

## IPR: A Key To District Court's Assignor Estoppel Lock

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The doctrine of assignor estoppel generally precludes patent assignors, most notably assignor inventors, from challenging the validity of their assigned patent in district court. Inter partes review proceedings, however, provide an alternative venue to challenge such patents. By utilizing IPR proceedings alongside district court litigations, patent assignors can potentially circumvent the doctrine of assignor estoppel through a stay of the corresponding litigation. In this way, IPR proceedings potentially provide the assignor with the key to unlock a district court's application of assignor estoppel.

### The Assignor Estoppel Lock

Federal courts routinely apply the equitable doctrine of assignor estoppel to prevent assignors who have assigned their rights to a patent from later asserting that what they assigned is a nullity.[1] Assignor estoppel follows a familiar fact pattern: (1) an assignor/inventor assigns his invention to his employer (the assignee), company A; (2) the assignor/inventor leaves company A to join another company B; and (3) company A sues company B for infringement of a patent that was invented by the assignor/inventor. The doctrine typically precludes the assignor/inventor and company B from challenging the validity of the assigned patent in district court.

The purpose of the assignor estoppel doctrine is to prevent unfairness and injustice: an assignor/inventor should not be permitted to sell the rights to his patent for value and then later assert that what he sold was worthless.[2] The doctrine serves as an affirmative defense to block invalidity counterclaims, where the balancing of equities requires its application. Moreover, it also operates to bar an assignor's employer or other parties that are in privity with the assignor from challenging the assigned patent. The doctrine of assignor estoppel, however, is not self-actuating — the balancing of the equities determine its application; nor is the scope of the equities inquiry in determining whether assignor estoppel applies unbounded.[3]

### The IPR Key to Assignor Estoppel

IPR proceedings, nevertheless, provide an alternative venue to challenge these assigned patents. The Patent Trial and Appeal Board has consistently held that the assignor estoppel doctrine is not available



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as a defense in IPR proceedings.[4] Under the America Invents Act, any person who is not the owner of the patent may file a petition requesting an IPR.[5] Moreover, the PTAB has reasoned that assignor estoppel is particular to infringement actions, and because IPRs do not resolve questions of infringement, the defense is not apt in the IPR context.[6]

Patent challengers/assignors, however, should carefully weigh their options to determine whether challenging the validity of patents in an IPR forum opens them to other liability. For example, patent owners/assignees may have a right to sue for breach of contract when an assignor breaches an express or implied negative covenant in the assignment. Because a patent assignment serves to protect the rights of the parties, if the assignor breaches a covenant under the assignment, e.g., to not undermine the patent's validity, then the patent owner/assignee may count upon the breach and seek relief.

### **Determine If the Key Fits: Strategic Implications**

To date, over 20 patent owner responses or preliminary responses have asserted the defense of assignor estoppel in some respect, indicating the popularity among assignors to challenge the validity of patents in the IPR venue.[7] By utilizing IPR proceedings alongside district court litigations, patent assignors can potentially avoid this equitable doctrine through a stay of the corresponding infringement litigation. Through seeking a motion to stay, assignors will be able to confine litigation of their patents' invalidity contentions to the PTAB — a forum that has not yet enforced the doctrine of assignor estoppel.[8]

In a recent district court case, *Roche Molecular Sys. Inc. v. Cepheid*, the court stayed an infringement litigation pending conclusion to an IPR proceeding. [9] A stay was granted despite the assertion of assignor estoppel by Roche.[10] In granting the stay the court considered: (1) the infancy of the case, as there was no material progress in the litigation; (2) the simplification of the district court proceeding considering the high probability that some of the claims will be cancelled in the IPR; and (3) the lack of undue prejudice suffered by Roche.[11]

The court held that Roche was not prejudiced by the stay regardless of its assignor estoppel defense. The court also held that Roche would not be disadvantaged by a statutory framework that limits issues that can be raised in an IPR proceeding and provides limited discovery to address those issues.[12] Additionally, the court determined that Roche cannot convert the court's more liberal discovery procedures into an adjunct of the PTAB proceedings, out of fear that it will be tactically disadvantaged in the IPR and related appeals.[13]

