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PATENTS

The authors describe the PTAB's various rulings surrounding the requirement to identify real parties in interest in post-grant opposition proceedings.

The Curious Case of RPIs & NPEs in IPRs



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The America Invents Act (AIA) created *inter partes* review (IPR) proceedings to reduce “duplication of efforts and costs” between district court litigation and post-issuance proceedings at the U.S. Patent and Trademark Office (office).¹ Duplication can be avoided because the parallel district court litigation can be stayed or avoided completely; indeed, IPRs are often filed by parties that are not defendants in district court litigation. And, the statute provides a framework for filing any IPR early in any litigation, because a complaint asserting patent infringement triggers a one-year statutory bar for filing an IPR petition. Additionally, the office generally completes IPRs within one year from in-

¹ See Office Patent Trial Practice Guide, 77 Fed. Reg. 48,721 (Aug. 14, 2012).

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stitution of trial, allowing for speedy resolution of patent challenges. To help ensure that IPRs are used as the AIA intended, e.g., to enforce the one-year statutory bar and apply the statute's estoppel provisions, an IPR petitioner must identify all real parties in interest (RPI) associated with the IPR petition.

Here, we first address the rationale behind the requirement that IPR petitioners identify all RPI. Then, we discuss developments relating to real parties in interest, a focal issue subject to controversy during IPR proceedings at the Patent Trial and Appeal Board (PTAB). In particular, we discuss issues that may arise when the petitioner is a non-practicing entity (NPE). Finally, we address proposed patent reform legislation and other measures aimed at curbing what some view as unintended uses of IPRs.

I. Rationale Behind RPI Requirement

A. The Procedure

At present, to challenge the patentability of a patent issued by the office, any entity that is *not* the patent owner can file an IPR or PGR petition, whether or not that Petitioner has been sued for patent infringement in underlying district court litigation. However, the Board will not institute an IPR or PGR proceeding if a Petitioner or its RPI has already filed a civil action asserting invalidity of the patent.²

To protect patent owners from multiple challenges by the same Petitioner and to ensure all proper parties are subject to the estoppel provisions of IPRs, all RPI are required to be named on IPR petitions.³ Similarly, the patent owner must name all RPI. Identification of RPI by the Petitioner is necessary because “[a]n [IPR] may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the Petitioner, [RPI], or privy of the Petitioner is served with a

² 35 U.S.C. §§ 315(a), 325(a)(1).

³ 35 U.S.C. § 312(a)(2) and 37 C.F.R. § 42.8(b)(1).

complaint alleging infringement of the patent.”⁴ Therefore, the RPI issue frequently arises in cases where a patent owner alleges that at the time the IPR petition was filed, an entity that the patent owner alleges is an RPI was outside the one year statutory window for filing the petition, and any amendment to the mandatory notice would be futile.⁵ But if a new filing date for a corrected petition does not implicate the one year bar, it will not substantively alter the Petitioner’s position, besides delaying the proceeding. However, if the new filing date comes after the one year bar, the petition is denied. In these types of cases, the patent owner has sought to have the trial denied.

Challenges to a Petitioner’s identification of RPI typically should be made in a short amount of time. If the patentee hopes to block institution of the IPR on RPI grounds, it typically will submit its challenge before or with the filing of its preliminary response (POPR), due approximately three months after the petition is filed. The Petitioner’s identification of RPI is “generally accept[ed] by the Board “as a *rebuttable presumption* that benefits the petitioner.”⁶ Where a “patent owner provides sufficient rebuttal evidence that reasonably brings into question the accuracy of a petitioner’s identification of [RPI], the *burden remains with the petitioner* to establish that it has complied with the statutory requirement to identify all [RPI].”⁷ In practice, however, a patentee often has little more than suspicion that a third party is controlling the IPR when a petition is filed, and discovery on such issues can be difficult to obtain.

B. Who Is the RPI?

Determining who constitutes an RPI can be challenging, since the AIA does not define RPI. The PTO has stated that such determination is a “*highly fact-dependent question*,” handled by the Board on a case-by-case basis.⁸ There are multiple factors relevant to an RPI or privity inquiry, including the “existence of a financially controlling interest in the Petitioner”; 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” (i.e., the amount of control and/or funding of the proceeding); and “the nature of the entity filing the petition.”⁹

In the context of IPRs, the PTAB Trial Practice Guide explains that a common consideration in determining an RPI is “whether the non-party exercised, or could have exercised, *control over a party’s participation in a proceeding*,” or whether a third party has a *desire to review the patent*.¹⁰ Further, “[t]he concept of control generally means that ‘it should be enough that the non-party has the actual measure of control, or opportunity to control, that might reasonably be expected between two formal co-parties.’”¹¹ Therefore, the inquiry fo-

cuses on third party’s *behavior* more than its *status* relative to the Petitioner.¹²

