

Filed on behalf of: RPX Corporation

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UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

RPX CORPORATION,
Petitioner,

v.

VIRNETX, INC. AND SCIENCE APPLICATION
INTERNATIONAL CORPORATION,
Patent Owner

Case IPR2014-00177
Patent 7,418,504

**PETITIONER'S RESPONSE TO THE BOARD'S MARCH 17, 2014 ORDER
(Regarding Real Party in Interest)**

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Petitioner RPX Corp. is the only real party in interest in these *inter partes* reviews. Under the framework of *Taylor v. Sturgell*, 553 U.S. 880 (2008), RPX has no “pre-existing ‘substantive legal relationship[.]’” such as that of licensor, assignee, or successor, *id.* at 894, for any patent at issue; and RPX is expressly not a “designated representative” or “agent,” *id.* at 895, of Apple Inc. or any other relevant entity. Accordingly, RPX has the right to petition in its own name.

Patent Owner VirnetX, Inc. fails to fit RPX within any of *Taylor*’s categories. VirnetX effectively concedes that it cannot prove Apple had control over RPX’s decision to file the present IPR petitions or RPX’s conduct in litigating them. Instead, VirnetX relies on factually overstated and legally deficient allegations that Apple partially funded RPX and gave it access to Apple’s counsel. Under settled law, those allegations do not establish real-party-in-interest status. The Board should grant the RPX petitions and institute the requested IPRs.

I. Factual Background

RPX was founded as a Delaware corporation in July 2008 and issued shares to the public in May 2011. At the end of 2013, RPX had more than 160 customers for its patent services. RPX’s services include obtaining patent rights for its customers, facilitating settlement of active litigation, gathering and analyzing market intelligence and data, providing insurance against patent litigation risks, and other services to reduce patent risk to customers and to help rationalize the market

for patent licenses. Apple's contract for RPX's services is in the record as Exhibits 2046 (License Agreement dated Dec. 11, 2008) and 1083 (First Addendum to the Membership and License Agreement dated Oct. 22, 2013). Those documents are the entire agreement between RPX and Apple. *See* Ex. 2046, § 9.11 ("Entire Agreement"); Ex. 1083, § 3 ("No Other Amendment").

II. RPX Is the Only Real Party in Interest in Its Inter Partes Reviews

RPX filed its IPR petitions in its own name under 35 U.S.C. § 311(a), which permits "a person who is not the owner of a patent [to] file with the Office a petition to institute an inter partes review of the patent." RPX's independent business reasons for seeking IPR include the effect of a successful IPR on the overall market for patents, especially low-quality patents; reducing the risk of assertion of VirnetX's patents against other companies (including not only Apple but RPX's other customers, of which there are now more than 160); avoiding the potential impact of such assertions on RPX's insurance product; demonstrating to future prospective supporters that RPX can effectively use IPR as a means of improving patent quality; and enhancing RPX's reputation in the industry. RPX is not its customers' successor, assignee, agent, or representative. RPX controls its own conduct before this Board; its customers do not. While RPX, like all successful businesses, is motivated to engage in activities that are beneficial to RPX and its customers, that is not sufficient to make RPX's customers real parties

in interest.

In an Order dated March 17, 2014 (“Board’s Order”), the Board directed the parties to address whether Apple may be a real party in interest under the second or fifth exceptions identified in *Taylor* to the general rule against nonparty preclusion. RPX agrees that *Taylor* provides the governing framework. *Taylor* reaffirmed that a nonparty to a prior suit is not precluded from contesting claims and issues settled in that suit because it “has not had a ‘full and fair opportunity to litigate’ th[ose] claims and issues.” 553 U.S. at 892. *Taylor* further explained that courts recognize only limited exceptions to that general rule because, “[i]n this area of the law, . . . ‘crisp rules with sharp corners’ are preferable to a round-about doctrine of opaque standards.” *Id.* at 901 (citation omitted).

1. RPX and Apple Do Not Have a “Substantive Legal Relationship” That Qualifies Under *Taylor*’s Second Exception

Taylor’s second exception precludes a nonparty from litigating an issue where there is a pre-existing “‘substantive legal relationship[.]’” between the nonparty and a party bound to the prior judgment. 553 U.S. at 894 (quoting David L. Shapiro, *Civil Procedure: Preclusion in Civil Actions* 78 (2001)). Relationships that may cause preclusion under this exception include “preceding and succeeding owners of property, bailee and bailor, and assignee and assignor.” *Id.* (citing Restatement (Second) of Judgments §§ 43-44, 52, 55 (1980)). Exceptions for these relationships “originated ‘as much from the needs of property law as from the

values of preclusion by judgment.’” *Id.* (quoting 18A Charles Alan Wright et al., *Federal Practice and Procedure* § 4448, at 329 (2d ed. 2002) (“Wright & Miller”)); *cf. Litchfield v. Crane*, 123 U.S. 549, 551 (1887) (“[T]he term ‘privity’ denotes mutual or successive relationship to the same rights of property.”). RPX is not a preceding or succeeding owner, a bailee, a bailor, an assignee, or an assignor with respect to any relevant Apple property right.

