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**ASSIGNOR ESTOPPEL:
YOU CAN'T BITE THE HAND THAT FED YOU**

Assignor estoppel is a little-known tool that can have a big impact on inventor/assignors and patent owner/assignees. When assigning inventions or patents, inventors face challenges from later application of the doctrine. Assignees, on the other hand, may be able to take advantage of assignor estoppel to completely avoid lengthy and expensive battles over patent invalidity. An awareness of the rule ought to be a part of your IP IQ.

The Doctrine of Assignor Estoppel

The Federal Circuit Court of Appeals first recognized the doctrine of assignor estoppel in *Diamond Scientific Co. v. Ambico, Inc.*,¹ where the court held:

Assignor estoppel is an equitable doctrine that prevents one who has assigned the rights to a patent (or patent application) from later contending that what was assigned is a nullity. The estoppel also operates to bar other parties in privity with the assignor, such as a corporation founded by the assignor. . . . The estoppel historically has applied to invalidity challenges based on “novelty, utility, patentable invention, anticipatory matter, and the state of the art.”²

Application of assignor estoppel requires a balancing of equities among the parties, a matter committed to the sound discretion of the trial court.³ Consistent with the obligation to balance equities, four frequently mentioned justifications for applying assignor estoppels are: (1) Prevent unfairness and injustice; (2) Prevent one from benefiting from his own wrong; (3) Analogy to estoppel by deed in real estate; and (4) Analogy to a landlord-tenant relationship.⁴

Ultimately, notions of fairness play most strongly in the doctrine's application. As U.S. Supreme Court Justice Felix Frankfurter's dissent in *Scott Paper* explained: “The principle of fair dealing as between assignor and assignee of a patent whereby the assignor will not be allowed to say that what he has sold as a patent was not a patent has been part of the fabric of our law throughout the life of this nation.”⁵

1 848 F.2d 1220 (Fed. Cir. 1988).
2 *Diamond Scientific Co.*, 848 F.2d at 1224 (citations omitted).
3 *Carroll Touch, Inc. v. Electro Mech. Sys., Inc.*, 15 F.3d 1573, 1579 (Fed. Cir. 1993).
4 *Diamond Scientific Co.*, 848 F.2d at 1224, citing Cooper, *Estoppel to Challenge Patent Validity: The Case of Private Good Faith vs. Public Policy*, 18 Case W. Res. L. Rev. 1122 (1967).
5 *Scott Paper v. Marcalus Mfg. Co.*, 326 U.S. 249, 260 (1945) (Frankfurter, J., dissenting); *Diamond Scientific Co.*, 848 F.2d at 1224.

“In *Lear v Adkins*, the U.S. Supreme Court ‘resolved the issue of licensee estoppel by writing its obituary.’”

“Similar policies are not in play with assignor estoppel. ‘The public policy favoring allowing a licensee to contest the validity of the patent is not present in the assignment situation.’”

Distinguishing Assignor and Assignee Estoppel

Assignor estoppel is distinct from assignee estoppel.⁶ In *Lear v Adkins*,⁷ the U.S. Supreme Court “resolved the issue of licensee estoppel by writing its obituary.”⁸ In *Lear*, the Court faced the question of whether a licensee was estopped from proving that the patent owner/licensor’s invention was invalid.⁹

Weighing public policy favoring free competition against contract principles and overruling precedent, the Court concluded that the doctrine of assignee estoppel was no longer good law.¹⁰

Similar policies are not in play with assignor estoppel. “The public policy favoring allowing a licensee to contest the validity of the patent is not present in the assignment situation. Unlike the licensee, who, without *Lear* might be forced to continue to pay for a potentially invalid patent, the assignor who would challenge the patent has already been fully paid for the patent rights.”¹¹

Analyzing the Application of Assignor Estoppel

Facts in cases analyzing the application of assignor estoppel follow a familiar pattern. The defendant is the inventor/assignor of the patent-in-suit or a company owned by or employing the inventor. Plaintiff/patent owner is a company for whom the inventor previously worked and to which the invention/patent-in-suit was assigned. When the inventor leaves the assignee to launch a competitor or work for a competitor, infringement litigation ensues. The inventor raises invalidity as a defense and the assignee invokes assignor estoppel to strike invalidity defenses. Against this backdrop, the cases focus on (1) issues relating to the scope and enforceability of the underlying assignment, and (2) “privity” issues.