“Control” has been successfully established in the following scenarios:

- Lack of maintaining well-defined corporate boundaries between parent and subsidiary entities (IPR2013-00606, -609);
- Timing of funding/amount of payments made for IPR expenses by a third party (IPR2014-00041);
- Unilaterally making Petitioner’s strategic decisions (e.g., choice of post-grant proceeding; grounds of unpatentability; patent claims to attack; timing of filing petition; and listing RPI);
- Choosing legal theories (e.g., 35 U.S.C. §§ 102, 103), including art and printed publications; and
- Deciding further review (i.e., motion for reconsideration or a Federal Circuit appeal).

The following circumstances have been found *not* to establish the requisite degree of “control,” when solely considered:

- Merger or acquisition after service of complaint that triggers the bar date (IPR2012-0042, IPR2013-00028);
- Inadvertent omission of corporate successor based on name change (IPR2014-01203, -01204, -01206, -01208);
- Parent-subsidiary relationship alone (IPR2015-00546, -547; IPR2015-00548, -551; IPR2014-01497);
- Common membership of directors on boards of both parent and subsidiary (IPR2013-00215; IPR2014-01201);
- Same attorneys represent Petitioner in IPR as Petitioner’s parent or co-defendant in related patent litigation (IPR2013-0026; IPR2014-00171);
- Mere contribution of general membership fees or input regarding IPR selection (IPR2014-01252); or
- Nexus to Petitioner via mutual membership such as a joint defense group, indemnification agreement, trade association or being named as co-defendant (IPR2014-00687; IPR2014-00737; IPR 2013-00038).

The Board has explained that to determine whether a non-party is an RPI, the whole evidence must show that the non-party “possesse[s] effective control over the Petitioner,” or has “an opportunity to control” the IPR.¹³

¹² See *Paramount Home Entertainment Inc. v. Nissim Corporation*, IPR2014-00961 (Dec. 29, 2014) (holding that neither the third party’s status as parent corporation, nor its status as co-party in the underlying litigation, qualified it as a *de facto* RPI; instead evidence showing the parent’s VP controlled the patent dispute was dispositive).

¹³ *Broadcom Corp. v. Ericsson*, IPR2013-00601, Papers 23 & 66 (Jan. 24, 2014 & Mar. 6, 2015) (no privity nor unnamed RPI issue despite minor participation in a trial by non-party manufacturer of accused device, and indemnity payments to named defendants); see also *First Data Corp. v. Cardsoft LLC*, IPR2014-00715, Paper 9 (Oct. 17, 2014) (time-barred since VeriFone was unnamed RPI that funded IPR, discussed prior

⁴ 35 U.S.C. § 315(b).

⁵ See 35 U.S.C. § 315(b).

⁶ *Zerto, Inc. v. EMC Corp.*, IPR2014-01254 (Mar. 3, 2015) (emphasis added).

⁷ *Id.* (emphasis added).

⁸ 77 Fed. Reg. 48759 (citing *Taylor v. Sturgell*, 553 U.S. 880, 895 (2008)) (emphases added).

⁹ 77 Fed. Reg. at 48759-60.

¹⁰ 77 Fed. Reg. 48759 (emphases added).

¹¹ *Id.*

C. Parties Cannot Get Two Bites at the Apple

Identifying all RPI is significant because of the estoppel provisions of IPRs. A final written decision by the PTAB estops the Petitioner, its RPI and any privies from asserting in district court, International Trade Commission or other PTAB proceedings that a claim is unpatentable on any ground the Petitioner “raised or reasonably could have raised” during the IPR proceeding. It remains to be seen whether a court will extend the estoppel provisions to an entity that is not named as an RPI on an IPR petition.

The case of *RPX Corp. v. VirnetX Inc.* was the first instance where the Board defined an RPI within the meaning of 35 U.S.C. § 315(b).¹⁴ The Board found that Apple Inc. was the RPI with respect to RPX’s seven petitions for VirnetX patents, because, among other factors, Apple: (i) suggested that RPX challenge four of VirnetX’s patents; and (ii) compensated RPX \$500,000 to file IPRs over “patents of questionable quality.”¹⁵ The Board denied RPX’s petitions as time-barred under 35 U.S.C. § 315(b), because Apple was served with a patent infringement complaint in 2010, more than one year before RPX filed the petitions. And, this was not the first time Apple had attempted IPRs against the same patents.¹⁶

