An unforeseen obstacle

Consultants can prevent patent validity challenges through the use of the assignor estoppel doctrine

Imagine hiring a consultant who designs a process, only to find that the process infringes a patent invented by the same consultant owned by someone else. How much worse would it be if your use of that consultant prevented you from challenging patent validity? That is the rude awakening some are facing.

A consultant is hired for his or her prior experiences and accomplishments. But if this consultant gets too close, serving more as an employee than an outsider, then the assignor estoppel doctrine can prevent assertions that earlier patents by the consultant are invalid. One of the authors recently litigated a case on the subject; the results are instructive and represent a broadening of the doctrine that needs to be understood by those who hire consultants.

Assignor estoppel

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."[1] The concept is simple – "an assignor should not be permitted to sell something and later to assert that what was sold is worthless, all to the detriment of the assignee."[2]

The doctrine "also operates to bar other parties in privity with the assignor, such as a corporation founded by the assignor"[3] from challenging the assigned patent. Courts typically have applied privity to assignors who started a competing company or became a new employer's highly-integrated employee, more than a "mere employee," such that they were in privity as a matter of equity, [4] "whether company B is in privity… depend[s] on the equities dictated by the relationship between the inventor and company B in light of the act of infringement." As one decision put it, "what is significant is whether the ultimate infringer availed itself of the inventor's knowledge and assistance to conduct infringement."[5] This is a fact-specific inquiry based on the "direct and indirect" contacts between the inventor and the accused infringer.[6]

Historically, assignor estoppel cases have focused on whether the assignor is now the accused infringer's employee and if that employee has a heightened interest in the success of the accused infringing product/process at their new employer, typically shown by royalty, profit sharing, or even an ownership/shareholder interest. For example, see:

- *Diamond Scientific*,[7] where the assignor-inventor left the plaintiff to form the defendant;
- *Shamrock*,[8] where the assignor-inventor worked for the defendant as vice president for operations, owned 50,000 shares in the defendant, was hired specifically for the infringement, oversaw the building of new facilities for the infringement, and participated in decisions to infringe;
- *Intel*[9] where the assignor-inventor was president and chief executive of the defendant company and owned 40% of shares making him the largest single shareholder;
- *Carroll Touch, Inc v Electro Mech Sys, Inc*,[10] where the assignor-inventor was founder, president, principal executive officer, and owned stock in the defendant corporation; and
- *Mentor Graphics Corp v Quickturn Design Systems, Inc*,[11] which applied privity to find assignor estoppel even as to later-acquired subsidiary where the corporate assignor owned stock, shared personnel and had control over party.

Where third-parties avail themselves of the assignor-inventor's knowledge and assistance to infringe the assigned patent, "'they are bound by his estoppel.'"[12] An emerging body of law now extends the doctrine to more informal business relationships, particularly consultants.

Consultant-assignor with an interest

In *Designing Health, Inc v Erasmus*, the court considered privity and assignor estoppel on a complex but interesting fact pattern that highlights many of the key issues underlying the estoppel analysis.[13] Erasmus consulted for the plaintiff, formulating pet food supplements, designing manufacturing processes, and promoting the products. As co-inventor, Erasmus assigned to the plaintiff the patents resulting from his work and received 40,000 shares of Designing Health stock.

Erasmus also designed infringing pet foods for the defendants and received a royalty on those sales. Designing Health sued, and the court indicated that it was inclined to apply assignor estoppel against Erasmus, among others. The defendants, however, alleged that the inventors of the patents-in-suit engaged in inequitable conduct. This normally would bar the patent owner from relying on an equitable defence like assignor estoppel because of "unclean hands", but the court was concerned that Erasmus did not profit from his possible involvement in any inequitable conduct. Accordingly, the court applied assignor estoppel against Erasmus to bar him from challenging patent validity. Moreover, given the evidence of privity and his close relationship with the other defendants – eg, Erasmus' direct involvement in making the accused pet foods, and the royalties paid to Erasmus – the court granted summary judgment of assignor estoppel against the remaining defendants as well.

The *Designing Health* case, like many others, relied in part on the actions of the assignor-inventor and his significant continuing interest (eg, royalties on infringing sales) to find privity. This is exampled by the case *Intel Corp*,[14] which found privity between an inventor and a corporation in light of a "continuous involvement in a joint development program," including a substantial financial commitment and *Mentor Graphics*,[15] (extending privity to a company under "considerable control" by another corporation, already estopped). But these cases all relied upon the consultant being economically invested in the infringement as a basis for finding assignor estoppel.

The consultant-assignor without a direct interest

The case of *BASF Corp v Aristo, Inc*, 872 F Supp. 2d 758, 775 (ND Ind 2012) (argued by one of the authors), involved a consultant with less personal interest. BASF's retired employee had co-invented several patents for BASF and its predecessor. After retirement, he consulted for defendant Aristo and designed an infringing process as well as the machine for conducting that process. BASF sued on a patent where the retired employee was the first named inventor, arguing assignor estoppel.

