

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

DEPARTMENT OF JUSTICE,
Petitioner,

v.

IRIS CORPORATION BERHAD,
Patent Owner.

Case IPR2016-00497
Patent 6,111,506 B2

Before DAVID C. McKONE, BARBARA A. PARVIS, and
PATRICK M. BOUCHER, *Administrative Patent Judges*.

BOUCHER, *Administrative Patent Judge*.

TERMINATION

35 U.S.C. § 315(b) and 37 C.F.R. § 42.101(b)

On July 25, 2016, we instituted an *inter partes* review of claims 1–7 of U.S. Patent No. 6,111,506 (“the ’506 patent”), based on a Petition (Paper 1) filed by the Department of Justice (“Petitioner”). Paper 7 (“Institution Decision”). IRIS Corporation Berhad (“Patent Owner”) filed a

Response (Paper 30, “PO Resp.”)¹ and Petitioner filed a Reply (Paper 26). An oral hearing was held on April 25, 2017, and a transcript of the hearing has been entered into the record. Paper 45 (“Tr.”).

Because Patent Owner has sufficiently demonstrated that this proceeding is statutorily barred by 35 U.S.C. § 315(b), we vacate our Decision to Institute and terminate the review.

I. BACKGROUND

The ’506 patent is owned by IRIS Corporation Berhad, a Malaysian company, and describes an “improved security identification document” in the context of an “improved airport security system.” Ex. 1001, [73], col. 1, ll. 12–39. Patent Owner characterizes the claims at issue as directed to “a method for manufacturing . . . an electronic passport designed to be more secure than conventional passports by storing biometric data confirming the passport holder’s identity in a read-only, tamper proof hidden chip, including data representing the photo and other information contained on the human readable page of the passport.” PO Resp., 11.

On November 28, 2006, Patent Owner filed a lawsuit against Japan Airlines International Co., Ltd. (“JAL”) in the Eastern District of New York (“the JAL litigation”), alleging infringement of the ’506 patent under

¹ Paper 30 is a redacted version of Patent Owner’s Response, an unredacted version of which was filed with restricted access as Paper 17. We do not rely on the redacted portions of the Response herein, and expunge the unredacted version by a separate order.

35 U.S.C. § 271(g).² Ex. 2037. The complaint in the JAL litigation alleged that

sometime after September 11, 2001, the United States Government determined that electronic passports would be used by the United States, and further instituted the requirement that any citizens of foreign governments that had been eligible to enter the United States without the necessity of a visitor's Visa (a program known as the US Visa Waiver Program), would only be allowed to maintain that eligibility if their respective governments changed over to an electronic passport as well.

Id. ¶ 12. The complaint further alleged that, by sometime in 2006, various other countries had implemented electronic passports, and that “JAL began using, and continues to use, the aforesaid electronic passports in the processing and/or boarding of passengers at JFK airport as well as at other JAL serviced passenger check-in facilities throughout the United States.”

Id. ¶¶ 16, 18. According to the complaint, “JAL’s use of these electronic passports at JFK and as well as at other facilities in the United States, without authority from [Patent Owner] constitutes direct infringement under 35 U.S.C. § 271(g).” *Id.* ¶ 20.

The next day, November 29, 2006, Patent Owner filed suit against the United States (“the Government”) in the Court of Federal Claims, alleging that the Government’s purchase and use of electronic passport readers was an act of infringement against Patent Owner’s related U.S. Patent

² 35 U.S.C. § 271(g) provides, in part, that “[w]hoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent.”

No. 6,041,412, based on 35 U.S.C. § 271(a).³ Ex. 2038, 2. Patent Owner did not, at that time, sue the Government for infringement of the '506 patent, a decision that appears to have been motivated, at least in part, by the Government's position that sovereign immunity insulated the Government from complaints alleging infringement based on § 271(g). *See* PO Resp. 62 ("Because of that position [Patent Owner] sued user, JAL.")

