

Patent Buyers Beware—Former Owner of a Patent Can Challenge Its Validity in an *Inter Partes* Review

By David R. Bauer and Gregory R. Baden

The Patent Trial and Appeal Board (PTAB) recently held that a former owner and the co-inventor of a patent may challenge the validity of the patent in an *inter partes* review after assigning the patent to a new owner and the U.S. Court of Appeals for the Federal Circuit held that it did not have jurisdiction to review the appeal of that decision. Prior to these decisions, patent acquirers traditionally could rely on the doctrine of assignor estoppel to prevent a patent assignor from later challenging the assigned patent's validity and these decisions now prevent that doctrine from being used as a defense to an *inter partes* review challenge. Recommendations for mitigating the risks posed by these decisions are discussed below.

Background and *Inter Partes* Review

On September 23, 2016, a panel of the Federal Circuit issued a split 2-1 decision holding that it does not have jurisdiction to review the Patent Trial and Appeal Board's decision to institute an *inter partes* review (IPR) challenging the validity of a patent despite the IPR having been initiated by the former owner and co-inventor of the patent.¹

The application for the patent at issue (the '536 patent), which discloses a clamp assembly for a molding machine, was jointly filed in 2007 by two inventors, one of which was Robert Schad (Schad), the then-owner and president of Husky Injection Molding Systems Ltd. (Husky), a producer of injection molding machines. Shortly thereafter, Schad

sold Husky to a private equity group and went on to form Athena Automation Ltd. (Athena), a competing manufacturer of injection molding machines, in 2008. The '536 patent issued in 2010. In 2012, Athena filed a petition for IPR at the PTAB challenging all 22 claims of the '536 patent, asserting the claims were anticipated by several pieces of prior art.

Husky filed a preliminary response to Athena's IPR petition arguing that Athena was barred from filing the petition due to assignor estoppel; it did not challenge Athena's claims of anticipation.

Briefly, the equitable doctrine of assignor estoppel is commonly understood to mean that "[w]ithout 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."² This rationale stems from the principle that "an assignor should not be permitted to sell something and later ... assert that what was sold is worthless, all to the detriment of the assignee" and recognition of the "implicit representation by the assignor that the patent rights that he is assigning (presumably for value) are not worthless."³

The PTAB rejected Husky's assignor estoppel argument and instituted the IPR proceeding.⁴ In its determination to institute the IPR, the PTAB noted that the language of 35 U.S.C. § 311(a), which states "a person who is not the owner of a patent may file with the [USPTO] a petition to institute an *inter partes* review of the patent," does not provide for an equitable doctrine exception such as assignor estoppel. In further support of its decision, the PTAB cited the statutory language that explicitly allows for the presentation of "[a]ll legal and equitable defenses in all cases" in patent

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disputes brought before the International Trade Commission while noting the absence of any such statutory language in connection with post-grant patent reviews under the America Invents Act.

The PTAB subsequently issued its final written IPR decision in 2014, finding that 18 of the '536 patent claims were anticipated by the identified prior art. Following a rehearing on an unrelated issue raised by Athena, each party timely appealed to the Federal Circuit. Husky's sole argument on appeal was whether the doctrine of assignor estoppel could bar a party from filing a petition for IPR, arguing that because Athena was in privity with Schad, Athena should be estopped from challenging the claims of the '536 patent.

Federal Circuit Opinion

On review, the Federal Circuit did not address the merits of Husky's argument regarding assignor estoppel, but instead held that it did not have jurisdiction to review the PTAB's decision to institute the IPR under the plain language of the controlling statutory provisions, the U.S. Supreme Court's decision in *Cuozzo Speed Technicians, LLC v. Lee* (*Cuozzo*)⁵ and the Federal Circuit's own precedent in *Versata Development Group, Inc. v. SAP America, Inc.*, (*Versata*).⁶ Beginning with the controlling statutory language, 35 U.S.C. § 314(d), which states that "[t]he determination by the Director [of the USPTO] whether to institute an *inter partes* review under this section shall be final and nonappealable," the court noted that the Supreme Court considered this provision in *Cuozzo*, holding "that § 314(d) unquestionably provides that the determination whether to institute *inter partes* review 'shall be final and nonappealable.'"⁷ Further, the court concluded that none of the three narrow exceptions identified in *Cuozzo*, which would allow for a review of the PTAB's decision to institute an IPR, were applicable. Husky's appeal did not implicate a constitutional question, depend on a statute closely related to Section 314(d), or present other questions of interpretation that reach well beyond Section 314(d).