The Board’s Order refers to three additional specific relationships: the relationship between “trade association” and its members; a licensor-licensee relationship; and an attorney-client relationship (*i.e.*, RPX acting as Apple’s “alleged law firm”). Order at 2. None of those relationships are present here.

First, RPX is not a trade association; and, even if it were, the Board has recognized that a trade association’s members are generally not real parties in interest to suits bought by the association. *See, e.g.*, Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,760 (Aug. 14, 2012). VirnetX relies (at 4-5) on a case in which a trade association had asserted “standing to sue [based] on [a] claim to represent its members as the real parties in interest.” *General Foods Corp. v. Massachusetts Dep’t of Pub. Health*, 648 F.2d 784, 787 (1st Cir. 1981). RPX has not claimed standing as a representative of its customers; rather, it has asserted independent standing under § 311(a).

Second, RPX is not a licensor in any relevant way. RPX has no property

interest in the patents at issue and cannot license them to Apple or anyone else.

Third, RPX is not Apple’s “law firm.” RPX is a publicly traded corporation; it is not an attorney and does not hold itself out as one. Its contract with Apple reserves the decision whether to file any IPR to “RPX’s sole discretion,” and further contemplates that RPX might pursue RPX’s goal of promoting patent quality through nonlegal means such as “[g]athering and analyzing data relating to [the] costs” of “patent assertions by non-practicing entities” and “[e]ducating the general public . . . about inefficiencies in the current patent system.” Ex. 1083, § 1(a). Even if RPX chose not to seek *any* IPR, Apple would be entitled to no refund. *Id.* § 2. No attorney could accept a case on such a basis. VirnetX quotes (at 4) marketing materials calling RPX “an extension of a client’s in-house legal team,” but the quote is taken out of context. The cited RPX materials further explain that the RPX services would help in-house counsel “better inform [their] long-term IP strategy,” not that RPX would serve as any particular client’s legal representative in litigation. Ex. 2006.

2. RPX Is Not an Agent or Representative of Apple for Purposes of Taylor’s Fifth Exception

Taylor’s fifth exception prevents “[a] party [from] us[ing] a representative or agent to relitigate an adverse judgment.” 553 U.S. at 900. The *Taylor* Court warned that “courts should be cautious about finding preclusion” based on agency; such preclusion “is appropriate only if the putative agent’s conduct of the suit is

subject to the control of the party who is bound by the prior adjudication.” *Id.* at 906. As VirnetX barely attempts to dispute, there is no such control here.

i.

The Addendum that Apple signed to join RPX’s Innovation Promotion Fund contains no language creating an agency relationship; it reaffirms that the terms of the original agreement (that there is no agency) remain in full force. *See* Ex. 1083, § 3. It further provides that

RPX will have complete control over any and all activities undertaken . . . , including complete control over the selection, initiation, termination, and funding of the activities and the manner and method in which the activities are undertaken, the hiring of outside counsel or consultants, and all strategic decisions in connection with any petitions or proceedings before the USPTO or otherwise.

Id. § 1(a);

. No other agreement exists; the written agreement expressly states that it is the entire agreement. Ex. 1083, § 3. Following *Taylor*’s rejection of a broader concept of “virtual representation” and its instruction to apply “crisp rules with sharp corners,” 553 U.S. at 901 (citation omitted) – and its

rejection of attempts to impose preclusion based on a “mere whiff of ‘tactical maneuvering,’” *id.* at 906 – the parties’ clear intention should be sufficient.

ii. Beyond the plain language of the Agreement and Addendum, there is no evidence that Apple has controlled RPX’s conduct with respect to the present petitions. VirnetX argues (at 8, 10) that Apple “discuss[ed] VirnetX and filing of IPRs with RPX”; that Apple paid RPX to join the Innovation Promotion Fund; and that RPX had “access” to counsel and to an expert used by Apple. Even if true, this unsupported argument does not establish control of RPX by Apple.

