When Is a Parent Company Deemed to Be a Real Party-In-Interest or Privy to a Subsidiary Company, for Purposes of an Inter Partes Review?

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INTRODUCTION

In Zoll Lifecor Corporation v. Philips Electronics North America Corp., PR2013-00609, paper 15 (PTAB 3/20/2014) (Decision by APJ Clements, for a panel consisting of APJs Medley, Quinn, and Clements), provides some answers to the question posed by the title.

In this decision, the PTAB concluded the petition was barred by 35 USC 315(b) and 312(a). 35 USC 315(b) bars an IPR petition when a real party-in-interest or a privy of the petitioner has been "served with a complaint" alleging infringement of the subject patent more than one year prior to when the IPR petition is filed. 35 USC 312(a) bars a petition for an IPR when all real parties-in-interest are not named in the petition. In this case, the petition was filed by a subsidiary of a parent company. The parent company had been sued for patent infringement on the patent that was the subject of the IPR petition. That suit had been filed more than year in the past. The parent company was not identified as a real party-in-interest in the petition.

THE DECISION

In its decision denying the petition, the PTAB stated that:

> After considering the evidence presented by Petitioner and Patent Owner we are persuaded by the evidence presented that ZOLL Medical is a real party-in-interest for purposes of 35 U.S.C. § 315(b) because it "'has the actual measure of control or opportunity to control that might reasonably be expected between two formal coparties.'" 77 Fed. Reg. at 48,759 (quoting Wright & Miller § 4451). We are persuaded that the evidence presented by Patent Owner shows sufficiently that ZOLL Medical has exercised consistent control over Petitioner's business since 2006. The relationship is one that has been very close with aligned interests and sufficient opportunities for ZOLL Medical to control all aspects of Petitioner's business, including controlling this inter partes review.
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> Petitioner acknowledges that ZOLL Medical controls 100% of Petitioner and authorizes its budget and plans. Br. 4. Based on the record before us, such control and authorization of budget and plans has been ongoing since ZOLL Medical acquired Petitioner in 2006, and, importantly, since at least 2010 when ZOLL Medical was served a complaint alleging infringement of the '978 patent. Although Petitioner asserts that it is paying the costs and supervising the conduct of the IPRs, and that Petitioner's management is held responsible for its performance, Petitioner also acknowledges that its budgets and plans are approved by ZOLL Medical. Id. What Petitioner does not state affirmatively also is telling - that neither Mr. Grossman, who by admission provides legal counsel for both

ZOLL Medical and Petitioner, nor any other legal counsel for ZOLL Medical, provided input into the preparation of the IPRs filed by Petitioner.

> The circumstantial evidence shows unified actions by Petitioner and ZOLL Medical in the “multi-state patent war” (Ex. 2016, 2) - of which the instant IPR is a part - with Patent Owner. While common counsel alone is not dispositive of control, we are persuaded that Petitioner’s actions have blurred sufficiently the lines of corporate separation with its parent, ZOLL Medical, such that ZOLL Medical has had control, or could have controlled Petitioner, in all aspects of its business. For example, the absence of Petitioner’s management team, and presence of ZOLL Medical’s management team, at the court-ordered mediation in the Pennsylvania Action suggests an involved and controlling parent corporation representing the unified interests of itself and Petitioner. Ex. 2017, 6-7, 9; compare Ex. 2018 with Ex. 2019.

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> We also are persuaded by Patent Owner’s arguments that ZOLL Medical is a privy of Petitioner under 35 U.S.C. § 315(b). *** Notwithstanding Petitioner’s assertions of corporate formalities, the facts show ZOLL Medical making public financial disclosures concerning its ownership and participation in all aspects of Petitioner’s operation, from sales to regulatory approval. See, e.g., Exs. 2008, 2010. For example, Petitioner concedes that ZOLL Medical must approve all of Petitioner’s plans and budget, and that both companies receive legal counsel from the same legal representative, Mr. Grossman. Indeed, regardless of whether ZOLL Medical keeps a tight rein over Petitioner, the evidence presented is that ZOLL Medical and Petitioner’s interests are aligned - they have operated continuously with a common corporate consciousness. See Copperweld, 467 U.S. at 771-72. The relationship between ZOLL Medical and Petitioner is, and has been, so close that Petitioner and ZOLL Medical should enjoy the benefits, as well as the burden, of being in privity for purposes of inter partes review proceedings.

FACTORS CONSIDERED BY THE PTAB IN ITS ANALYSIS

The PTAB's analysis was very fact dependent. It considered the facts that: the parent had for years controlled the budget and plans of its subsidiary (the petitioner); the subsidiary's management was held responsible for the performance of the IPR; the petitioner failed to assert that legal counsel for the petitioner provided input into the eight IPR petitions filed by the subsidiary on eight patents, six of which were asserted in both the Pennsylvania action against the subsidiary and the Massachussetts action against the parent; circumstantial evidence showed unified action by the parent and subsidiary in patent litigations on the patents subject to the IPR petitions. This circumstantial evidence included the presence of the parent's management team and absence of the subsidiary's management team at court-ordered mediation, and admissions that both the parent and the subsidiary were involved in preparing for trial of the parent's Massachusetts action.

ANALYSIS

This decision shows the fact dependent nature of the PTAB's real party-in-interest and privy analysis. One practice tip gleaned from this decision is to put in evidence of both which attorneys provided input and guidance on preparation of the IPR petitions, who drafted the petitions, and under whose instructions those persons worked. In that regard, parent and subsidiary companies desiring to avoid both being real parties-in-interest or privies for purposes of an IPR petition should take care not to collaborate or control work on IPR petitions prepared by either of them. On the flip side, patent owners should always inquire into both the real party-in-interest issue and the privies issue, if inquiring into either.

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