In particular, the Board noted that “RPX does not dispute that Apple and RPX discussed ‘VirnetX and the filing of IPRs with RPX,’ or that RPX and Apple shared counsel and Apple’s expert.”¹⁷ The Board supported its RPI determination in concluding that, through Apple’s arrangement with RPX, Apple impliedly authorized RPX to represent Apple.¹⁸ Apple, the Board found, had significant interests in the RPX petitions, including avoiding a prior damages award for its infringement of the VirnetX Patents. By contrast, RPX was a “nominal plaintiff” with “no substantial interest” in the IPRs.¹⁹

Although certain non-defendant entities, such as Unified Patents and RPX, employ different strategies, they share the common trait of indirectly serving their private members and the public by trying to proactively deter NPE activity.

D. IPR + RPI Issue + Statutory Bar = R.I.P. IPR

It can be disastrous for an IPR Petitioner if its mandatory notice is deficient and if updating the notice and obtaining a new filing date for the petition would take the Petitioner and its RPI outside the one year litigation statutory time-bar.²⁰

art, and indemnified petitioner and chose same counsel in litigation as itself in prior litigation).

¹⁴ IPR2014-00171, No. 49 (June 5, 2014).

¹⁵ *Id.* at 5.

¹⁶ *Id.* at 6-7; see, e.g., *Apple Inc. v. VirnetX Inc.*, IPR2013-00348, -00349, -00354, Papers 14 and 20, Decision Not to Institute (Dec. 13, 2013) at 5 (time-bar on Apple’s IPRs).

¹⁷ *Id.* at 7.

¹⁸ *Id.* at 8.

¹⁹ *Id.* at 9; but cf. *Unified Patents Inc. v. Dragon Intellectual Property, LLC*, IPR2014-01252, Paper 37, Institution Decision (Feb. 12, 2015) at 10-13, 23-24.

²⁰ 35 U.S.C. § 315(b); see *Galderma S.A. v. Allergan Industrie, SAS*, IPR2014-01422, Paper 14 (Mar. 5, 2015) at 3-4, 12-13 (dismissing Galderma’s petition for failing to identify RPI, Nestlé, and ruling any amendment would be untimely since Allergan filed an amended patent infringement complaint more than one year before the PTAB’s decision); see also *GEA Process Engineering, Inc., v. Steuben Foods, Inc.*, IPR2014-00041,

In *GEA Process v. Steuben*, the PTAB held the requirement to name RPI remains ongoing during the pendency of the IPR, and that requiring such challenges to only be made pre-institution would be prejudicial to patent owners due to the unavailability of necessary discovery prior to institution.²¹ Thus, patent owners are not just limited to raising RPI identification challenges during the pre-institution period. Moreover, Petitioners who may need to correct their petitions to identify additional RPI would be best served to do so prior to the expiration of the one-year period.²²

Though the Board has commented that RPI challenges can be raised at any time, it has also noted that its rules are meant to secure “the just, speedy, and inexpensive resolution of every proceeding,” hindered if patent owners can “seek termination of an [IPR] at [a] late stage of the proceeding, based primarily on information it already had in its possession prior to institution.”²³ However, the Board’s decisions may seem to reflect a reluctance to terminate on timeliness grounds, since its focus has been on an assessment of the evidence and deficiency of the mandatory notices.²⁴ In *Sony Computer Entertainment America LLC, v. Game Controller Technology LLC*, the PTAB was faced with a situation where a patent owner waited until a few weeks before an IPR proceeding was scheduled to end to challenge the identification of RPI, despite having all relevant information before the IPR proceeding had started.²⁵ The delay caused the challenge to be brought after the one-year bar, depriving Petitioner of an opportunity to re-file its petition correcting any problems with the identification of all RPI. In arguing that the patent owner’s RPI challenge should be barred as untimely, the Petitioner noted that allowing a patent owner to use such delay tactics would incentivize patent owners to delay RPI challenges until after the one-year bar, or to reserve such challenge post-institution, in hope of gaining a favorable final written decision, while holding an RPI challenge “trump card” to prevent an ultimate adverse decision.²⁶ The Board agreed and found the patent owner’s RPI challenge was untimely.²⁷

One takeaway from these decisions is that RPI challenges by patent owners should be brought as early as reasonably possible to ensure adequate consideration by the Board.²⁸

Paper 140 (Dec. 23, 2014) (determining petitions failed to identify all RPI, Board refused correction of RPI identification as futile, and subsequently terminated IPRs, since “even if corrected, the earliest filing date that could be accorded to the Petitions would not fall within the one-year period specified by the 35 U.S.C. § 315(b) statutory-bar.”)