A payment intended to fund the expenses of litigation does not give rise to nonparty preclusion. In *Rumford Chemical Works v. Hygienic Chemical Co. of New Jersey*, 215 U.S. 156 (1909), the Supreme Court considered a case in which a defendant had “contributed to the expenses” of a patent infringement case brought against another company. *Id.* at 160. The Court assumed that the defendant “would have been glad to see the . . . patent declared void, and w[as] willing to pay something to that end.” *Id.* But the defendant did not “ha[ve] the right to intermeddle in any way in the conduct of the [other] case,” and so was not bound. *Id.*; see also *Litchfield*, 123 U.S. at 551 (no preclusion where nonparty had “no right to make a defense[,] . . . control the proceedings, [or] appeal”).

More recent cases have also refused to find nonparty preclusion based on evidence that “a nonparty retained the attorney who represented a party to the

earlier action”; “assisted in financing the earlier action”; “procured witnesses or evidence”; or “furnished his attorney’s assistance.” *Gonzalez v. Banco Cent. Corp.*, 27 F.3d 751, 758-9 (1st Cir. 1994) (collecting cases). In *Taylor*, “Taylor [himself] was represented by the lawyer who represented Herrick in the earlier litigation; and Herrick . . . gave Taylor documents that Herrick had obtained . . . during discovery.” 553 U.S. at 889. Yet those facts were not enough for preclusion; and VirnetX cannot even show as much here, because RPX’s designated counsel in this proceeding – who have each affirmed RPX’s “sole discretion” and “control” over this proceeding (Pet. 3-4; Ex. 2001 at 63:15-21) – have never represented Apple in any matter.

Preclusion by agency requires the ability to control the legal theories and proofs advanced. *See United States v. Bhatia*, 545 F.3d 757, 760-61 (9th Cir. 2008) (no preclusion based on “sharing of witness interviews”); *Virginia Hosp. Ass’n v. Baliles*, 830 F.2d 1308, 1313 (4th Cir. 1987) (no preclusion based on sharing of evidence, participation in a deposition, and attending conferences); Restatement (Second) of Judgments § 39 cmt. c (1982). This Board’s decisions are in accord. *See, e.g., Unified Patents, Inc. v. Clouding IP, LLC*, IPR2013-00586, Paper No. 9 at 5-6 (Mar. 21, 2014) (no real-party-in-interest status without evidence of “control” or “funding” the particular proceeding); *In re Arviv Reexamination Proceeding*, Control No. 95/001,526, Decision Dismissing § 1.182

and § 1.183 Petitions at 5 (Apr. 18, 2011) (no “participation in a request for reexamination” despite aid with “a search for” and “review of possibly useful prior art,” “preparation of an invalidity defense,” and “financial support”). And, in contrast, the Board found sufficient control to exist in *Zoll Lifecor Corp. v. Philips Elecs. N.A. Corp.*, IPR2013-00609, Paper 15 at 11, 14 (Mar. 20, 2014) (finding that the petitioner was a wholly owned subsidiary of a parent barred under § 315(b); that the parent had “100%” control, including the petitioner’s “budgets and plans”; and that the petitioner and the parent shared “a common corporate consciousness.”). No such relationships exist between Apple and RPX. VirnetX has not met the standard set forth in these cases for establishing control.

iii. VirnetX argues (at 5-7) that control is not necessary under *Taylor*’s fifth exception as applied to a party’s “representative” rather than an “agent.” But *Taylor* specifically referred to a party’s “*designated* representative.” 553 U.S. at 895 (emphasis added). The authorities cited in *Taylor* show that the Court meant a “representative [that has] been *appointed by a valid procedure*,” 18A Wright & Miller § 4454, at 434 (emphasis added), such as a procedure established by federal statute, *see Chicago, R.I. & P. Ry. Co. v. Schendel*, 270 U.S. 611, 617-18 (1926) (applying the Federal Employers’ Liability Act). *Id.* Here, RPX was never designated as Apple’s representative through any procedure of any kind.

