

## Real Parties and Privies in PTAB Trials

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### INTRODUCTION

The America Invents Act (AIA) requires Patent Trial and Appeal Board (PTAB) petitions to identify the real parties in interest. The meaning of real parties and privies in PTAB proceedings has raised substantial concerns.<sup>2</sup> This is because real party identifications in PTAB petitions, and real party and privy determinations by the PTAB and Courts, affect whether a petition will be considered, whether related litigation is automatically stayed, whether estoppel applies, and authority to act. This article sheds some light on these real parties and privies issues.

### STATUTORY AND REGULATORY PROVISIONS IMPLICATING REAL PARTIES AND PRIVIES

The following paragraphs identify the real parties and privies provisions applicable to Inter Partes Reviews (IPRs). However, almost identical provisions exist for Post Grant Reviews (PGRs) in statutory sections paralleling the statutory sections for IPRs.<sup>3</sup>

35 USC 311 (as amended)<sup>4</sup> provides for the filing of a petition for an IPR that may request the United States Patent and Trademark Office (PTO) "cancel as unpatentable 1 or more claims of a patent." 35 USC 312(a)(2) states that "A petition filed under section 311 may be considered only if ... (2) the petition identifies all real parties in interest." Accordingly, the PTAB cannot consider an IPR petition unless it names the real parties.<sup>5</sup>

Requirements relating to "real parties" also appear in statutory sections dealing with the timing of IPRs and civil actions. 35 USC 315(a)(1) prohibits institution of an IPR if "the petitioner or real party in interest filed a civil action challenging the validity of a claim of the patent" before filing the petition. 37 CFR 42.101(a) implements 315(a)(1) in the PTO. 35 USC 315(a)(2) automatically stays a "civil action challenging the validity of a claim of the patent" filed after the filing of an IPR petition for the patent, if the civil action is filed by "the petitioner or real party in interest" of the IPR petition.

Requirements relating to "real parties" and "privies" also appear in statutory sections dealing with the time bar (which is specific to IPRs) and estoppel provisions. 35 USC 315(b) prohibits institution of an IPR if the petition is filed "more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent."<sup>6</sup> 37 CFR 42.101(b) implements the one year bar within the PTO. 35 USC 315(e) provides that the petitioner, "or the real party in interest or privy of the petitioner," of "a claim in a patent that results in a final written decision under section 318(a)," may not "request or maintain a proceeding" in the PTO or assert invalidity of the claim in a civil action or in the ITC, on "any ground that the petitioner raised or reasonably could have raised during that inter partes review." 37 CFR 42.73(d)(1) and 42.101(c) implement this estoppel within the PTO.

Similar "real parties" and "privies" provisions exist in AIA section 18 for Covered Business Methods (CBMs).<sup>7</sup> There are no corresponding statutory real parties and privy requirements for Derivations (DERs). However, DER petitions, by rule, must identify the real parties.<sup>8</sup> Interference case law may govern estoppel in court resulting from judgments in DERs.<sup>9</sup> The patent owner, or applicant in case of a DER, must also identify the real party in interest. 37

CFR 42.8(a)(2).

## PTO GUIDANCE DURING THE RULE MAKING PROCESS

During the rulemaking process, several public comments raised real parties and privies concerns to which the PTO responded.<sup>10</sup> The PTO's responses tell us the following regarding procedure. First, a challenge to a real party certification "should be brought before or with the filing of the patent owner preliminary response."<sup>11</sup> Second, prior to filing the patent owner preliminary response, "the patent owner may seek authorization to take pertinent discovery" relating to the real party in interest certification.<sup>12</sup> However, the PTO also noted that the PTAB would consider authorizing motions for additional discovery in support of standing challenges, after institution.<sup>13</sup> These comments suggest that the PTAB will consider promptness of requests for additional discovery in support of standing challenges, as a factor whether to grant that additional discovery.

