

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WISCONSIN

ORION ENERGY SYSTEMS INC.,

Plaintiff,

v.

Case No. 16-C-1250

ENERGY BANK INC.,

Defendant.

ENERGY BANK INC.,

Counterclaim-Plaintiff,

v.

ORION ENERGY SYSTEMS INC.,

Counterclaim-Defendant.

DECISION AND ORDER GRANTING MOTION FOR RECONSIDERATION

Energy Bank Inc. has moved for reconsideration of this Court's May 25, 2017 Order granting Orion Energy Systems Inc.'s motion to dismiss, in which the Court concluded that the doctrine of assignor estoppel barred Energy Bank's counterclaim and affirmative defense of invalidity. ECF No. 35. For the following reasons, the motion will be granted.

Energy Bank believes this Court's Order misapplied controlling precedent regarding the doctrine of 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." *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1224 (1988). Although the

Supreme Court severely limited a party's ability to rely on estoppel by abrogating the doctrine of licensee estoppel in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), the Federal Circuit in *Diamond* concluded the doctrine of assignor estoppel is alive and well. *Id.* at 1225. The *Diamond* court recognized, however, that "the primary consideration in now applying the doctrine is the measure of unfairness and injustice that would be suffered by the assignee if the assignor were allowed to raise defenses of patent invalidity." *Id.* at 1225. In short, a district court's "analysis must be concerned mainly with the balance of equities between the parties." *Id.*

Here, the Court failed to fully consider the equities. Orion argues that the Court was not required to balance the equities because Energy Bank has not presented "exceptional circumstances" to avoid applying assignor estoppel. *See Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*, 150 F.3d 1374, 1378 (Fed. Cir. 1998) ("Due to the intrinsic unfairness in allowing an assignor to challenge the validity of the patent it assigned, the implicit representation of validity contained in an assignment of a patent for value raises the presumption that an estoppel will apply. 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."). Unlike the inventor in *Mentor Graphics*, however, Verfuert did not assign Orion an issued patent. Instead, he assigned the company a continuation application and a continuation-in-part application. Therefore, the Court must balance the equities as required by *Diamond*. But as the record currently stands, there is not enough information for the Court to perform the kind of equitable analysis necessary. For instance, the record is unclear as to what the alleged invalidity is based upon. Accordingly, the Court will allow Energy Bank to proceed on its

affirmative defense and counterclaim of invalidity. Notwithstanding this decision, the issue may be raised again for the purpose of summary judgment.

For the foregoing reasons, Energy Bank's motion for reconsideration (ECF No. 44) is **GRANTED**, and the Court's May 25, 2017 Order is vacated. Orion is directed to file an answer to Energy Bank's Third Amended Affirmative Defenses and Counterclaims on or before September 19, 2017.

Dated this 29th day of August, 2017.

s/ William C. Griesbach
William C. Griesbach, Chief Judge
United States District Court