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Assignor Estoppel Does Not Apply to IPRs: The Federal Circuit Triggers a Rethink on Assignment Agreements in *Arista v. Cisco*

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In *Arista Networks, Inc. v. Cisco Systems, Inc*. 2017-1525, 2017-1577 (Nov. 9. 2018, Fed. Cir.) the Federal Circuit held that the doctrine of assignor estoppel did not apply to IPR proceedings, allowing inventors and assignors to challenge the validity of their own patents after transferring the rights to assignees. The facts in *Arista* are familiar to those in start-up settings where an inventor, who assigned a patent while an employee at one company, then goes on to work for or found a competitor. David Cheriton, an inventor on the patent-in-suit, had worked for Cisco at the time of the invention and assigned his entire rights to the patent to the company. Cheriton then left Cisco and was one of the founders of Arista, which later challenged the patent in an IPR proceeding.

Cisco raised the defense of assignor estoppel, which remains applicable in district court and ITC proceedings, and the doctrine barred Arista's validity challenge in a related ITC investigation on the same patent. *Id.* at 12. However, the Federal Circuit rejected the defense as inapplicable to IPRs.

For over a century the doctrine of assignor estoppel has prevented a party assigning a patent from then challenging the validity of the assigned patent. This doctrine, routinely applied in district courts and the ITC, was viewed as a rule of equity to prevent unfairness in circumstances in which the owner of a patent right sells that right, and then seeks to later deny the value of the very property from which they profited. As the Federal Circuit held in *Mentor Graphics v. Quickturn Design Systems*, "[d]ue to 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." 150 F. 3d 1374 (Fed. Cr. 1998).

Yet, in *Arista*, the Federal Circuit set aside considerations of such policy-based considerations, relying instead on the language of Section 311(a) of the America Invents Act which states that "a person who is not the owner of a patent may file with the Office a petitioner to institute an inter partes review of the patent." Rejecting Cisco's argument that "assignor estoppel is a well-established common-law doctrine that should be presumed to apply absent a statutory indication to the contrary," the Federal Circuit held the statutory intent was to allow anyone who was not an "owner" of a patent, even if that person happens to be the assignor of the patent, to challenge the validity of the patent in an IPR proceeding. *Arista*, at 21.

The implications of the decision are significant. The doctrine of assignor estoppel has thus far provided a safe harbor for commercial transactions where patents are routinely transferred from owner to another, and where employment agreements require employees to assign rights to inventions to employers, without additional guarantees that the assignor would not later seek to invalidate the patent. Arista now requires a multi-pronged approach for counsel seeking to protect a company's patent portfolio.

For transactional lawyers engaging in sale/acquisition of intellectual property rights, there should be some consideration of contractual recourse against the assignor if it were to now challenge the validity of the acquired patents in IPR proceedings going forward. Companies also need to consider including clauses in employment agreements precluding employees from challenging the validity of the patents they assign to their employers (or at least impose penalties should the employee choose to exercise their right to do so). Finally, and importantly, in-house counsel should examine their existing holdings and evaluate which commercially significant patents may be at risk of attack by assignors who may now be their competitors and would benefit from challenging the assigned patents.