The PTO's response to comments requesting guidance on the definition of real parties and privies referred to the "Patent Trial Practice Guide" (Guide).<sup>14</sup> Section I.D.1 of the Guide discusses real parties and privies.<sup>15</sup>

Regarding both real parties and privies, the Guide notes that "many of the same considerations that apply in the context of "res judicata" will likely apply... "<sup>16</sup> and that "[r]elevant factors included a non petitioner party's "relationship with the petitioner; ... relationship to the petition itself, including the nature and/ or degree of involvement in the filing; and the nature of the entity filing the petition."<sup>17</sup> Regarding both real parties and privies, the PTO's response to comments noted that:<sup>18</sup>

The Office may consider: (1) Whether the non-party exercised, or could have exercised, control over a party's participation in a proceeding, and (2) the degree of that control, in determining whether a party may be recognized as a "real party-in-interest" or "privy." Furthermore, the Office may consider other relevant factors.

Regarding real parties, the Guide states that:

The typical common-law expression of the "real party-in-interest" (the party "who, according to the governing substantive law, is entitled to enforce the right") does not fit directly into the AIA trial context. See 6A Charles Alan Wright, Arthur R. Miller, Mary Kay Kane, & Richard L. Marcus, Federal Practice & Procedure Civil section 1543 (3d ed. 2011) (discussing Fed. R. Civ. P. 17). That notion reflects standing concepts, but no such requirement exists in the IPR or PGR context, although it exists in the CBM context. In an IPR or PGR proceeding, there is no "right" being enforced since any entity (other than the patent owner) may file an IPR or PGR petition. However, the spirit of that formulation as to IPR and PGR proceedings means that, at a general level, the "real party-in-interest" is the party that desires review of the patent. Thus, the "real party-in-interest" may be the petitioner itself, and/or it may be the party or parties at whose behest the petition has been filed.<sup>19</sup>

From the foregoing, the PTO identified the real parties in the petition determination to include the following factors: control over the proceeding; relationship to the petitioner; relationship to the petition; the degree of involvement in the filing of the petition; the nature of the entity filing the petition; and who it is that desires review of the patent.

Regarding privies, the Guide stated that:

The Office intends to evaluate what parties constitute “privies” in a manner consistent with the flexible and equitable considerations established under federal case law. Ultimately, that analysis seeks to determine whether the relationship between the purported “privy” and the relevant other party is sufficiently close such that both should be bound by the trial outcome and related estoppels. This approach is consistent with the legislative history of the AIA, which indicates that Congress included “privies” within the parties subject to the statutory estoppel provisions in an effort to capture “the doctrine’s practical and equitable nature,” in a manner akin to collateral estoppel. ... A common consideration is whether the non-party exercised or could have exercised control over a party’s participation in a proceeding. *See, e.g., id.* at 895; *see generally* Wright & Miller section 4451. The concept of control generally means that “it should be enough that the nonparty has the actual measure of control or opportunity to control that might reasonably be expected between two formal coparties.” Wright & Miller § 4451.<sup>20</sup>

From the foregoing, the PTO identified the privies to a petition determination to include the following factors: whether the non-party exercised or might reasonably be expected to have had the right to exercise control over a party’s participation in a proceeding; the non party’s relationship with the petitioner; the non party’s relationship to the petition itself, including the nature and/ or degree of involvement in the filing; and the nature of the entity filing the petition.

Moreover, the Guide gave the following fact pattern examples. First, “a party that funds and directs and controls an IPR or PGR petition or proceeding constitutes a ‘real party-in-interest,’ even if that party is not a ‘privy’ of the petitioner.”<sup>21</sup> Second, “if Trade Association X files an IPR petition, Party A does not become a ‘real party-in-interest’ or a ‘privy’ of the Association simply based on its membership in the Association.” Third, “if Party A is part of a Joint Defense Group with Party B in a patent infringement suit, and Party B files a PGR petition, Party A is not a ‘real party-in-interest’ or a ‘privy’ for the purposes of the PGR petition based solely on its participation in that Group.”

Perhaps the PTO’s most relevant comment was that it would “provide more guidance through its opinions and will publish relevant decisions promptly,” which brings us to the next section.