Assignment Issues

Most courts begin by focusing on the assignment. In doing so, the courts have said:

• **The scope of the assignment does matter.** “Where a party assigns a patent, and the equities demand application of estoppel, the analysis is straightforward.”¹² But 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.”¹³ Thus, because the bounds of the “invention” are less certain than those of a patent, the U.S. Supreme Court and Federal Circuit recommend consideration of ample evidence to define the assignor’s representations.¹⁴

The scope of the assignment language can be important as well. In *Diamond Scientific*, the defendant/assignor who had assigned “all of his rights” in his patent application argued that plaintiff/assignee had expanded the claims after the assignment and before issuance. Still, the *Diamond Scientific* court applied assignor estoppel, holding that, “The fact is that [the assignor]

6 See *Diamond Scientific Co.*, 848 F.2d at 1224.

7 395 U.S. 653 (1969).

8 *Diamond Scientific Co.*, 848 F.2d at 1223.

9 *Lear, Inc.*, 395 U.S. at 662.

10 *Id.* at 670-71.

11 *Diamond Scientific Co.*, 848 F.2d at 1224.

12 *Q.G. Prods., Inc. v. Shorty, Inc.*, 992 F.2d 1211, 1212 (Fed Cir. 1993), citing *Westinghouse Elec. & Mfg. v. Formica Insulation Co.*, 266 U.S. 342, 351 (1924).

13 *Id.*

14 *Id.*

“Because ‘a continuation-in-part application, by definition, adds new matter to the parent application previously filed,’ the court in *Q.G. Products* properly compared the asserted continuation-in-part patent with the original application.”

assigned the *rights* to his invention, irrespective of the particular *language* in the claims describing the inventions when the patents were ultimately granted.”¹⁵

• **Subsequent prosecution of the patent may make a difference.** In *Q.G. Products*, the assignor “waived any claim to said invention or contracts relating thereto, and reassigned its rights thereto ... and agreed that neither [assignor] nor any of its remaining principals shall have any interest henceforth in said invention.”¹⁶ As set forth above, the designation of “said invention” led to the court’s finding that the assignment was not “clearly bounded,” thus requiring the court to compare the asserted claims with the assigned invention.¹⁷ Importantly, the patent that resulted was a continuation-in-part of the assigned application.¹⁸ Because “a continuation-in-part application, by definition, adds new matter to the parent application previously filed,” the court in *Q.G. Products* properly compared the asserted continuation-in-part patent with the original application.¹⁹

By contrast, the assignment was “clearly bounded” where the patent issued on a continuation from the assigned application and the assignors conveyed their interest in the application “and all original and reissued Patents granted therefor, and all divisions and continuations thereof . . .”²⁰

“By definition, a continuation should not include material that ‘constitutes new matter if inserted in the original application.’ Manual of Patent Examining Procedure (MPEP) § 201.07.”²¹

Some district court opinions also stand for the proposition that where the assignee engages in post-assignment inequitable conduct and issues of fact are raised, the court may refuse to apply assignor estoppel.²² But the inequitable conduct must relate to the application.²³

• **Arguments that the assignment lacked consideration don’t fly.** In *Diamond Scientific*, the Federal Circuit referred to one dollar plus salary and bonuses over many years as “valuable consideration.”²⁴ Later, the Federal Circuit flatly said, “Employment, salary and bonuses are valid consideration for the assignment.”²⁵ Even the source of the consideration (not the assignor) has been held to be irrelevant, so long as it was related to the assignment.²⁶ Subsequent assignor efforts to challenge the consideration for an assignment have proved fruitless.²⁷

• **Claims of duress or coercion to make false statements don’t work.** In *Shamrock Technologies*, the court held that fear of loss of employment did not constitute duress.²⁸ In *Eagle Comtronics, Inc.*, a district court held that coercion to sign a false affidavit with the PTO went to the viability of the application (barred by assignor estoppel) and not the validity of the assignment.²⁹ When faced

15 *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1226 (Fed. Cir. 1988).

16 *Q.G. Prods., Inc. v. Shorty, Inc.*, 992 F.2d at 1213-14.

17 *Applied Materials, Inc. v. Negevtech, Inc.*, 2005 U.S. Dist LEXIS 40032, at *3 (N.D. Cal. July 13, 2005).