²¹ *GEA Process, supra*, IPR2014-00041, Paper 140 (Dec. 23, 2014).

²² See also *First Quality Baby Products LLC v. Kimberly-Clark Worldwide Inc.*, IPR2014-01021, -01023, -01024, Paper Nos. 42, 41 (respectively), Decisions Denying Motion to Vacate IPR Institution (July 22, 2015) at 4, 6-7 (RPI challenge can be raised at any time during AIA proceedings, but Board can deny the same based on insufficient showing that petitions failed to name all RPI).

²³ *Id.* at 6.

²⁴ *Id.* at 6-7.

²⁵ IPR2013-00634, Denying Motion to Terminate, Paper 31 (Apr. 2, 2015).

²⁶ *Id.* at 4 (citing Opp. at 2).

²⁷ *Id.*

²⁸ See *First Quality Baby Products LLC v. Kimberly-Clark Worldwide Inc.*, *supra* at 6-7 (motions to vacate were untimely

If the alleged RPI itself is found to have been served with an infringement complaint more than one year before the Petitioner filed its IPR petition, the PTAB has denied institution. In *Zoll Lifecor Corp. v. Philips Elec. North America Corp.*, the PTAB determined that non-party Zoll Medical, the 100 percent owner of IPR Petitioner Zoll Lifecor, was both an RPI and a privy of the Petitioner and consequently denied Zoll Lifecor's petition, because Zoll Medical was served with an infringement complaint over the same patent more than one year before Zoll Lifecor filed its petition.²⁹ It was influential that Zoll Medical's control of Zoll Lifecor included the Petitioner being a wholly-owned subsidiary,³⁰ the subsidiary's product was advertised on the parent's website,³¹ the parent authorized the subsidiary's budget,³² and the parent's management team attended a court-ordered mediation on the subsidiary's behalf.³³ Arguably, this is an unusual example where a subsidiary is strongly controlled by its parent.

II. NPE + (IPR– RPI) = R.I.P. IPR?

A. Fishing for Bass

RPI issues are in the spotlight in part because of IPR petitions filed by so-called “reverse NPEs,” which some would say include hedge fund manager Kyle Bass' Coalition for Affordable Drugs LLC's Funds (the Bass Funds). His group has challenged 22 patents owned by publicly-traded pharmaceutical companies that cover drug compositions used to treat a variety of diseases.³⁴ Some stakeholders have argued that the Bass Funds have engaged in abuse of process under 37 C.F.R. § 42.12(a)(6), due to their alleged ulterior purpose to short-sell stocks in patent-owning brand companies. But the AIA does not require that an IPR petitioner be a defendant in a patent suit, so many non-defendants, including NPEs, can challenge patents despite having no justiciable case or controversy involving the patent.

Thus far, the PTAB has issued two decisions on the Bass Fund IPR petitions.³⁵ The time has not yet elapsed for the PTAB to issue decisions on institution of the remaining Bass Funds' IPR petitions, leaving RPI or abuse of process challenges open to patentees.

The Bass Funds justify their position, at least in part, by asserting that short selling is positive for the economy because it corrects overpricing, that their purpose is legitimate and competitive as they seek to lower

because patent owner was long aware of facts yet failed to raise issue in POPR or prior filings, and did not request additional discovery; however, Board denied motion on grounds that it failed to show deficient RPI listing).

²⁹ IPR2013-00606, Paper 13, Decision Not to Institute (Mar. 20, 2014) at 1, 13-15.

³⁰ *Id.* at 13.

³¹ *Id.* at 5.

³² *Id.* at 11.

³³ *Id.* at 12.

³⁴ See IPR2015-00720, -00817, -00988, -00990, -01018, -01076, -01086, -01092, -01093, -01096, -01102, -01103, -01136, -01169, -01241, -01344, -01680, -01718, -01723, -01776, -01780, -01785, -01792, -01797, -01799, and -01800. Same patents are challenged in more than one petition.

³⁵ See *Coalition for Affordable Drugs v. Acorda Therapeutics Inc.*, IPR2015-00720, -00817, No. 15 and 12, respectively (Aug. 24, 2015) (in both instances, the PTAB concluded that the Bass Funds had not established that two poster presentations constituted prior art).

drug prices and provide consumer access to generic products, and by arguing that the PTAB lacks the authority at the pre-institution stage to consider such abuse of process claims.³⁶ However, some may question whether this is really a goal of Bass' IPRs, since in multiple cases, the Bass Funds have not challenged every patent that cover the target company's drug.