#### PTAB OPINIONS PROVIDING GUIDANCE ON REAL PARTIES AND PRIVIES

In Intellectual Ventures Management, LLC v. Xilinx, Inc., Notice 12, IPR2012-00018 (Patent 7,566,960)(PTAB 1/24/2013)(Opinion by APJ Medley, for a panel consisting of APJs

Medley, Easthom, and Arbes),<sup>22</sup> the Board rejected Xilinx's argument that the petitions failed to name the real parties. Xilinx relied upon a real party certification by Intellectual Ventures Management (herein after "IVM") in an unrelated district court proceeding. IVM's district court real party certification listed 63 legal entities, and those entities were not listed on IVM's IPR petitions. The Board concluded that Xilinx had failed to show relevance. The Board noted that the requirements for real party certifications in district court proceeding did correspond to the real party factors specified in the Guide, and the subject matter and issues in the district court proceeding differed from those in the IPRs.

Macauto U.S.A. v. BOS GMBH & KG, IPR2012-00004 is a case in which the patent owner, BOS, failed to make an argument supported by its factual assertions. Specifically, BOS failed to argue that the petition violated 312(a)(2). However, BOS's factual assertions would have supported that argument. The Board decided the argument that BOS did make, against BOS, and on grounds that did not require the Board to determine if BOS's factual assertions relevant to 312(a)(2), were true. Hence, the Board never reached 312(a)(2).

BOS presented three arguments in its preliminary response, but the only one relevant here is BOS's 315(b) one year bar argument. That argument is relevant, because in support of that argument, and only in support of that argument, BOS alleged that Macauto Taiwan was a real party in interest.<sup>23</sup> BOS failed to argue that, because Macauto Taiwan was a real party in interest, the petition violated 312(a)(2). For the reasons I previously reviewed, BOS lost on its one year bar argument.<sup>24</sup> Regarding the real party in interest issue, the Board stated in its decision instituting the IPR, that "[i]n view of our conclusion that for two separate, independent reasons there was no effective service date of the prior complaint on Petitioner, we do not reach the issues relating to real party in interest or privity raised by Patent Owner."<sup>25</sup> If BOS had argued that 312(a)(2) was violated, at least that would have required the Board to "reach the issue[] relating to real party in interest." While Macauto U.S.A. v. BOS GMBH & KG does not give us guidance on what constitutes a real party or privity, it does indicate that making the right argument is critical!

I find it curious that the Board failed sua sponte to consider the 312(a)(2) issue because 312(a)(2) presents a jurisdictional requirement. Courts normally review their jurisdiction.<sup>26</sup>

In Synopsys, Inc. v. Mentor Graphics Corporation, IPR2012-00042, Notice 16 (PTAB 2/22/2013)(Decision by APJ Bisk, for a panel consisting of APJs Medley, Blankenship, and Bisk), the Board concluded that there was no 315(b) one year bar to an IPR, and instituted the IPR. The patent owner, Mentor, had asserted in its preliminary response that it had served a complaint for infringement of the patent on EVE-USA, Inc., in 2006, and that action barred the IPR because EVE "is" (present tense) a privity of Synopsis, the petitioner. Mentor based that conclusion on evidence showing EVE to currently be a wholly owned subsidiary of Synopsis, while conceding that EVE and Synopsis were separate companies in 2006. In response, the Board concluded that "any privity created by successive interests in EVE's products, does not apply here." Its reasoning was that the only property rights at issue in the IPR were the patent's rights, and therefore ownership rights in "potentially infringing products are irrelevant to the issues raised in the Petition." In support of that decision, the Board cited Int'l Nutrition Co. v. Horphag Research, Ltd., 220 F.3d 1325, 1329 (Fed. Cir. 2000), for the proposition that "transfer of a particular piece of property does not have the effect of limiting rights of the transferee that are unrelated to the transferred property."

I note that Int'l Nutrition did not deal with IP asserted against a first party followed by the first party being purchased by a second party, as is the case with EVE and Synopsis. Instead, Int'l Nutrition dealt with a dispute over US trademark rights. The property transferred in Int'l Nutrition on which the privity inquiry focused, were French trademarks, which were never the target of a suit based upon the US trademark. Hence, Int'l Nutrition is inapposite.