18 *Q.G. Prods., Inc.*, 992 F.2d at 1212.

19 *Id.*, citing *In re Wertheim*, 646 F.2d 527, 536 (C.C.P.A. 1981).

20 *Applied Materials, Inc.*, 2005 U.S. Dist LEXIS 40032, at *3.

21 *Id.*

22 See *HWB, Inc. v. Braner, Inc.*, 1994 WL 447530, at *6-7 (N.D. Ill. Aug. 16, 1994), citing *Leading Edge Tech. Corp. v. Sun Automation, Inc.*, 1991 U.S. Dist. LEXIS 20766 (D. Md. Sept. 24, 1991) and *Med. Designs, Inc. v. Med. Tech., Inc.*, 786 F. Supp. 614, 618 (N.D. Texas 1992) (citing *Buckingham Prods. Co. v. McAleer Mfg. Co.*, 108 F.2d 192, 195 (6th Cir.1939)).

23 *Id.*

24 *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1225 (Fed. Cir. 1988).

25 *Shamrock Tech., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789, 794 (Fed. Cir. 1990).

26 *HWB, Inc. v. Braner, Inc.*, 1994 WL 447530, at *4.

27 *KB Int'l, LLC v. Holmes*, 2005 WL 1562420, at *2 (S.D. Tex. July 1, 2005) (“Most importantly, however, Holmes signed the assignments specifically acknowledging that he received ‘good and valuable consideration’ and that the consideration was sufficient and adequate. He cannot now be heard to question what he has already acknowledged. See *id.*; *Shamrock Technologies*, 903 F.2d at 795.”).

28 *Shamrock Tech., Inc.*, 903 F.2d at 794.

29 *Eagle Comtronics, Inc. v. Ne. Filter Co., Inc.*, 1991 U.S. Dist. LEXIS 16965, at *3 (N.D.N.Y. Nov. 21, 1991).

“The closer the relationship between the assignor and the party alleged to be in privity, the more the equities will favor applying assignor estoppel. ... But mere employees are not in privity with their new employers.”

with assignor allegations of coercion to submit false statements to the PTO regarding inventorship or other issues, courts have often pointed to the inventor’s oath, which provides:

I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under Section 1001 of Title 18 of the United States Code and that such willful false statements may jeopardize the validity of the application or any patent issued thereon.³⁰

In light of the oath, the Federal Circuit said, “where, as here, mere allegations made in support of an inequitable conduct defense are directly contradicted by the assignor-inventor’s statements made in his declaration, they render the defense nonviable and the equitable doctrine of assignor estoppel bars its assertion.”³¹

Privity Issues

Those in “privity” with the estopped assignor are also estopped. In *Shamrock Technologies*, the Federal Circuit set out the “privity” basics: It depends on the purposes for which it is asserted and, like the doctrine of assignor estoppel, depends on a balancing of the equities. The closer the relationship between the assignor and the party alleged to be in privity, the more the equities will favor applying assignor estoppel.³² “Whether two parties are in privity depends on the nature of their relationship in light of the alleged infringement.”³³ But mere employees are not in privity with their new employers.³⁴ Factors favoring imposition of privity include (1) Assignor/inventor holds a senior position at new employer; (2) Assignor has substantial equity ownership in new employer; (3) New employer began to build facilities for performing infringing activities soon after assignor was hired; (4) Assignor oversaw construction of new facilities; (5) Assignor was hired to start up infringing operations; (6) Senior management of new employer and assignor jointly made decision to begin infringing operations; and (7) Assignor is in charge of infringing operations at new employer.³⁵

Avoiding Assignor Estoppel—An Ounce of Prevention

“Without exceptional circumstances (such as an express reservation by the assignor of the right to challenge the validity of the patent or an express waiver by the assignee of the right to assert assignor estoppel), one who assigns a patent surrenders with that assignment the right to later challenge the validity of the assigned patent.”³⁶ Thus, assignors seeking to avoid later application of the rule ought to expressly reserve the right to challenge validity of any assigned invention or patent. Of course, this is easier said than done. For good reason, most employers are loath to negotiate the “boilerplate” terms of employment agreements.

Where Assignor Estoppel Is Denied

Some courts have refused to apply assignor estoppels, and those cases are instructive.