B. Fixing the NPE-IPR Conundrum

1. Discovery into RPI

Brand pharma company patent owners have sought to challenge institution of IPRs filed by reverse NPEs on RPI grounds. For example, Acorda in its POPR argued that Bass failed to disclose all investor-RPI in his funds.³⁷ And, Acorda argued “[t]he undisclosed investors that provided substantial funding for the Petition are the parties that stand to gain or lose, and, therefore, are RPIs.”³⁸ Since Acorda raised threshold questions in its POPR, the PTAB will likely resolve these issues during its impending institution decision.³⁹ But various petitions filed by the Bass Funds include extensive lists of RPI.

A patent owner hesitant to raise RPI arguments in its POPR can ask the Board for authorization to file a motion for additional discovery even before an institution decision. However, complicating the matter is the PTAB's reluctance to grant discovery solely to identify RPI. In IPRs, the Board determines whether additional discovery is in the “interests of justice.”⁴⁰ To grant a request for additional discovery, the Board generally requires evidence beyond mere speculation suggesting a non-party's influence in the IPR.⁴¹ Moreover, the longer the patent owner waits to request discovery, the less likely the Board may be to grant it, so patent owners should pursue such motions as early as possible.

Some brand pharma patent owners attacked by the Bass Funds have resorted to such preliminary fact investigation. For instance, on July 2, 2015, the Board partially granted NPS Pharmaceuticals Inc.'s motion for additional discovery into the RPI issue against the Bass Funds.⁴² NPS had filed a motion for additional discovery to “determine all of the [RPI].”⁴³ Specifically, NPS stated that Bass's IPRs are filed “on behalf of numerous

³⁶ See, e.g., *Coalition for Affordable Drugs V LLC v. Biogen International GmbH*, IPR2015-01086, -01136, No. 11 Opposition (July 3, 2015).

³⁷ *Coalition for Affordable Drugs v. Acorda Therapeutics Inc.*, IPR2015-00720, No. 10 at 8-9 (May. 26, 2015).

³⁸ *Id.* at 9.

³⁹ See also *Coalition for Affordable Drugs VI, LLC v. Celgene Corp.*, IPR2015-01092, -01096, -01102 and -01103, No. 12, POPR at 57-59 (July 28, 2015) (requesting denial, arguing that Bass Fund is merely a “proxy” for omitted RPI such as hedge funds, beneficial owners, partners, managers, trustees and directors).

⁴⁰ *Garmin Int'l, Inc. v. Cuozzo Speed Techs., LLC*, IPR2012-00001, Paper No. 26 at 5 (Mar. 5, 2013).

⁴¹ See *Zerto, Inc. v. EMC Corp.*, IPR2014-01254, Paper 15 (Nov. 25, 2014) (granting request for discovery of a non-party's organizational structure when the non-party's website and public statements held itself out as a single entity with the Petitioner, implying the non-party had control over the Petitioner).

⁴² See *Coalition for Affordable Drugs II LLC v. NPS Pharma., Inc.*, IPR2015-00990, -01093, Papers 13 & 14, Order at 7 (July 2, 2015).

⁴³ *Id.*, IPR2015-00990, No. 9 Motion (June 3, 2015).

for foregoing an IPR unless the Petitioner or RPI has been sued for infringement of the patent at issue.⁶² It remains to be seen whether both Houses will adopt these proposals.

III. Conclusion

The PTAB has not yet issued any precedential RPI decisions, and each case arguably is fact-dependent. But certainly, the requirement to name all RPI has become a focal point of many IPR petitions, particularly those filed by NPEs. Though decisions on institution are final and non-appealable, there likely nonetheless will be many Federal Circuit appeals from instituted IPR trials that seek to appellate review of RPI issues.

⁶² See http://judiciary.house.gov/_cache/files/57d3eba8-347d-439b-adb8-b384210312eb/goodla-028-xml---managers-substitute---june-9-2015.pdf

Pending congressional intervention, interim measures exist for both the PTAB and patent owners to address the NPE-IPR conundrum. These include pre- or post-AIA trial mechanisms, such as motions for additional discovery and sanctions, raising RPI or abuse of process arguments in Patent Owner's Responses, or pursuing civil adversarial measures.⁶³ The PTAB's decision to authorize Celgene's motion for sanctions, for example, may also signal the PTO's willingness to police IPRs without the need for further legislation.⁶⁴

⁶³ See, e.g., *Allergan, Inc. v. Ferrum Ferro Capital, LLC*, *supra* n. 22,; see also *Chinook Licensing DE LLC v. Rozmed LLC*, No. 14-cv-00598, Dkt. No. 30, Jan. 9, 2015 Tr. at 43-44.

⁶⁴ See *Coalition for Affordable Drugs VI, LLC. v. Celgene Corp.*, *supra*.