Mentor did not argue in its preliminary response that EVE was a real party. However it requested rehearing on the decision instituting the IPR, and in that request it referred to evidence recently produced in the related court litigation indicating EVE may be a real party. The Board's response, of course, was to ignore the new evidence and related assertion that EVE may be a real party, noting that it had not misapprehended or overlooked these items because they were not in the preliminary response.

Like me, Mentor finds the Board's reliance upon Int'l Nutrition questionable, and has questioned it by filing an APA action.<sup>27</sup> However, I note that Mentor does have a procedural mechanism to obtain review of the additional information in the IPR; it can request the right to move to have the supplemental evidence and real party argument considered, and it can raise those issues in its patent owner response.

In Chimei Innolux Corporation v. Semiconductor Energy Laboratory Co., Ltd., IPR2013-00038, Semiconductor Energy Laboratory Co., Ltd. (herein after "SEL")'s preliminary response argued that there existed a 312(a)(2) real party violation, -- with which the Board disagreed in its decision instituting the IPR.<sup>28</sup> As the Board put it, "SEL focuses on statements to the district court in which the codefendants refer to 'their' Petition which 'Defendants have moved expeditiously to prepare and file'" in support of SEL's argument that the codefendants not named in the IPR petition were also real parties to the petition. The Board reasoned that the joint statements to the Court were not conclusive of a jointly prepared petition because the joint statements "may have been a short-hand explanation or joint litigation approach." The Board also reasoned that "the co-defendants collectively refer[ing] to the instant Petition, need not indicate control." The Board also reasoned that "SEL has not shown, ... that the co-defendants... coauthored the Petition or exerted control over its contents, or will exert any control over the remaining portions of this proceeding." The Board stated that it was "likely that no ... stay would have been granted without all co-defendants agreeing to the estoppel provision" and that the co-defendants' "agree[ment] to be bound by the decision of this inter partes review insofar as the co-pending litigation is concerned does not dictate that the co-defendants are real parties-in-interest in this proceeding." However, its unclear if the co-defendants joint agreement was a factor in the Boards' real parties analysis.

Note that the Board determined all inferences regarding the 312(a)(2) issue adverse to the patent owner, SEL. Given the specificity of the allegations in SEL's preliminary response, it is reasonable to assume that SEL could have obtained focused additional discovery that would have resolved the facts (as to who worked on the petition; who had input and control into the IPR proceeding; who paid for the IPR proceeding; and facts indicating why all co-defendants agreed to be bound by the IPR proceeding) prior to filing its preliminary response. SEL has indicated, post institution, via its list of anticipated motions, that it intends to seek the right to additional discovery relating to the 312(a)(2) issue. However, SEL might have obtained a denial of the petition if it had obtained additional discovery, pre institution. Moreover, I see no reason why pre institution additional discovery would have precluded post institution additional discovery on

the 312(a)(2) issue. Accordingly, SEL had no tactical reason to avoid additional discovery, pre institution.

Note that the PTO's guidance during the rulemaking process regarding real parties and privies focused on the petitioner, not the patent owner. Motorola Mobility LLC v. Michael Arnouse, IPR2013-00010, presents a case in which the real party determination impacted rights of attorneys representing the patent owner and raises associated ethical issues. In summary, counsel for the patent owner filed a motion to withdraw, the Board denied the motion,<sup>29</sup> but the Board granted a renewed motion.<sup>30</sup>

According to the Board, the patentee's counsel had alleged in their motion to withdraw that "Mr. Michael Arnouse, ... [had] discharged them from further representation in connection with this inter partes review" and therefore counsel's withdrawal was mandatory. But the Board was not persuaded that Mr. Arnouse had "the right to participate in the proceedings related to the '484 patent before the Office." Instead, the Board found that a corporate entity named Arnouse Digital Devices (herein after "ADD"), "and not Mr. Arnouse[,] is the real party-in-interest." That, despite the facts that: Mr. Arnouse is the named inventor in the patent; there is no recorded assignment for the patent; Mr. Arnouse was named the real party in interest in the patent owner mandatory filings in the IPR; and Mr. Arnouse signed counsel's power of attorney in the IPR, in his personal capacity.