Before Roche, district courts routinely stayed litigations pending inter partes reexaminations where patent owners asserted the doctrine of assignor estoppel.[14] Today, as then, courts generally determine that a stay is appropriate because the scope of the patent will be defined prior to litigating the infringement claim.[15] Courts have reasoned that the results of a conflict between the equitable doctrine of assignor estoppel with the statutory framework of re-examinations should be in favor of the statutory mandate, and thus a motion to stay pending the results of a reexamination should generally be granted.[16] Moreover, any additional delay caused by the stay failed to outweigh the benefit of having the patent interpretation fully resolved prior to the district court litigation.[17]

### **Turning the Key: Considerations for Patent Owners and Challengers/Assignors**

Patent owners and challengers/assignors should consider the following when a patent infringement challenge includes the assignor and presents the assignor estoppel lock.

Considerations for challengers/assignors:

- Consider filing an IPR petition if the patent owner seems likely to sue and assert the bar of assignor estoppel.
- If not before, then within the one-year timeframe from service of a complaint for infringement, consider filing an IPR petition. And, to take advantage of a stay in co-pending litigation, challengers/assignors should file their petition early in the litigation.
- Consider filing a motion to stay pending IPR review of the patent in suit. The reasons to stay the litigation include: (1) simplification of issues left for trial (streamline litigation); (2) avoidance of the assignor estoppel issue, which is an intense factual inquiry that the court will avoid altogether if the U.S. Patent and Trademark Office invalidates the patents; and (3) defining the scope of the patent prior to litigating the infringement claim.

Considerations for patent owners:

- Do pre-filing diligence, where possible, to understand if the potential infringer is the assignor, or in privity with the assignor, and whether the issue of assignor estoppel may apply.
- Expediently prosecute their case, to prevent a motion to stay in the infancy of the district court litigation, where the likelihood of stay is greater.
- Consider adding cautionary language to their assignments or employment agreements discouraging post-assignment denunciation of validity, to the extent the law allows. This may include a bar against challenging the patents by IPR or other post-grant proceedings.[18] And, if warranted by the existing assignment, patent owners should seek redress for breach of contract.

The introduction of IPR onto the patent law landscape has opened what was once a nearly impenetrable gate of assignor estoppel. With this PTAB proceeding, challengers/assignors now have this key within reach.

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[1] The U.S. International Trade Commission has also recognized the equitable defense of assignor estoppel. See *Intel Corp. v. U.S. Int'l Trade Comm'n.*, 946 F.2d 821, 838-39 (Fed. Cir. 1991).

[2] *Diamond Scientific Co. v. Ambico Inc.*, 848 F.2d 1220, 1224 (Fed. Cir. 1988).

[3] There are a number of situations where equities would weigh against assignor estoppel, including: (i) exceptional circumstances (e.g., assignor's express reservation to challenge the validity of the patent or an express waiver of the right to assert assignor estoppel) (see *Mentor Graphics Corp. v. Quickturn Design Sys.*, 150 F.3d 1374, 1378 (Fed. Cir. 1998)); (ii) unfair dealings, such as duress or fraud during the time of the assignment (see *Shamrock Tech., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789, 794 (Fed. Cir. 1990); and (iii) where a former employee/inventor participated perfunctorily in the claims prosecution process, who had little to no input on drafting the scope of the claims, and the resulting patent covers a far broader invention than the inventor intended to convey (see generally *Mentor Graphics Corp.*, 150 F.3d at 1378; *Q.G. Prods., Inc. v. Shorty, Inc.*, 992 F.2d 1211, 1212-13 (Fed. Cir. 1993) (where "a party assigns an 'invention' or application, and the equities advise application of estoppel, the analysis is more elaborate. Unlike assignment of a patent, a party's representations upon assignment of an application are not as clearly bounded.")).