The cases VirnetX cites on this point (at 5-6) did not involve representative

status at all. Both *Aevoe Corp. v. AE Tech Co.*, 727 F.3d 1375 (Fed. Cir. 2013), and *In re Cyclobenzaprine Hydrochloride Extended-Release Capsule Patent Litigation*, 504 F. App'x 900 (Fed. Cir. 2013), involved a nonparty “‘in active concert’” with an enjoined defendant to violate a court order. *Aevoe*, 727 F.3d at 1384 (quoting Fed. R. Civ. P. 65(d)(2)(C)); *Cyclobenzaprine*, 504 F. App'x at 906 (same). That is not the standard for nonparty preclusion under *Taylor*.

iv. VirnetX also relies (at 10) on *In re Guan Inter Partes Reexamination Proceeding*, Control No. 95/001,045, Decision Vacating Filing Date (Aug. 25, 2008), but that case is easily distinguishable. The Board's decision in *Guan* was based on the petitioner's statement on its website that the patent owner would “never know who or how many are behind the ‘hit’” on the patent in dispute and invited its customers to “[p]ick . . . patents” for that petitioner to challenge. *Id.* at 1, 2. Here, by contrast, RPX's agreement with Apple (which was filed at the outset with RPX's petitions) gives Apple no right to demand that RPX file specific petitions (or any petitions), to direct RPX's selection process, or to control the content or conduct of any petition that RPX chooses to file.

VirnetX has now been allowed discovery to test its theory that Apple is a real party in interest, including access to the entire contract between RPX and Apple. VirnetX has not met its burden to satisfy any of the recognized exceptions to *Taylor*'s rule. RPX's petitions should be permitted to proceed on the merits.

Respectfully submitted,

March 28, 2014

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the paper entitled
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Restatement (Second) of Judgments § 39 (1982)

Restatement of the Law - Judgments

Database updated October 2013

Restatement (Second) of Judgments

Chapter 4. Parties and Other Persons Affected by Judgments

Topic 1. Parties and Persons Represented by Parties

§ 39 Person Who Controls Participation

Comment:

Reporter's Note

Case Citations - by Jurisdiction

A person who is not a party to an action but who controls or substantially participates in the control of the presentation on behalf of a party is bound by the determination of issues decided as though he were a party.

Comment:

a. Rationale. A person who assumes control of litigation on behalf of another has the opportunity to present proofs and argument on the issues litigated. Given this opportunity, he has had his day in court and should be concluded by the result. Such an assumption of control is often motivated by a direct interest the controlling party has in the litigation because its outcome will affect his rights or obligations to the person on behalf of whom he participates or against whom the litigation is conducted. It is not necessary, however, that the controlling party have a proprietary or financial interest in the outcome of the litigation. Although the existence of such an interest is circumstantial evidence that control has been assumed, its absence does not prevent a finding of control on the basis of other circumstances. The motive of the person assuming control may be that he, or someone else whose interests he wishes to protect, is situated similarly to the party to the action and he is in effect making the litigation a test case of the issues with which he is concerned. The fact of his assumption of control of the litigation is itself indicative that his interest is substantially equivalent to that of the party on whose behalf he appears.

Illustrations:

Illustrations:

1. A and B manufacture comparable machines of which A's is the subject of a patent. A sues C, a machinery retailer who distributes B's machines, claiming C infringes A's patent. B assumes defense of the action. A judgment in favor of A is preclusive on B as to the issues determined in the action.
2. A brings an action against C for damages to A's property allegedly resulting from C's negligence. B, an insurance company that insured C against liability, assumes defense of the action. A judgment in favor of A is preclusive on B as to the issues determined in the action.

It should be observed that in some situations a party in a position to control litigation involving someone else may be precluded as to issues determined therein not only by exercising such control but by reason of the fact that he had opportunity to do so. Thus, an indemnitor given notice of an action against his indemnitee and empowered to assume its defense ordinarily may not thereafter dispute the indemnitee's liability to the injured party. See § 57.

b. Scope. The rule stated in the Section applies to issue preclusion, and not to claim preclusion, because the person controlling the litigation, as a non-party, is by definition asserting or defending a claim other than one he himself may have. Application of the rule, moreover, is subject to the exceptions in Section 28 that govern issue preclusion as it applies to a party. Thus, the person controlling litigation is not bound in a subsequent action if the issue is one of law and the claim in the second action is substantially unrelated, § 28(2)(a), or the reappearance of the issue was not sufficiently foreseeable, § 28(5)(b), or if the opportunity or incentive to litigate in the initial action was inadequate, § 28(5)(c). A person assuming control over presentation of one issue is not bound by the determination of other issues.

Illustrations:

Illustrations:

3. A, a recording artist, sues B, a record distributor, to enjoin B from distributing unauthorized recordings of A's performances. A's action is controlled by C, who by contract with A has the exclusive right to record A's productions. A judgment awarding an injunction to A does not preclude an action by C against B for C's lost profits resulting from B's sales of the recordings.