The undisputed facts indicated that Aristo "availed itself" of the inventor's "knowledge and assistance."[16] This consultant developed Aristo's infringing coater and its specifications, oversaw its fabrication, drafted its operating procedures, and taught operators how to use it; his tasks "were directed towards the allegedly infringing conduct."[17] The consultant was instrumental to the infringement – although Aristo "had some of the know-how" to create the coating machine, "[i]t needed [the consultant] to fill in the gaps to build the machine."[18] In light of this "significant role," the court found privity between the Aristo and the consultant since he was more than a "mere" participant or advisor.

Developing expansion of the doctrine

The BASF decision was relied upon in *Brocade Communications Systems v A10 Networks, Inc*,[19] to hold that whether an inventor was "initially a part-time consultant" was "immaterial" as "[a]n inventor/assignor need not be a full-time employee for privity to apply."[20] The case facts are that one of the plaintiff's co-founders secretly began a competing venture, taking along several employees who brought with them plaintiff's intellectual property.[21] One of them was a co-inventor and assignor of the patent-in-suit, who initially was the defendant's "part-time, unpaid consultant". Instead of deciding the case based upon this limited role, the court looked to the eight factors set out in *Shamrock* for "useful, although not dispositive guidance" on whether privity applied.[22] These factors focused on the assignor's "leadership role" in developing the infringing product and the overall "close relationship" he had with defendant.[23] After concluding that he had a sufficient leadership role to establish privity, the court held that the company was estopped from arguing patent invalidity notwithstanding the assignor's initial title.

Practical take away

While some might argue that these cases reach a sensible, equitable result on their facts, they also present a practical problem: using a consultant could hamstring a corporation's defences in patent litigation. There are, however, a few basic steps that can mitigate this risk and help all to sleep a bit more soundly.

It always helps to ask questions and be aware of the potential for such conflicts before they develop. The consultant's career and patent history can be used to identify potential issues before they become litigations.

But it is not just the consultant's patents that should be considered. As with any hire, particular care must be taken if the person is a competitor's former employee.

It also is useful to have the consultant work with others who can oversee their work. In each of the cases discussed above, the consultant was given significant authority to recreate what they had done elsewhere involving their prior experience with the patented technology.

Moreover, in all of the cases extending privity to consultants so far, the particular consultancies have been highly-integrated and ongoing – nearly akin to that of an employer-employee relationship. Such consultants are not merely being paid for advice, but are combined into the fabric of the company in some fashion with operational autonomy. In other words, where consultants begin to look more like employees, particularly supervisory employees, courts are more likely to treat them as such for the purposes of assignor estoppel.

The bottom line is that consultants who are given decision-making authority will be treated by the courts like an employee, and will be analysed according to the same parameters for privity and estoppel. To the extent those sorts of deep, ongoing ties can be avoided or reduced, the equitable case for privity will be lessened and the hirer protected. The word to the wise, therefore, is caution – beware of integrating your consultants too deeply, lest a court will treat them like one of your own.

Footnotes

1. *Diamond Scientific Co v Ambico, Inc,* 848 F2d 1220, 1224 (Fed Cir 1988).
2. Id.
3. Id.
4. *Shamrock Technologies, Inc v Medical Sterilization, Inc,* 903 F2d 789, 793 (Fed Cir 1990).
5. *HWB, Inc v Braner, Inc*, 869 F Supp 579, 581 (ND Ill 1994), *citing Intel Corp v U Int'l Trade Comm'n*, 946 F2d 821, 839 (Fed Cir 1991).
6. *Intel*, 946 F2d at 838.
7. 848 F2d at 1224.
8. 903 F2d at 794.
9. 946 F2d at 837-38.
10. 15 F3d 1573, 1579 (Fed Cir 1993).
11. 150 F3d 1374, 1377 (Fed Cir 1998).
12. *HWB*, 869 F Supp at 581 (quoting *Mellor v Carroll*, 141 F 992, 993-994 (CCD Mass 1905)).
13. 2001 US Dist LEXIS 25951 (CD Cal 24 Apr 2001).
14. See, eg, *Intel Corp*, 946 F2d at 839.
15. 150 F.3d at 1379.
16. Id at 775-76.
17. Id at 775.
18. Id at 775.
19. 2012 US Dist LEXIS 84879 (ND Cal 18 June 2012).
20. Id at *30.
21. Id.
22. Id at *19.
23. Id at *20.

Authors

Jeffrey I D Lewis is a partner in the firm of Patterson Belknap Webb & Tyler.

Christopher M Schmitt is an associate in the firm of Patterson Belknap Webb & Tyler.

The views expressed are solely those of the authors and should not be attributed to either one of them individually or to any client or institution.