

Patent Invalidation Risks for IP-Centered Transactions Post-AIA

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Abstract: In this article, we analyze the Intellectual Property transactional risks stemming from the America Invents Act, demonstrate the ways in which traditional Mergers and Acquisitions provisions are insufficient to manage this risk, and highlight the strategies practicing attorneys use to mitigate invalidity risk.

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I. Introduction

Intangible assets have constituted a fast-growing proportion of business' values, with some estimates suggesting they account for ninety percent or more. This is a dramatic increase from only fifty years ago when such assets contributed less than twenty percent.¹ Among the intangible asset class, intellectual property (IP) makes up a significant portion. This, together with more recent changes in the patent system, has altered the risk profile of corporate transactions involving IP. With the America Invents Act (AIA) of 2011,² patent proceedings following issuance were established, including inter partes review (IPR) and post-grant review (PGR). As such, patent validity challenges—once a costly and lengthy process—became less burdensome.³ AIA resulted in granted patents becoming more challengeable and thus less certain. Coinciding with the increasing proportional value of intangible assets, AIA has necessitated new IP risk and valuation methods in the context of transaction due diligence.

II. Quantifying Transactional Risk Post-AIA

As a third-party petition, IPR replaced inter partes reexamination (IPX), a mechanism by which a challenger could request that the United States Patent and Trademark Office (PTO) reexamine an issued patent. In 2011, about a decade after IPX's introduction in 1999, Congress found IPX to be ineffective due to length and

¹ Ocean Tomo, *Intangible Asset Market Value Study*, <https://oceantomo.com/intangible-asset-market-value-study/>, accessed Nov. 10, 2025.

² Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

³ Kevin J. Hickey & Christopher T. Zirpoli, *The Patent Trial and Appeal Board and Inter Partes Review*, Cong. Rsch. Serv., R48016 (2023), <https://www.congress.gov/crs-product/R48016>, accessed Nov. 10, 2025.

limited ability for third-party participation,⁴ eventually giving way to IPR. Unlike IPX, IPR provides a streamlined procedure for petitions.⁵ Couple this with the lower evidentiary burden it requires, and you have a much higher probability of success.⁶ This has resulted in a marked increase in validity challenges, and, as such, IPR has radically altered the risk profile of patent portfolios which are now subject to a higher probability of claim cancellation. This poses a significant challenge to M&A frameworks which now need to consider discounting IP valuations to account for invalidity risk.

IPR also presents a means for validity challenges that requires a lower standard of proof than that required in district court litigation. In district court litigation, “each claim of a patent shall be presumed valid... The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.”⁷ In *Microsoft v. i4i*, The Supreme Court held that “a defendant raising an invalidity defense bore ‘a heavy burden of persuasion,’ requiring proof of the defense by clear and convincing evidence.”⁸ Such factors make successful invalidity challenges far less likely than through IPR, where the “petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the

⁴ H.R. Rep. No. 112-98, at 45–48 (2011).

⁵ Alison J. Baldwin, *Inter Partes Review and Inter Partes Reexamination: More Than Just a Name Change*, McDonnell Boehnen Hulbert & Berghoff LLP, <https://www.mbhb.com/intelligence/snippets/inter-partes-review-and-inter-partes-reexamination-more-than-just-a-name-change/>, accessed Nov. 10, 2025.

⁶ Stephan T. Schreiner, *Perspectives on the PTAB’s 70% All Claims Invalidation Rate*, IPWatchdog (July 2, 2025), <https://ipwatchdog.com/2025/07/02/perspectives-ptabs-70-claims-invalidation-rate/>, accessed Nov. 10, 2025.

⁷ 35 U.S.C. § 282(a).

⁸ *Microsoft Corp. v. i4i Ltd. P’ship*, 564 U.S. 91, 102 (2011).

evidence.”⁹ When pursuing an invalidity challenge through IPR, a challenger only must prove that it is more likely that the patent claims are invalid rather than valid. AIA has thus put into place structures that introduced new sources of invalidity risk—ones which are far more likely to succeed than previously existing alternatives.

In determining the amount of risk posed by post-grant proceeding potential, due diligence becomes an increasingly arduous task. A buyer must consider the likelihood a patent will face post-grant proceeding and the merits of a challenge should such a proceeding arise. Because traditional due diligence primarily concerns past or pending infringement claims, attorneys, to better assess validity and enforcement, can include techniques likely to be employed by the Patent Trial and Appeal Board (PTAB) in IPR to develop a more complete understanding of a patent’s susceptibility to post-grant invalidity. These techniques can include those which would often be seen in a PTAB trial: invalidity challenges based on prior art and claim construction, the process of interpreting claim language to determine the scope of a patent. The incorporation of such practices into due diligence happenings gives an attorney a better grasp of a patent’s ability to withstand an IPR challenge.