4. A brings an action against B, a corporation, in which one of the issues is the value of a certain object of property. C, the principal stockholder of B, controls the defense of the action. The determination of the value of the property is conclusive upon C in a subsequent action between him and A.

c. Elements of control. To have control of litigation requires that a person have effective choice as to the legal theories and proofs to be advanced in behalf of the party to the action. He must also have control over the opportunity to obtain review. Compare § 28(1). Whether his involvement in the action is extensive enough to constitute control is a question of fact, to be resolved with reference to these criteria. It is sufficient that the choices were in the hands of counsel responsible to the controlling person; moreover, the requisite opportunity may exist even when it is shared with other persons. It is not sufficient, however, that the person merely contributed funds or advice in support of the party, supplied counsel to the party, or appeared as *amicus curiae*.

d. Effect on opposite party. The rule stated in § 29 is that a person who has had adequate opportunity to litigate an issue against one party is ordinarily precluded from relitigating it with someone else. The party opposing one whose litigation is controlled by another therefore may be bound by determinations adverse to him in subsequent litigation with the controlling party. Whether such determinations are conclusive on him depends on application of the rule stated in § 29 governing the circumstances in which a non-party may invoke the benefits of issue preclusion. The fact that the first action was controlled by another person, if known to the opposing party, is relevant in determining whether the latter's opportunity and incentive to litigate the issue were sufficiently great to give the determination conclusive effect against him in a second action involving that other person. Such notice is not itself decisive of the preclusion issue, however. A party who assumes control of an action should not be able, merely by giving notice of his participation, to force the opposing party to treat the action as having decisive effects in subsequent litigation that it would not otherwise have.

Illustrations:

Illustrations:

5. A purchases the stock of C corporation pursuant to an agreement negotiated by B, the majority stockholder in C. A sues C to rescind the sale, contending it was induced by fraudulent representations by B. B assumes the defense of C; judgment is for C. In A's subsequent action against B for damages for deceit, whether A is precluded as to the issues determined in the first suit is resolved according to § 29. Other things being equal, the fact that A knew of B's participation in the first suit is a factor in favor of preclusion.

6. A, an author, is a member of B, an association for the mutual protection of owners of literary property. B assumes control of an action by A against C to recover damages on the ground that C's use of excerpts exceeds fair use of A's work. In a subsequent action by B to enjoin C from similarly excerpting the works of other members of the association, whether C is precluded as to the issue of fair use is resolved according to § 29. Other things being equal, the fact that C knew of B's participation in the first suit is a factor in favor of preclusion.

e. Effect on person having representative capacity. A person who undertakes to control litigation on behalf of another is affected only in the capacity in which he does so. Thus, a trustee who takes control of litigation involving another in order to protect the trust is not on that account bound in a subsequent action in which he appears in his individual capacity (see § 36). So also a person controlling an action in his individual capacity is not bound when in later litigation he appears in his capacity as a representative for another. An association assuming control of litigation would be subject to the rule of this Section, but members of the association ordinarily would not be bound. See § 44.

f. Effect on person surrendering control. A party surrendering control of litigation involving his interests is bound by determinations in it as against the opposing party, in the absence of grounds such as fraud that would permit him to avoid the judgment. In effect, his transfer of control converts the action into one conducted by a representative in his behalf, with like effects (see § 41). As between the party surrendering control and the person assuming control, there may be subsequent controversy over whether the person assuming control adequately represented the interests of the party surrendering control. In an action concerning that controversy, the party who surrendered control is not bound by the determinations made against him in the original action because, by hypothesis, he did not have the opportunity that a party ordinarily has to present proofs and argument on the issues in question. He may be subject to estoppel in pais, however, to make assertions of fact that are at variance with those which he made in the first action.

Illustration:

Illustration:

7. A sues B for injuries alleged to have been caused by B's negligence. C, B's insurer, assumes the defense of the action. Judgment is for A, in an amount exceeding the insurance policy limits. In B's subsequent action against C for C's failure adequately to conduct the defense of the first action, B is not bound by the determinations in that action but may be estopped from asserting that the facts were otherwise than as he had asserted in the course of the prior action.

Reporter's Note

(§ 83, Tent. Draft No. 2.) This section corresponds in substance to § 84 of the first Restatement but departs from it in omitting the requirement that the controlling party have "a proprietary or financial interest in the judgment or in the determination of a question of fact or of a question of law with reference to the same subject matter or transaction." The kinds of relationship embraced by this phrase, as indicated by the Illustrations in the first Restatement, included the controlling party's potential liability arising from indemnity, contribution, and vicarious responsibility which assuredly entail a "financial interest in the judgment." But other Illustrations in the first Restatement (2, 11, 13, 15 and 20) involved no such derivative responsibility and could be said to involve "the same subject matter or transaction" only in the sense that the controlling party was situated similarly to the party of whose litigation he had assumed control.

