Nos. 15-1470, -1554, -1556

IN THE

# United States Court of Appeals for the Federal Circuit

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MENTOR GRAPHICS CORPORATION, an Oregon corporation,
*Plaintiff-Cross-Appellant,*

*v.*

EVE-USA, INC., a Delaware corporation,
SYNOPSYS EMULATION AND VERIFICATION, S.A.S.,
formed under the laws of France,
SYNOPSYS, INC., a Delaware corporation,
*Defendants-Appellants.*

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On Appeal from the U.S. District Court for the District of Oregon,
Case Nos. 3:10-cv-00954-MO (Lead), 3:12-cv-01500-MO,
3:13-cv-00579-MO, Hon. Michael W. Mosman

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## BRIEF OF PUBLIC KNOWLEDGE AND LAW PROFESSORS AS *AMICI CURIAE* IN SUPPORT OF PETITION FOR REHEARING EN BANC

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# UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Mentor Graphics Corp., an Oregon Corp. **v.** EVE-USA, Inc., a Delaware Corporation, Synopsys Emulation and Verification S.A.S., formed under the laws of France, and Synopsys, Inc., a Delaware Corporation

Case No. 2015-1470, -1554, -1556

## CERTIFICATE OF INTEREST

Counsel for the:
☐ (petitioner) ☐ (appellant) ☐ (respondent) ☐ (appellee) ☒ (amicus) ☐ (name of party)

Public Knowledge and Law Professors

certifies the following (use "None" if applicable; use extra sheets if necessary):

| 1. Full Name of Party Represented by me | 2. Name of Real Party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is: | 3. Parent corporations and publicly held companies that own 10 % or more of stock in the party |
|---|---|---|
| Public Knowledge | None | None |
| Law Professors (See Attachment A) | None | None |
| | | |
| | | |
| | | |
| | | |
| | | |

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (**and who have not or will not enter an appearance in this case**) are:

Juelsgaard Intellectual Property & Innovation Clinic, Mills Legal Clinic, Stanford Law School: Phillip R. Malone, Jef Pearlman

May 15, 2017
Date

/s/ Phillip R. Malone
Signature of counsel

Please Note: All questions must be answered

Phillip R. Malone
Printed name of counsel

cc: Counsel for Amici Curiae

## ATTACHMENT A TO CERTIFICATE OF INTEREST

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## INTEREST OF *AMICI CURIAE*

*Amicus curiae*[1] Public Knowledge is a non-profit organization dedicated to preserving Internet openness and public access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. Public Knowledge advocates on behalf of the public interest in a balanced patent system, particularly with respect to new and emerging technologies. *Amici curiae* professors are 16 professors of law at universities throughout the United States. Professors have no personal interest in the outcome of this case, but a professional interest in seeing patent law develop in a way that efficiently encourages innovation.[2]

## SUMMARY OF ARGUMENT

The Federal Circuit's current doctrine of assignor estoppel would not withstand Supreme Court scrutiny. This Court has expanded the doctrine far beyond the metes and bounds of increasingly narrow Supreme Court precedent,

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[1] *Amici*'s unopposed motion for leave accompanies this brief. Pursuant to Fed. R. App. P. 29(a), all parties received appropriate notice of the filing of this brief. Pursuant to Rule 29(c)(5), no counsel for a party authored this brief in whole or in part, and no counsel or party made any monetary contribution intended to fund the preparation or submission of the brief. No person or entity, other than *amici*, their members, or their counsel, made a monetary contribution to the preparation or submission of this brief.

[2] *Amici* wish to thank Stanford Juelsgaard Clinic certified law students Jason Reinecke and Nathaniel Rubin for their substantial assistance in drafting this brief.

including to cases lacking any bad faith during negotiations, and to preclude not only the inventor herself but also her privies. This expansion inhibits inventors and their privies from challenging the validity of patents, even though invalidating bad patents is widely recognized by courts and scholars as an important public good. The doctrine also restricts employee mobility in ways that harm innovation and economic growth and is particularly taxing on startups and the most innovative inventors. The Federal Circuit should rehear the case en banc to harmonize its doctrine with Supreme Court precedent and eliminate these social harms.

## ARGUMENT

### I. The Federal Circuit's Current Assignor Estoppel Doctrine Would Not Withstand Supreme Court Review.

The Supreme Court drew close boundaries around assignor estoppel when it first adopted the doctrine. Since then, the Supreme Court has further narrowed the doctrine with exceptions and unfavorable commentary in more recent cases. By contrast, this Court has substantially expanded the doctrine, placing it in conflict with the Supreme Court's precedents.

#### A. The Supreme Court Has Sharply Limited Assignor Estoppel.

The Supreme Court has limited assignor estoppel to a slim set of cases. Not only does the Court permit assignors to narrow or even invalidate ill-granted patents, it grounds the doctrine in policing potential bad faith in bargaining. *See*

*Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342, 350 (1924) ("fair dealing" prevented an assignor from "derogating the title he has assigned"); *see also Scott Paper Co. v. Marcalus Mfg. Co., Inc.*, 326 U.S. 249, 251 (1945) (assignor estoppel's "basic principle is . . . one of good faith . . . ."); Mark A. Lemley, *Rethinking Assignor Estoppel*, 54 Hous. L. Rev. 513 (2016).