One court declined to apply assignor estoppel where material issues of fact existed concerning the identity of the assigned invention and the invention claimed in the patent in suit.³⁷ The

³⁰ *Id.*

³¹ *Shamrock Tech., Inc.*, 903 F.2d at 795; KB Int’l, LLC, 2005 WL 1562420, at *3.

³² *Shamrock Tech., Inc.*, 903 F.2d at 793.

³³ *Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*, 150 F.3d 1374, 1379 (Fed. Cir. 1998).

³⁴ See *Shamrock Tech., Inc.*, 903 F.2d at 794.

³⁵ *Id.* at 794; *HWB, Inc. v. Braner, Inc.*, 1994 WL 447530, at *8 (N.D. Ill. Aug. 16, 1994);

³⁶ *Mentor Graphics Corp.*, 150 F.3d at 1378.

³⁷ *Leading Edge Tech. Corp. v. Sun Automation, Inc.*, 1991 U.S. Dist. LEXIS 20766, at *21 (D. Md. Sept. 24, 1991).

“Where multiple defendants are involved, one may be barred by assignor estoppel from challenging the validity of the patent in suit, while the other may not.”

plaintiff assignee “failed to carry its burden of demonstrating as a matter of law that the assigned invention is the same as that claimed in the patents in suit.”³⁸ In that case, the plaintiff/assignor filed the application for the patent in suit as a continuation of a rejected and abandoned application based on the invention assignment and thereafter filed three successive continuation applications broadening the scope of the invention or inventions claimed. The court held,

It is apparent under these circumstances that this case does not present an instance of “pure” assignor estoppel, as was present in *Hexcel Corp., supra*. Such a case involves circumstances whereby an inventor has challenged the validity of a patent which issued for an invention which he indisputedly [sic] assigned. The prosecution history of the patents in suit here is lengthy and complex. Competing inferences can be drawn from the complicated factual background of these four patents. Whether the equities in the case are sufficient to permit the application of assignor estoppel involves disputed questions of fact.³⁹

Where multiple defendants are involved, one may be barred by assignor estoppel from challenging the validity of the patent in suit, while the other may not. Under those circumstances, the party not barred may assert invalidity as a defense.⁴⁰

Effect—What Assignor Estoppel Does and Does Not Mean

- **No Invalidity Defenses.** Assignor estoppel prevents the assignor from later contending that what was assigned is a nullity (invalid).⁴¹
- **Inequitable conduct defenses may exist.** In response to an assignor’s argument that *Diamond Scientific* dealt with invalidity but not the equitable defense of inequitable conduct, the Federal Circuit stated, “We reject the contention that mere classification of a defense as equitable bars consideration of assignor estoppel. It is at best incongruous to suppose that the equitable doctrine of assignor estoppel can never be applied to an equitable defense. The premise of the doctrine—prevention of unfairness and injustice—is not removed upon the mere denomination of a defense as ‘equitable.’”⁴² Cases holding that post-assignment inequitable conduct may not be subject to the doctrine do have logic, however.⁴³
- **No Walker Process Defenses.** The *Eagle Comtronics* court considered and rejected the assignor’s argument that the assignee was attempting to enforce a fraudulently obtained (and assigned) patent in violation of the rule in *Walker Process*.⁴⁴ The court concluded that, to hold that the assignee violated the federal antitrust laws, the court would have to find the patent invalid. Since the assignor was estopped to challenge invalidity, he could not raise the *Walker Process* defense.⁴⁵
- **Assignor Estoppel Is Not a Testimonial Bar.** The doctrine of assignor estoppel is not an evidentiary rule that bars all assignor testimony related to validity. In *Briggs & Riley Travelware, LLC v. Paragon Luggage, Inc.*,⁴⁶ the Southern District Court of New York denied a motion to strike an

38 *Id.* at *22.

39 *Id.*, citing *Hexcel Corp. v. Advanced Textiles, Inc.*, 716 F. Supp. 974 (W.D. Tex. 1989).

40 *HWB, Inc.*, 1994 WL 447530, at *9.

41 *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1224 (Fed. Cir. 1988); *Shamrock Tech., Inc.*, 903 F.2d at 793.

42 *Shamrock Tech., Inc.*, 903 F.2d at 794.