Comment a. Most of the decided cases have involved a controlling party who had some legal interest or liability that could have been affected by the outcome of the litigation. See Annot. 139 A.L.R. 9 (1942). The patent cases, in which control of an action involving its validity is assumed by the patentee, are a familiar instance. Cases involving controlling parties with other kinds of legal interests have similarly referred to the presence of such an interest. See, e.g., *Souffront v. La Compagnie des Sucreries de Porto Rico*, 217 U.S. 475, 30 S.Ct. 608, 54 L.Ed. 846 (1910) (claimant of land under rival deed from common grantor); *Ugast*

v. La Fontaine, 189 Md. 227, 55 A.2d 705 (1947) (claimant of misappropriated funds). Compare *Montana v. United States*, 440 U.S. 147, 99 S.Ct. 970, 59 L.Ed.2d 210 (1979). This factor has been included as a necessary condition in some statements of the control rule. See, e.g., *Palmer v. Clarksdale Hospital*, 213 Miss. 611, 57 So.2d 476 (1952) (husband's control of wife's unsuccessful personal injury action does not preclude his subsequent suit for medical expenses and loss of consortium).

In another configuration of the patent cases, where the manufacturer of an allegedly infringing device takes over defense of his distributee, preclusion has been sustained on the basis of the looser formula of “financial interest” in the litigation. See *Bros, Inc. v. W.E. Grace Mfg. Co.*, 261 F.2d 428 (5th Cir.1958); *Tidewater Patent Devel. Co. v. Kitchen*, 421 F.2d 680 (4th Cir.1970); Note, 70 Yale L.J. 1166 (1961). See also Vestal, Preclusion/Res Judicata Variables: Parties, 50 Iowa L.Rev. 27, 38 (1964); Note, Developments in the Law—Res Judicata, 65 Harv.L.Rev. 818, 856 (1952); see, e.g., *Crockett v. Harrison*, 26 Ill.App.2d 9, 13, 167 N.E.2d 428, 430 (1960). Some other formulations state the rule still more generally. See 1 Freeman, Judgments § 433 (5th ed.1925) (“some substantial interest”). On further analysis, the cases reciting the existence of a proprietary or financial interest can be read as meaning only that such an interest helps support the inference of control. Moreover, in some of the cases the finding of a financial interest has been derived circularly from the fact that control was assumed. That control itself would suffice is suggested in, e.g., *Thaxton v. Vaughan*, 321 F.2d 474 (4th Cir.1963); cf. *Standard Acc. Ins. Co. v. Doiron*, 170 F.2d 206 (1st Cir.1948). Such a formulation seems appropriate because the essential question would appear to be whether, rather than why, control of the litigation was assumed. See also Wright, Miller & Cooper, Federal Practice and Procedure § 4451.

Comment b. That the controlling person is bound with respect to issues determined, but is not subject to the rules of merger and bar, results from the fact that his assumption of control does not make him a party to the litigation. See *Schnell v. Peter Eckrich & Sons, Inc.*, 365 U.S. 260, 81 S.Ct. 557, 5 L.Ed.2d 546 (1961); *Vanguard Recording Society, Inc. v. Fantasy Records, Inc.*, 24 Cal.App.3d 410, 100 Cal.Rptr. 826 (1972) (on which Illustration 3 is based). But see *Tennessee Eastman Co. v. Adams*, 214 Tenn. 451, 381 S.W.2d 269 (1964), holding that a subrogated property damage insurer who controlled litigation for one insured against the defendant was “barred” by an adverse judgment in that action from bringing a subsequent suit in the name of a different insured for damage caused in the same occurrence. For applications of the rule of issue preclusion against a controlling party, see, e.g., *Montana v. United States*, 440 U.S. 147, 99 S.Ct. 970, 59 L.Ed.2d 210 (1979); *Sparks Nugget, Inc. v. Commissioner*, 458 F.2d 631 (9th Cir.1972), cert. denied, 410 U.S. 928, 93 S.Ct. 1362, 35 L.Ed.2d 589 (1973) (on which Illustration 4 is based); *Council Brothers, Inc. v. Ray Burner Co.*, 473 F.2d 400 (5th Cir.1973); *United States v. Webber*, 396 F.2d 381 (3d Cir.1968); *Kramer v. Chicago Title & Trust Co.*, 69 Ill.App.3d 1015, 26 Ill.Dec. 275, 387 N.E.2d 1105 (1979); *Winsor v. Powell*, 209 Kan. 292, 497 P.2d 292 (1972); *Margo-Kraft Distributors, Inc. v. Minneapolis Gas Co.*, 294 Minn. 274, 200 N.W.2d 45 (1972); *Meeker v. Walker*, 80 N.M. 280, 454 P.2d 762 (1969); see *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 111, 89 S.Ct. 1562, 1570, 23 L.Ed.2d 129 (1969), on remand, 418 F.2d 21 (7th Cir.1969), rev'd, 401 U.S. 321, 91 S.Ct. 795, 28 L.Ed.2d 77 (1971), reh. denied, 401 U.S. 1015, 91 S.Ct. 1247, 28 L.Ed.2d 552 (1971).