The Supreme Court first considered—and constrained—assignor estoppel in *Westinghouse*, where it held that an assignor may use prior art "to construe and narrow the claims of the patent, conceding their validity." 266 U.S. at 351. Thus, while assignor estoppel limited an assignor's ability to challenge the validity of a patent per se, she could nonetheless use prior art to narrow a patent enough to succeed in arguing that she had not infringed. *Id.*

In *Scott Paper*, the Supreme Court further limited assignor estoppel by permitting an inventor to show an expired patent covered his allegedly infringing products. 326 U.S. at 254. The Supreme Court ruled that as a matter of public policy, assignor estoppel could not apply in cases "where the alleged infringing device is [technology from] an expired patent." *Id.* at 258. The Supreme Court reasoned that patent law dedicates ideas in an expired patent to the public, and that after a patent's expiration, the rights in an invention are no longer subject to private contract. *Id.* at 256-57. While the *Scott Paper* decision dealt with expired patents, Justice Frankfurter noted that there was no difference between an expired patent as

prior art and any other grounds for invalidity. *Id.* at 263 (Frankfurter, J., dissenting).

The Supreme Court endorsed Justice Frankfurter's reasoning in *Lear, Inc. v. Adkins*, 395 U.S. 653, 666 (1969) (citing Justice Frankfurter's dissent to claim that "[t]he *Scott* exception had undermined the very basis of the 'general rule'"), which allowed licensors to challenge validity in all cases. *Lear* also noted that the *Westinghouse* limitation on assignor estoppel was "radically inconsistent" with estoppel's premises. *Id.* at 665. In abolishing the analogous doctrine of licensee estoppel, *id.* at 670-71, which prohibited a licensee from raising validity challenges, the Supreme Court signaled equal distaste for assignor estoppel. In addition to echoing *Scott*'s logic that the public interest in accessing technology in the public domain trumps estoppel, the Supreme Court ruled that "the spirit of contract law, which seeks to balance the claims of promisor and promisee in accord with the requirements of good faith," did not justify licensee estoppel. *Id.* at 670.

The Supreme Court also reasoned that a patent "simply represents a legal conclusion reached by the Patent Office." *Id.* Given that "reasonable men [could] differ widely" as to a patent's validity, the Supreme Court found it "not unfair" that a patentee have to defend the patent when a licensee placed it at issue. *Id.* The Supreme Court further noted that the public interest in "full and free competition"

outweighed the interests of the licensor, especially when a licensee might be the only one with sufficient financial stake to challenge an invalid patent. *Id.* at 670-71. Thus, the Supreme Court clearly indicated that principles of public interest outweigh that of estoppel, particularly when parties bargain in good faith.

These same principles apply equally to an assignor-turned-defendant. While it might be equitable to prevent an inventor from deceiving the buyer of a patent about its validity, that is not the way most validity issues arise today. An inventor has no special knowledge as to whether her invention is patentable subject matter, for example, whether the claims her lawyers may later write are indefinite, or whether her disclosure is sufficient to satisfy the written description requirement. And that is particularly true of employees, who are required to assign their inventions without compensation before they have even invented them and therefore cannot possibly know whether claims that are not yet written will eventually comply with patent validity doctrines.

### B. The Federal Circuit's Assignor Estoppel Doctrine Cannot be Reconciled with the Narrow Supreme Court Doctrine.

While the Supreme Court left little—if any—room for assignor estoppel, the Federal Circuit has consistently extended the doctrine since *Lear*. For instance, the Federal Circuit has expanded the doctrine to apply to a wide range of parties in privity with assignors. *See, e.g.*, *MAG Aerospace Indus., Inc. v. B/E Aerospace, Inc.*, 816 F.3d 1374, 1380 (Fed. Cir. 2016) (affirming trial court's finding of privity

between inventor and company that had developed product before hiring him); *Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*, 150 F.3d 1374, 1379 (Fed. Cir. 1998) (extending estoppel from corporate parent to subsidiary when assignment took place prior to parent's purchase of subsidiary). This expansion of privity estops firms from challenging validity even if they use evidence obtained after assignment.

Similarly, the Federal Circuit has expanded the doctrine beyond cases where an inventor knowingly and voluntarily transfers a patent. *See, e.g.*, *Carroll Touch, Inc. v. Electro Mech. Sys., Inc.*, 15 F.3d 1573, 1580 (Fed. Cir. 1993) (inventor did not realize he was transferring patent); *see also Shamrock Techs., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789, 794 (Fed. Cir. 1990) (inventor feared being fired if he did not file application). The current doctrine is also not limited to cases where an inventor or assignor misrepresents a patent's validity. Indeed, the Federal Circuit has applied assignor estoppel where the assignee amended the claims in a patent after assignment, in which case the assignor clearly had no control over or ability to misrepresent the ultimate validity of the patent or scope of the claims. *Diamond Sci. Co. v. Ambico, Inc.*, 848 F.2d 1220, 1226 (Fed. Cir. 1988).