Why did the Board reach this conclusion? It reached this conclusion because evidence in support of the petition from the related District Court litigation indicated that ADD was the effective patentee and therefore the patent's real party in interest.<sup>31</sup> The Board noted that the evidence indicated that "Mr. Arnouse has provided an exclusive license of 'all substantial rights' in the '484 patent to ... ADD;" that "by virtue of its averments of standing in the District Court, ADD has represented that it is the 'effective patentee' under Sicom;" and that "Mr. Arnouse does not contend that he is a 'required party' under Rule 19(a) in the district court litigation." The Board explained its approach as follows:

the Board will apply traditional common-law principles in determining the real party-in-interest ... [for] uniformity of approach between the Federal Courts and the Office ... to ensure that conventional principles of estoppel and preclusion would apply in both places... ."

The evidence showed that, under "conventional principles," ADD was the real party in interest of the patent, not Mr. Arnouse.

The Board granted counsel's renewed motion to withdraw for a variety of reasons, but specifically rejected counsel's "argument that because Mr. Arnouse is the 'sole owner' of the '484 patent", Mr. Arnouse was entitled to act in the IPR. Citing the reasons for real party designations, the Board noted its "concern[] ... that the correct real party-in-interest was not identified" by the patent owner and cautioned counsel in Board proceedings "to look beyond the chain of title in designating a real party-in-interest."

## CONCLUSIONS

There is no specific test to determine real parties and privies. The Board is considering a variety of factors as noted in their Guide and the foregoing decisions. However, there are some general take-aways. First, the Board draws all inferences in challenges by the patent owner to the

petitioner's standing against the patent owner. This means that discovery relating to standing issues required to moot an inference is advisable. Second, patent owners should contemplate 312(a)(2) challenges whenever arguing a 315(b) violation, and expressly argue each basis for a standing challenge. Third, the Board will apply the same legal concepts (consistency with federal case law) to both petitioners and patent owners when analyzing real party and privy issues.

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1. I can be reached via telephone at 703-415-0012 or via [my firm's web site](#).
  2. See Lavanue et al, "Assuaging Estoppel Concerns: Defining 'Real Parties in Interest' After the AIA," Intellectual Property Today, April 2013.
  3. 35 USC 311-319 for IPRs and 35 USC 321-329 for PGRs. These provisions contain no differences in law, other than the one year bar for IPRs, insofar as real parties and privies are concerned.
  4. All references to 35 USC 111-119 herein are to those sections as amended by the AIA.
  5. Cf. In re Guan, Inter Partes Reexamination Proceeding, Control No. 95/001,045, Decision Vacating Filing Date (Aug. 25, 2008)(Vacating filing date because the request failed to identify the real party in interest to the request).
  6. See Neifeld, "PTAB Guidance on the Statutory Time Bar to an Inter Partes Review," Intellectual Property Today, May 2013.
  7. AIA Section 18 provides for CBM proceedings. Unlike IPRs and PGRs, AIA Section 18(a)(1)(b) requires that the petitioner, the petitioner's "real party in interest[, ] or privy" to have "been sued for infringement of the patent or ... charged with infringement under that patent" for the petitioner to have standing to file a CBM petition. Unlike IPRs and PGRs, AIA Section 18(a)(1)(D) does extend estoppel to privies. Instead, it specifies estoppel for the petitioner "or the petitioner's real party in interest." Unlike IPRs and PGRs, AIA Section 18(a)(1)(D) also limits estoppel to grounds actually raised during the CBM proceeding.
  8. See 37 CFR 42.8(a).
  9. Coakwell v. United States, 155 Ct. Cl. 193, 292 F.2d 918, 198 USPQ 130 (1961)("Where the losing party fails to effectively review the Patent Office action in one of the courts and it becomes final, it is equally binding on the parties. It has the same finality as the judgment of either of the courts would have had if one of them had reviewed it."); *but see* Abbott GMBH & CO., KG v. Centocor Ortho Biotech, 870 F. Supp. 2d 206, 223 (D. Mass 2012)("a BPAI decision is not a 'final judgment' for purposes of issue preclusion during the pendency of a Section 146 action appealing that decision").
  10. See "Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents; Final Rule," 77 FR 48680 (2012), comments 3-11, 67, and 106.