There seem to be few cases clearly illustrating the application to a controlling party of the limitations on issue preclusion contained in Section 68.1. See, however, *Hawkeye Security Insurance Co. v. Ford Motor Co.*, 199 N.W.2d 373, 379 (Iowa 1972), where the court held that the party controlling the prior litigation had sufficient incentive to litigate the particular issue. See also *La Sanska v. University of Chicago*, 129 Ill.App.2d 157, 262 N.E.2d 806 (1970) (issue only tangentially involved in prior litigation).

Comment c. This comment is essentially the same as Comment c to § 84 of the first Restatement. The issue of what constitutes control has not often been carefully examined. Sometimes the fact of control is clear, as where an insurer takes over the defense of its insured. On the other hand, control is not properly inferred from the single circumstance that the allegedly controlling party assisted in development of the case, see *Bigelow v. Old Dominion Copper Mining & Smelting Co.*, 225 U.S. 111, 126, 32 S.Ct. 641, 642, 56 L.Ed. 1009 (1912); reimbursed the party for damages awarded against him, *I.T.S. Rubber Co. v. Essex Rubber Co.*, 272 U.S. 429, 47 S.Ct. 136, 71 L.Ed. 335 (1926); paid counsel fees, *McKeown v. Wheat*, 231 F.2d 540 (5th Cir.1956); *Sheldon v. Amperex Electronic Corp.*, 52 F.R.D. 1 (E.D.N.Y.1971), aff'd, 449 F.2d 146 (2d Cir.1971); *Minton v. Cavaney*, 56 Cal.2d 576, 15 Cal.Rptr. 641, 364 P.2d 473 (1961); or appeared as amicus curiae, *Stryker v. Goodnow's Adm'r*, 123 U.S. 527, 8 S.Ct. 203, 31 L.Ed. 194 (1887); *Cory Corp. v. Sauber*, 267 F.2d 802, 803 (7th Cir.1959); *Boeing Airplane Co. v. Aeronautical*

Industrial Dist. Lodge No. 751, 91 F.Supp. 596, 602 (W.D.Wash.1950), *aff'd*, 188 F.2d 356 (9th Cir.1951), *cert. denied*, 342 U.S. 821, 72 S.Ct. 39, 96 L.Ed. 621 (1951); *Casey v. Male*, 63 N.J.Super. 255, 164 A.2d 374 (1960). But *cf.* *Council Brothers, Inc. v. Ray Burner Co.*, 473 F.2d 400 (5th Cir.1973). The inference of control may be drawn from the concurrence of several of these or other circumstances, however. As stated in *Watts v. Swiss Bank Corp.*, 27 N.Y.2d 270, 277, 317 N.Y.S.2d 315, 320, 265 N.E.2d 739, 743-44 (1970): "The character and extent of the participation in litigation which will in legal effect make one a party is most often an issue of fact. As a consequence, no single fact is determinative but all the circumstances must be considered from which one may infer whether or not there was participation amounting to a sharing in control of the litigation." The *Watts* case also makes clear that exercise of control may consist essentially of undertaking to retain counsel and occupying the position of client in the ensuing lawyer-client relationship.