The expansion of assignor estoppel doctrine gives insufficient deference to the Supreme Court's weighing of patent and contract interests in *Lear*. The Supreme Court has made clear that public policy considerations of statutory patent

law will often outweigh estoppel. By contrast, the Federal Circuit has never refused to apply the doctrine. Lemley, at 524. Given that the Supreme Court abolished licensee estoppel, there is no basis for expanding assignor estoppel outside the narrow circumstances addressed in the Supreme Court's cases.

## II. The Current Assignor Estoppel Doctrine Undermines the Important Public Policy Goal of Invalidating Bad Patents and Interferes with Employee Mobility.

Eliminating invalid patents benefits the public because inventors can then use technology in the public domain without fear of being sued. Assignor estoppel improperly reduces this public benefit by preventing inventors and their privies from challenging a patent's validity. "Both [the Federal Circuit] and the Supreme Court have recognized that there is a significant public policy interest in removing invalid patents from the public arena." *SmithKline Beecham Corp. v. Apotex Corp.*, 403 F.3d 1331, 1354 (Fed. Cir. 2005). So have scholars. *See* Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 Berkeley Tech. L.J. 943, 951-52 (2004); Roger Allen Ford, *Patent Invalidity Versus Noninfringement*, 99 Cornell L. Rev. 71, 110 (2013) ("a successful invalidity defense is a public good"); Joseph Scott Miller, *Building a Better Bounty: Litigation-Stage Rewards for Defeating Patents*, 19 Berkeley Tech. L.J. 667, 685-91 (2004). Indeed, the economic deadweight loss due to invalid

patents has been estimated at around $25.5 billion per year. T. Randolph Beard et al., *Quantifying the Cost of Substandard Patents: Some Preliminary Evidence*, 12 Yale J.L. & Tech. 240, 268 (2010).

In *Scott Paper*, the Supreme Court invalidated an agreement not to challenge a patent's validity, reasoning that "[a]llowing *even a single company* to restrict its use of an expired or invalid patent . . . 'would deprive . . . the consuming public of the advantage to be derived' from free exploitation of the discovery." *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2407 (2015) (emphasis added) (quoting *Scott Paper*, 326 U.S. at 256). The Court in *Kimble* reiterated that permitting a patentee to restrict use of technology claimed by an expired or invalid patent would "impermissibly undermine the patent laws." *Id.* Similarly, in *Lear*, the Court rejected the related doctrine of licensee estoppel because "the strong federal policy favoring free competition in ideas which do not merit patent protection," 395 U.S. at 656, outweighed any utility licensee estoppel provided. *Id.* at 663-64.

Because invalidating bad patents is a public good, and because defendants already naturally raise invalidity defenses less often than is socially desirable, Ford, *supra*, at 110-11 (noting defendants naturally under-assert invalidity in part because they do not fully capture the benefits of invalidating bad patents), limiting a defendant's ability to assert invalidity and provide this public good is unwarranted absent a strong countervailing policy.

No such countervailing policy justifies the current doctrine of assignor estoppel. Assignor estoppel prevents the inventor and her privies from challenging the inventor's patents. These parties are often in the *best position* to challenge the patent. *See* Lemley, *supra*, at 536. The current doctrine even prevents these parties from challenging the scope of the claims, no matter how broad and how far removed they are from the inventor's contribution. *Id.*

Assignor estoppel also interferes with employee mobility and harms innovation. If an inventor starts a new company or changes employers, she will be unable to practice her prior inventions even if the patents covering them are invalid. *See id.* at 537; *see also* Lara J. Hodgson, *Assignor Estoppel: Fairness at What Price?*, 20 Santa Clara Computer & High Tech. L.J. 797, 827-30 (2004). This effectively creates a 20-year unbargained-for partial noncompete that disproportionately burdens startups and the most productive and innovative inventors. Lemley, *supra*, at 537-40.

Noncompete agreements are rightly disfavored in the law because economic evidence indicates noncompetes harm innovation and economic growth. *Id.* at 538. Most states limit noncompetes in time and geographic scope; others flat out reject them. Robert P. Merges et al., *Intellectual Property in the New Technological Age* 87, 95-97 (6th ed. 2012). Importantly, no state permits the 20-year partial noncompete afforded by assignor estoppel. Lemley, *supra*, at 538.

It is time for the Federal Circuit to reconsider the scope of assignor estoppel, the doctrine that "particularly privileges invalid patents" and inhibits those in the best position to provide a public good from doing so. *Id.* at 536.

## CONCLUSION

For the foregoing reasons, this Court should grant the petition for rehearing en banc.

Dated: May 15, 2017

Respectfully Submitted,

/s/ Phillip R. Malone

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## APPENDIX

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## CERTIFICATE OF SERVICE

I hereby certify that on May 15, 2017, I electronically filed foregoing Brief of Public Knowledge and Law Professors as *Amici Curiae* in Support of Petition for Rehearing En Banc with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit by using the appellate CM/ECF system.

I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

Dated: May 15, 2017

/s/ Phillip R. Malone
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