Further, with post-grant proceedings being accessible as ever, due diligence must necessarily include competitor analysis to determine the propensity of or the incentive for a competitor to bring about invalidity challenges. Establishing motive to file an IPR can shed light on increased invalidity risk or lack thereof. An

⁹ 35 U.S.C. § 316(e).

acquiring company—especially a well-resourced one—can be seen by a competitor as an infringement litigation threat, thus prompting the competitor to file an IPR. Moreso, a competitor may pursue a post-grant proceeding following a transaction to devalue a company’s newly acquired market share or to disrupt the transaction itself. Motivation to file an IPR is thus a major factor of risk in any transaction involving IP. In properly evaluating this risk, due diligence must also consider whether a competitor has a winnable IPR case, as the statutory grounds for IPR and procedural restrictions—such as the one-year 35 U.S.C. § 315(b) time bar—can make some petitions nonviable even though any party may file an IPR petition under 35 U.S.C. § 311(a).

The cumulation of an expanded due diligence process can give a buyer a greater sense of invalidity risk. However, considering this risk within a given valuation methodology presents an additional layer of complexity. One common valuation methodology is the income approach, which utilizes financial tools and cash flow modeling to estimate future income streams from a given patent.¹⁰ While discounted cash flow models (DCF) can incorporate certain risk profiles concentrating on litigation or infringement likelihoods, they can fail to capture the totality of risk posed by other factors, including post-grant proceeding invalidity. Through proper due diligence, invalidity probability models can be used to discount future cash flows from a DCF, achieving a far more accurate value assessment for a corporate

¹⁰ CONSOR IP Experts, *IP Valuation: The Income Approach*, <https://consor.com/ip-valuation-the-income-approach>, accessed Nov. 11, 2025.

transaction. By incorporating the risk-adjusted DCF into the patent valuation, the buyer becomes far more protected from invalidity risk in a post-AIA transaction. This mechanism can succeed in accurately valuing the risk associated with invalidity potential, but it does not solve the problem of assigning risk in the context of a transaction. Thus, additional structures are required for deals involving high-value IP.

III. Insufficiency of Traditional M&A Mechanisms

M&A contracts include representations and warranties, which, in their standard form, fail to sufficiently share invalidity risk among involved parties in a corporate transaction, especially post-AIA and with the growing proportional value of IP. Typical representations seldom cover future assurances, such as that of future patent validity, and rather focus on the accuracy of facts as they exist at the time of a transaction.¹¹ Representations and warranties also often involve an indemnity cap accounting for only a minority proportion of a deal's value. These elements produce an evident imbalance between standard M&A provisions and IPR risk.

The scope of standard IP representations commonly assert ownership, non-infringement, lack of pending litigation, and sufficiency.¹² Importantly, standard warranties often exclude unqualified assurance of a patent's ability to

¹¹ Jacob Orosz, *M&A Reps & Warranties: A Complete Guide*, Morgan & Westfield, <https://morganandwestfield.com/knowledge/reps-and-warranties/>, accessed Nov. 11, 2025.

¹² Nina L. Flax, *Key Representations and Warranties in Tech M&A: Critical Safeguards for Deal Success*, Mayer Brown LLP, <https://www.mayerbrown.com/en/insights/publications/2025/10/key-representations-and-warranties-in-tech-m-and-a-critical-safeguards-for-deal-success>, accessed Nov. 11, 2025.

withstand IPR challenges. This places the entirety of the invalidity risk on the buyer, who, with high proportional value of IP assets, faces potential catastrophic loss following an IP transaction. While risk-adjusted valuations economically allocate some invalidity risk to the seller, it too fails to provide a legal safety net for the buyer in case of total loss. Since the scope of standard representations and warranties is fundamentally insufficient, special provisions are required for IP transactions following AIA.

Typical indemnity caps are likewise ill-suited for the risk posed by IPR. With median indemnity caps in M&A around 10% of the deal value,¹³ and intangible assets often accounting for upwards of 90% of a business's value, catastrophic loss from invalidity far exceeds the median indemnity cap. As such, standard indemnity caps are largely inadequate to cover potential patent invalidity. There is also an issue of the survival period of indemnity, which is typically intact for no longer than eighteen months in standard representations and warranties.¹⁴ However, with a much longer exposure to an IPR filing, the indemnity survival period does not provide recourse to the buyer for future invalidity. The buyer bears the full burden of the potential devaluation of the intangible asset, the exact result that both representations and warranties are designed to prevent.