Comment d. Section 84 of the first Restatement held that the opposing party is bound as against the controlling party only if he had notice of the controlling party's participation. This requirement appears to derive from the mutuality rule. See Illustration 16 of § 84 of the first Restatement. With the abrogation of the mutuality rule, the question whether the opposing party is bound should depend, as in other situations where preclusion is invoked by a non-party, on whether it is just to deny him opportunity to relitigate an issue against a new adversary. See § 29 and, e.g., *Ritchie v. Landau*, 475 F.2d 151 (2d Cir.1973); *De Polo v. Greig*, 338 Mich. 703, 62 N.W.2d 441 (1954); *Woodcock v. Udell*, 48 Del. 69, 97 A.2d 878 (1953); *cf.* *Nichols v. Alker*, 126 F.Supp. 679, 682-83 (E.D.N.Y.1954), *aff'd*, 231 F.2d 68 (2d Cir.1956), *cert. denied*, 352 U.S. 829, 77 S.Ct. 42, 1 L.Ed.2d 51 (1956), *Vestal*, Preclusion/Res Judicata Variables: Parties, 50 Iowa L.Rev. 27, 40 (1964).

Comment e. This is a corollary of § 36. *Cf.* *Smittle v. Eberle*, 353 P.2d 121 (Okla.1960) (parent, as next friend of his minor child, brought a personal injury action against the defendant, judgment being rendered for defendant; parent then brought suit in his own right against the defendant for medical expenses and loss of the child's service; judgment in the first action not res judicata against the parent in the second). But *cf.* *Thompson v. Lassiter*, 246 N.C. 34, 97 S.E.2d 492 (1957).

Comment f. On the relationship between the party and the person who has assumed control of the action, see, e.g., *Detenber v. American Universal Ins. Co.*, 372 F.2d 50 (6th Cir.1967), *cert. denied*, 389 U.S. 987, 88 S.Ct. 413, 19 L.Ed.2d 479 (1967), *reh. denied*, 390 U.S. 985, 88 S.Ct. 1096, 19 L.Ed.2d 1287 (1968); *Colbert v. Home Indemnity Co.*, 35 A.D.2d 326, 315 N.Y.S.2d 949 (1970); *Annot.* 34 A.L.R.3d 533 (1970).

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JURISDICTION
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Res Judicata

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action was a party to the state action. This rule has persisted,²⁰ although the second action may continue to the extent that the representative seeks to represent interests of persons who are not precluded by the first action.²¹

Several important rules limit the extent of preclusion by representation. The most obvious rules are that the representative must have been appointed by a valid procedure,²² that termination of the

20. Beneficiary precluded

A plaintiff who had brought a prior action as representative of a student organization was properly precluded by the judgment, since close examination of the complaint showed that he had also advanced his personal claims in that action. *Jones v. Texas Tech University*, C.A.5th, 1981, 656 F.2d 1137, 1143-1144.

Alderman v. Chrysler Corp., D.C.Va. 1979, 480 F.Supp. 600, 605-607. The first action was brought by Mrs. Alderman to recover for her own injuries, suffered while a passenger in an automobile made by Chrysler. She lost on the basis of findings that the automobile was not defective. Mrs. Alderman brought the second action as administratrix of the estate of her husband, for his wrongful death in the same accident. She was held precluded by the prior judgment only to the extent that she would be a beneficiary of any recovery.

After the mother of a decedent lost a wrongful death action brought in her individual capacity, she was precluded in a survival action brought as administratrix of the estate since the estate had no creditors and no one was interested in the estate other than the mother. *Cowan v. Pacific Gamble Robinson Co.*, D.C.Mont.1964, 232 F.Supp. 403.

Restatement Second of Judgments, 1981, § 42 & comment g.

But see

In *Troxell v. Delaware, L. & W. R. R.*, 1913, 33 S.Ct. 274, 275, 227 U.S. 434,

444, 57 L.Ed. 586, a wrongful death action was brought in federal court by the widow "and joining the two living children." She lost by a decision that found the action could be maintained only under state law, and that under state law the negligence of fellow servants was not a ground for recovery. The widow was then appointed administratrix of the estate of her husband, and brought a second action under the FELA. The Court allowed the second action to proceed, finding a lack of identity in the parties. This decision may not survive the criticism suggested by the opinion in the *Schendel* case, 270 U.S. at 621-622, 46 S.Ct. at 424.

21. Beneficiaries not precluded

After dismissal of an employment discrimination action brought by a single employee, the EEOC would be barred from filing suit on behalf of that employee but was not precluded from a "suit predicated on, but not limited to, the same charge." *EEOC v. Huttig Sash & Door Co.*, C.A.5th, 1975, 511 F.2d 453, 454, 456.

Alderman v. Chrysler Corp., D.C.Va. 1979, 480 F.Supp. 600, described in note 20 above.

22. Valid appointment

See Restatement Second of Judgments, 1981, § 42 & comments a & b.

See also

Dismissal of the first action brought by a guardian on the ground that the appointment as guardian was void un-