[4] See, e.g., *Synopsys, Inc. v. Mentor Graphics Corp.*, IPR2012-00042 (PTAB Feb. 19, 2014) (Paper 60); *Redline Detection, LLC v. Star Envirotech, Inc.*, IPR2013-00106 (PTAB Aug. 27, 2013) (Paper 31); *Athena Automation LTD v. Husky Injection Molding Sys. Ltd.*, IPR2013-00167, (PTAB July 23, 2014) (Paper 51). The PTAB has explained that under the AIA, "a person who is not the owner of a patent may file with the Office a petition to institute an inter partes review of the patent." 35 U.S.C. § 311(a). Consequently, "an assignor of a patent, who is no longer an owner of the patent at the time of filing, may file a petition requesting inter partes review. This statute presents a clear expression of Congress's broad grant of ability to challenge the patentability of patents through inter partes review." *Athena Automation Ltd.*, IPR2013-00290, slip op at 12-13.

[5] See *Redline*, (Paper 31) slip op at 4-5; see also 35 U.S.C. § 311(a). Under the AIA, a petition requesting a post grant review ("PGR") or covered business method ("CBM") can also be filed by any person who is not the owner of the patent. Thus, it seems very likely that the PTAB will not allow assignor estoppel as a defense in these proceedings as well.

[6] See *Redline*, (Paper 31) slip op at 4-5.

[7] April 1, 2015, was the most recent assertion of the assignor estoppel defense by a patent owner in an IPR proceeding. *Ariosa Diagnostics, Inc. v. Illuminia, Inc.*, IPR2014-01093 (PTAB Apr. 1, 2015) (Paper 31).

[8] Until the Federal Circuit asserts otherwise, post grant proceedings provide assignors a viable alternative forum for attacking the validity of its assigned patents. Currently, there are a couple of final written decisions on appeal to the Federal Circuit in which the patent owners asserted the doctrine of assignor estoppel; however, the issue of assignor estoppel does not seem to be raised on appeal. See, e.g., *Synopsys*, IPR2012-00042; *Redline*, IPR2013-00106. Patent Owners and Assignors alike should, therefore, consider drafting their pleadings cognizant of preserving the issue of assignor estoppel for appeal.

[9] 2015 WL 124523 (N.D. Cal. Jan. 7, 2015).

[10] 2015 WL 124523 (N.D. Cal. Jan. 7, 2015).

[11] *Id.* at \*3-7.

[12] *Id.* at \*6-7.

[13] Id.

[14] See, e.g., *Advanced Analogic Tech., Inc. v. Kinetic Tech., Inc.*, 2009 WL4981164 (N.D. Cal. 2009); *Ralph Gonnocci Revocable Trust v. Three M Tool & Machine, Inc.*, 68 U.S.P.Q.2d 1755 (E.D. Mich. 2003); *Vitronics Corp. Conceptoronic, Inc.*, 36 F.Supp.2d 440 (D.N.H. 1997) (determining that 35 U.S.C. § 302 places no restrictions on who can seek reexamination); *Total Containment Inc. v. Environ Prods., Inc.*, 34 U.S.P.Q. 2d 1254 (E.D. Pa. 1995); *Hewlett-Packard Co. v. Acuson Corp.*, 1993 WL149994 (N.D. Cal. 1993); but cf. *American Fence Co. v. MRM Sec. Sys., Inc.*, 710 F. Supp. 37 (D. Conn. 1989).

[15] See *Vitronics Corp.*, 36 F. Supp. 2d at 442.

[16] See, e.g., *id.* at 442; *Total Containment*, 34 U.S.P.Q.2d at 1255.

[17] See, e.g., *Vitronics Corp.*, 36 F.Supp.2d at 442; *Hewlett-Packard*, 1993 WL149994, at \*3-4.

[18] Typically an assignment will obligate the assignor to assist in defending the patent, and at least not to undermine its validity or patentability of the claimed subject matter.

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