¹³ David P. Creekman, *Indemnification Caps and Baskets in Private Company M&A Transactions: What's Market?*, Wyrick Robbins, <https://www.wyrick.com/news-insights/indemnification-caps-and-baskets-in-private-company-ma-transactions-whats-market>, accessed Nov. 11, 2025.

¹⁴ Candace Groth, *Indemnification in M&A Contracts Part III: Time Period for Indemnification*, Vela Wood, <https://velawood.com/indemnification-in-ma-contracts-part-iii-time-period-for-indemnification-aka-the-survival-periods/>, accessed Nov. 12, 2025.

Another buyer protection mechanism exists in representations and warranties insurance. Such a policy shifts transactional risk from the parties involved in the transaction to a non-involved third party. The issue of applying these terms to high-value IP transactions lies in the fact that this type of insurance typically covers breaches in deals rather than forward-looking risks such as IPR invalidity.

IV. Improved Risk-Sharing Methods

Shortcomings of standard representations and warranties have led to specialized provisions for IP-centered transactions. These reworked M&A structures are a necessary component of corporate transactions. However, these special representations and warranties can face significant resistance from sellers, undermining their efficacy. This pushback often sees sellers seeking no-recourse deals and rejecting overly broad patent warranties. In such cases, buyers may be forced to accept the full weight of the invalidity risk in a corporate transaction until improved standards for IP risk allocation become more commonplace.

Of the viable options for specialized provisions, earn-outs already have significant adoption in general M&A practices and should be applied to IP. Such provisions stipulate contingent payments on patents surviving a challenge period. This certainly benefits the buyer by protecting their acquired IP against invalidity risk, but it also serves to allow the seller to realize the full value of the IP by avoiding risk-adjusted valuations. Buyers may also seek higher indemnity caps with longer survival periods. These provisions can be specifically tailored to the

transacted IP to include patents deemed exceptionally essential to the transaction. This allocates some invalidity risk back to the seller without exposing the party to other general liabilities unrelated to crucial IP. These changes also necessitate altered escrow practices. To account for expensive earn-outs and high indemnity caps, escrows must be significantly larger than is standard. Longer term escrows are also necessary if earn-outs cover the enforceable term of the patent and if indemnity survival periods are extended.

While these practices seemingly offer a more distributed risk profile for a transaction, sellers often reject provisions that leave them exposed to invalidity risk long after a deal has concluded. Sellers often seek clean exits where, after closing, they are subject to almost zero liability.¹⁵ This is especially common for private equity firms who enter a transaction with a fixed exit timeline—lingering risk upsets their business model. Further, with many IPR challenges filed in response to infringement litigation, sellers often represent that their IP is not currently being infringed. However, broad non-infringement warranties are difficult to negotiate due to the complexity of the due diligence necessary to determine potential infringement.¹⁶

V. Conclusion

While improved M&A mechanisms provide solutions to post-AIA IP-centric

¹⁵ Frank S. Jones, *Private Company M&A – Rep & Warranty Insurance: A “Zero-Liability” Promised Land for Sellers?*, Whiteford Taylor Preston LLP, <https://www.whitefordlaw.com/news-events/private-company-ma-rep-warranty-insurance-a-zero-liability-promised-land-for-sellers>, accessed Nov. 13, 2025.

¹⁶ Flax, *supra* note 13.

transactions, their efficacy remains inhibited by seller pushback. Inconsistent approaches, along with inadequate risk-adjusted valuation practices, further contribute to unequal risk sharing and deal volatility. A comprehensive solution therefore necessarily lies in the adoption of standard practices rather than deal-by-deal negotiations. If overcoming inequitable risk allocation is truly an impossible feat, specialized IP insurance proves a potential remedy. While representations and warranties insurance is commonplace in M&A, invalidity protections are often excluded. The inclusion of invalidity protections would provide a clean exit for sellers and invalidity risk aversion for buyers but not without expensive premiums. The complex risk-adjusted valuation practices, insufficient for traditional M&A, would be far more crucial for IP underwriting. By providing both a clean exit for the seller and risk protection for the buyer, specialized IP insurance is an attractive solution for post-AIA transactions but is predicated on widespread adoption among attorneys and rigorous due diligence and valuation.