Having found no jurisdictional authority to review the PTAB's decision to institute the IPR proceeding for the '536 patent under Section 314(d) or the Supreme Court's precedent, the court considered whether the assignor estoppel question related to the PTAB's ultimate authority to invalidate patents under the Federal Circuit's decision

in *Versata*. Concluding it did not, the court noted that any question concerning assignor estoppel only "implicates *who* may petition for review, and, as we have held, such a question falls outside of the narrow exceptions to the otherwise broad ban on our review of the decision whether to institute."⁸ Accordingly, the court concluded that it lacked jurisdiction to determine whether assignor estoppel precludes the PTAB from instituting an IPR.

Conclusions and Implications for Practice

Though the Federal Circuit's decision in *Husky* was reached on jurisdictional grounds, the practical effect of the decision is that acquirers and assignees of patents, whether in standalone patent acquisitions, corporate acquisition transactions, or ordinary course assignments from employees or contractors, may no longer be protected from an assignor challenging the validity of the assigned patents *via* an IPR following the completion of the transaction. While the doctrine of assignor estoppel still likely would apply in most patent challenges brought in a federal district court barring the existence of any particular unique facts, such as the assignor reserving the right to challenge the assigned patents in future litigation, the prospect of an assignor attempting to invalidate the assigned patents at the PTAB *via* an IPR may require the adoption of additional contractual safeguards in the acquisition process.

In order to minimize the potential risk of a situation similar to that addressed in *Husky*, practitioners should consider the following strategies in transactions involving the assignment or other transfer of patents:

- Including a covenant in the applicable acquisition and assignment documentation limiting the assignor's ability to initiate an IPR, a covered business method review, post-grant review or other similar administrative review seeking to invalidate any assigned patent after the closing of the transaction as well as limiting the assignor's ability to provide assistance to any third party seeking to initiate any such reviews in connection with any assigned patent.
- Ensuring that other patent assignment provisions in agreements used in the operation of

the business, including form agreements used to obtain assignments of patent rights from other parties in the course of providing services to the organization, such as employees and any third party contractors, are updated with language limiting such assigning party's ability to initiate any administrative reviews seeking to invalidate any patent assigned under such agreements and limiting such party's ability to provide assistance to any third party seeking to do so.

- In addition to the above, augmenting any further assurances provisions with language requiring the assignor to reasonably assist and cooperate in any future efforts undertaken by the assignee to effect the assignment of the patents or to respond to any challenge to the validity or enforceability of any of the assigned patents.
- Including in the applicable acquisition and assignment documentation an acknowledgment that the assignee is entitled to specific performance to prevent breaches of the above mentioned assignor covenants.
- If possible, deferring a portion of the consideration due to the assignor through scheduled royalty payments or certain time-based milestones that are dependent on the ongoing validity and enforceability of the assigned patents in order to incentivize the assignor to not challenge the patent or to not assist others that may wish to do so.
- Conducting a heightened level of due diligence on any strategically important patents that will be acquired or assigned in a given transaction, including potentially obtaining a patent validity and enforceability opinion for any such patents.

However, it is important to keep in mind that even if the above steps are taken, including

providing in the applicable acquisition and assignment documentation that the assignee is entitled to specific performance to prevent breaches of the assignor's covenants, the primary remedy for an acquirer or assignee confronted by an assignor that later chooses to challenge the validity of an assigned patent in an IPR or similar proceeding, such as in *Husky*, may only be a breach of contract claim as a court may not award injunctive relief to the assignee as a remedy. From the perspective of the acquirer or assignee, the damages from the breach of contract claim may not adequately offset the risk of an acquired patent being invalidated, particularly a strategically important patent, while the assignor that elects to challenge the patent after an assignment may have economic or strategic benefits tied to the invalidity proceeding that outweigh any breach of contract damages for which the assignor may be liable. Accordingly, it is important to keep this potential imbalance in risk and remedies in mind when negotiating the general terms and conditions of any patent acquisition agreement or assignment.

Notes

1. *Husky Injection Molding Sys. Ltd. v. Athena Automation Ltd.*, Nos. 2015-1726, 2015-1727, 2016 U.S. App. LEXIS 17373 (Fed. Cir. Sep. 23, 2016).
2. *Mentor Graphics Corp. v. Quickturn Design Sys.*, 150 F.3d 1374, 1378 (Fed. Cir. 1998).
3. *Diamond Sci. Co. v. Ambico, Inc.*, 848 F.2d 1220, 1224 (Fed. Cir. 1988).
4. *Athena Automation Ltd. v. Husky Injection Molding Sys. Ltd.*, No. 2013-00290 (P.T.A.B. Oct. 25, 2013) (Decision—Institution of *Inter Partes* Review).
5. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 (2016).
6. *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306 (Fed. Cir. 2015).
7. *Husky*, 2016 U.S. App. LEXIS 17373, at *11.
8. *Husky*, 2016 U.S. App. LEXIS 17373, at *24 (emphasis in original).