of title, which would prevent

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208. See *Ager v. Murray*, 105 U.S. 126, 132 (1881).

209. *Sky Techs.*, 576 F.3d at 1381.

210. See *Ager*, 105 U.S. at 132.

avoidable ownership disputes. Though the extra step of forcing a written patent assignment might be redundant in some circumstances, the courts' time is better spent avoiding conflicts than resolving them.

Lastly, it is worth looking to the legal consequences likely to result from the *Sky Technologies* holding. What will its effect be on the writing requirement for different types of patent transfers? What are its limits? Can any state statute authorizing transfer of patents by operation of law satisfy the reasoning? The *Akazawa* opinion limited its discussion to the context of "heirs" in 35 U.S.C. § 154(a)(1).<sup>211</sup> *Sky Technologies*, on the other hand, makes no attempt to limit itself, nor does the opinion make any effort to define what it means by a "transfer by operation of law."<sup>212</sup> The cases to date have all involved traditional methods for transferring property when one party is unwilling or unable, e.g., foreclosure and probate. Nothing in the *Sky Technologies* opinion limits its holding to these methods alone. To prevent legal confusion and uncertainty, the court should have suggested some limits to its application.

#### V. Conclusion

The Federal Circuit's holding in *Sky Technologies* overextended *Akazawa*'s reasoning by removing it from its context. In *Akazawa*, the court permitted a transfer by operation of law to the patentee's heirs without requiring a written assignment.<sup>213</sup> *Akazawa*'s holding, however, was issued in the context of a discussion of 35 U.S.C. § 154(a)(1), which creates three potential classes of patent owners: patentees, patentees' heirs, and assigns; since heirs are explicitly distinguished from assigns in the patent code, it is reasonable to conclude the rules concerning patent assignments might not apply to them. In *Sky Technologies*, however, the court extended the reasoning regarding patent transfers by operation of law out of the context of patentees' heirs and placed it into the context of foreclosure. In doing so, the underlying context and logic that made sense in *Akazawa* disappeared. As a result, the Federal Circuit's holding in *Sky Technologies* stretched *Akazawa*'s holding too far.

*Christopher M. Crouch*

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211. See *Akazawa v. Link New Tech. Int'l, Inc.*, 520 F.3d 1354, 1356 (Fed. Cir. 2008).

212. See *Sky Techs.*, 576 F.3d at 1379-81.

213. See *Akazawa* 520 F.3d at 1357-58.