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11. *Id.*, at 48695 in response to comment 8.

12. *Id.*, at 48695, and also in response to comment 8.

13. *Id.*, at 48695, and also in response to comment 8. When deciding the petition, the PTAB renders its claim construction and specifies grounds meeting the applicable burden of proof. A patentee desiring to avoid that record would want to make its standing challenges, and therefore obtain any additional discovery relating to standing, promptly, to support its preliminary response.

14. *Id.*, at 48694-95, in response to comment 3-7. See "Office Patent Trial Practice Guide; Rule," 77 FR 48756 (2012).

15. *Id.*, at 48759.

16. *Id.*, at 48759.

17. *Id.*, at 48760.

18. *Id.*, at 48695, in response to comment 5.

19. *Id.*, at 48759.

20. *Id.*, at 48759.

21. *Id.*, at 48760.

22. The Notice's case caption includes also IPR2012-00019 (Patent 8,062,968); IPR2012-00020 (Patent 8,058,897) and IPR2012-00023 (Patent 7,994,609), and the same decision is entered into each of these IPRs.

23. Macauto U.S.A. v. BOS GMBH & KG, paper 17, IPR2012-00004 (PTAB 12/26/2012). See for example page 1 ("Macauto Taiwan is a real party in interest or a privy of the petitioner, Macauto USA, because Macauto Taiwan wholly owns and controls the petitioner."); section IV.A ("The Petition Is Barred By 35 U.S.C. § 315(b)"), subsection 2 ("Macauto Taiwan Is a Real Party in Interest").

24. See Neifeld, "PTAB Guidance on the Statutory Time Bar to an Inter Partes Review," Intellectual Property Today, May 2013.

25. Macauto U.S.A. v. BOS GMBH & KG, Notice 18, at 16, IPR2012-00004 (PTAB 1/24/2013)(Opinion by APJ Giannetti, for a panel consisting of APJs Blankenship, Giannetti, and McNamara).

26. *Cf. US Valves, Inc. v. Dray*, 212 F. 3d 1368, 1372 (Fed. Cir. 2000); and Ex parte Lemoine, 46 USPQ2d 1420 (BPAI 1994)(precedential decision of an expanded panel including APJ

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Schafer, APJ Meister, SAPJ McKelvey; CAPJ Stoner concurring on the jurisdictional issue; APJ McQuade dissenting on the jurisdictional issue).

27. See Civil Action No. 1:13CV518 (E.D. Va.), filed 4/29/2013. Mentor's memorandum in support of its motion for summary judgement argues that "Synopsys, EVE's parent corporation and successor in interest, is a privy of EVE." I thank counsel for Mentor, Christopher McKee, for providing me a copy of the memorandum.

28. Chimei Innolux Corporation v. Semiconductor Energy Laboratory Co., Ltd., Paper 9, IPR2013-00038 (PTAB 3/21/2013)(Opinion by APJ Easthom, for a panel consisting of APJs Medley, Easthom, and Turner). Additional IPRs present overlapping facts, and the same parties. See paper 14, in IPR2013-00028 (PTAB 3/21/2013); and paper 14, in IPR2013-00060 (PTAB 5/3/2013).

29. Motorola Mobility LLC v. Michael Arnouse, paper 27, IPR2013-00010 (PTAB 4/5/2013)(Opinion by Lead APJ Tierney, for a panel consisting of the Lead APJ Tierney and APJs Chang and Bisk).

30. Motorola Mobility LLC v. Michael Arnouse, paper 30, IPR2013-00010 (PTAB 4/19/2013)(Opinion by APJ Giannetti, for a panel consisting of Lead APJ Tierney and APJs Chang, Giannetti, and Bisk).

31. Sicom Sys. Ltd. v. Agilent Techs., Inc., 427 F.3d 971, 976 (Fed. Cir. 2005)("an exclusive license may be treated like an assignment for purposes of creating standing if it conveys to the licensee all substantial rights.").