43 See, e.g., *Leading Edge Tech. Corp. v. Sun Automation, Inc.*, 1991 U.S. Dist. LEXIS 20766 (D. Md. Sept. 24, 1991).

44 *Eagle Comtronics, Inc. v. Ne. Filter Co., Inc.*, 1991 U.S. Dist. LEXIS 16965, at *17 (N.D.N.Y. Nov. 21, 1991) (“In *Walker Process Equip., Inc. v. Food Mach. and Chem. Corp.*, 382 U.S. 172, 86 S. Ct. 347, 349, 15 L.Ed.2d 247, (1965), the Court held that ‘the enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act provided the other elements necessary to a § 2 case are present.’”).

45 *Id.* at *19.

46 324 F. Supp. 2d 395 (S.D.N.Y. 2003).

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ABOUT SHB

Shook, Hardy & Bacon offers expert, efficient and innovative representation to our clients. We know that the successful resolution of intellectual property issues requires a comprehensive strategy developed in partnership with our clients.



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inventor/assignor's testimony. The assignor was not employed by either plaintiff or defendant (so there was no assignor estoppel).⁴⁷ In a deposition, the inventor/assignor testified that he was not aware of prior art which, he concluded, anticipated the patent in suit.⁴⁸ Later, he recanted that testimony.⁴⁹ Reasoning that assignor estoppel is not a rule of evidence, the court denied plaintiff/assignee's attempt to preclude the assignor from testifying.⁵⁰ The court noted that the assignor would be subject to impeachment on cross-examination.⁵¹

In *Checkpoint Systems, Inc. v. All-Tag Security S.A.*⁵² the Federal Circuit reached a similar conclusion. There, the sole inventor/assignor submitted an affidavit stating that the assigned patent in suit was invalid because other inventors were not listed in the application. After concluding that assignor estoppel would not apply, the court said that the defendants would have an opportunity to present the assignor's testimony, subject to cross-examination and the corroboration rule, which protects patentees from invalidation of their patent based solely on uncorroborated testimonial evidence.⁵³

• **Assignor Can Still Argue Non-Infringement.** Importantly, U.S. Supreme Court and Federal Circuit precedent is clear—assignor estoppel does not preclude the assignor from arguing non-infringement. The assignor of the patent can defend a suit for infringement of that patent on the ground that he was practicing the subject of an expired prior-art patent.⁵⁴ Or the assignor may argue that the assignee broadened the claims in the patent applications (after the assignments) beyond what could be validly claimed in light of the prior art. Then, the assignor may “introduce evidence of prior art to narrow the scope of the claims of the patents, which may bring their accused devices outside the scope of the claims of the patents in suit.”⁵⁵

• **The *Blonder Tongue* rule remains in effect.** Assignor estoppel does not preclude the estopped party from arguing that the patentee is itself collaterally estopped from asserting a patent found invalid in a prior proceeding.⁵⁶

• **The Government May be Estopped.** Congress did not exempt the government from the doctrine of assignor estoppel.⁵⁷ For assignor estoppel to apply, however, the government must be in privity with the assignor.⁵⁸

Now that you are aware of the basics of assignor estoppel, keep it in mind. It may be a boon for assignees, but a nightmare for assignors.

⁴⁷ *Id.* at 397-98.

⁴⁸ *Id.* at 397.

⁴⁹ *Id.*

⁵⁰ *Id.* at 400-01.

⁵¹ *Id.* at 401 n.6.

⁵² 412 F.3d 1331 (Fed. Cir. 2005).

⁵³ *Id.* at 1337.

⁵⁴ *Rockwood Pigments NA, Inc. v. Axel*, 53 Fed. Appx. 917 (Fed. Cir. 2002), citing *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945).

⁵⁵ *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1226 (Fed. Cir. 1988), citing *Westinghouse Elec. & Mfg. v. Formica Insulation Co.*, 266 U.S. 342, 350 (1924); *Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*, 150 F.3d 1374, 1380 (Fed. Cir. 1998).

⁵⁶ *Mentor Graphics Corp.*, 150 F.3d at 1380, citing *Blonder-Tongue Lab., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313 (1971).

⁵⁷ *Earth Resources Corp. v. U.S.*, 44 Fed. Cl. 274, 282 (Fed. Cl. 1999).

⁵⁸ *See id.* at 284.