Petitioner filed a Notice of Appearance in the JAL litigation (Ex. 2001), and subsequently explained the Government's position in its Statement of Interest: "The government is not liable under [28 U.S.C.] § 1498(a) for acts that, if performed by a private party, would give rise to infringement only under § 271(g)." Ex. 2038, 16 (citing *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005) ("direct infringement under section 271(a) is a necessary predicate for government liability under section 1498"))).

At the same time, the Government sought to extend its immunity to JAL in the JAL litigation, asserting that "JAL's examination of passports is both 'for the Government' and 'with the authorization and consent of the Government.'" *Id.* at 8 (quoting language from *Madey v. Duke University*, 413 F.Supp.2d 601, 607 (M.D.N.C. 2006)). The Government explained:

There can be no argument that JAL's inspection of passports is pursuant to a clear government directive. An Act of Congress, the Enhanced Border Security Act, requires JAL to undertake the exact actions that IRIS claims are infringing. JAL has no control over the method by which the passports its agents

³ 35 U.S.C. § 271(a) provides that "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent."

examine are manufactured. If JAL wants to comply with Federal law, it must examine the passports as they are made by others.

There can also be no dispute that the directive of the Enhanced Border Security Act provides a specific benefit to the government, namely, improved national security through the compilation of accurate passenger manifests. . . . JAL's inspection of passports is therefore "for the Government."

* * *

There is no denying the fact that authorization and consent is present when JAL examines United States passports. United States passports are made according to government specifications, by government contractors and subcontractors. Furthermore, while passports are issued to and carried by private citizens, they remain the property of the government. . . . There can be no argument that the government did not authorize and consent to JAL's use of this government property, made according to government specifications, in a manner required by an Act of Congress.

Id. at 10–11 (citations omitted). Relying on the reasoning of *Zoltek Corp. v. United States*, 85 Fed. Cl. 409, 418 (Fed. Cl. 2009) ("According to its language and purpose, § 1498(a) only insulates government contractors from suit when the Government can be found liable."), the district court refused to extend the Government's immunity to JAL. Ex. 2039, 13. ("Since it is conceded that the Government has not waived immunity under Section 1498(a), Japan Airlines has no immunity under this provision."). Nevertheless, the district court agreed that JAL otherwise met the requirements for exemption from patent infringement suits under § 1498(a), namely that "(1) the accused use or manufacture was undertaken for the Government, i.e., for the Government's benefit; and (2) the Government gave its authorization or consent for the accused use or manufacture." *Id.* at 12.

While an appeal of the JAL litigation to the Court of Appeals for the Federal Circuit remained pending, the Government's position changed in response to the Federal Circuit's holding in *Zoltek Corp. v. United States*, 672 F.3d 1309 (Fed. Cir. 2012) (en banc) that the immunity waiver of 28 U.S.C. § 1498(a) encompasses acts constituting infringement under 35 U.S.C. § 271(g). Ex. 2040, 3–4. Because of this extension of immunity waiver to infringement acts under § 271(g), the Federal Circuit ruled in the appeal of the JAL litigation that “the United States has waived sovereign immunity in this case and, therefore, . . . IRIS's exclusive remedy is suit for recovery against the United States under § 1498(a).” *IRIS Corp. v. Japan Airlines Corp.*, 769 F.3d 1359, 1363 (Fed. Cir. 2014) (citing *Advanced Software Design Co. v. Fed. Reserve Bank of St. Louis*, 583 F.3d 1371, 1377–78 (Fed. Cir. 2009)). In doing so, the Federal Circuit determined that JAL's allegedly infringing acts were carried out “for the United States,” within the meaning of § 1498(a), and that “the government has clearly provided its authorization or consent because—as the parties and the United States agree—JAL cannot comply with its legal obligations without engaging in the allegedly infringing activities.” *IRIS Corp.*, 769 F.3d at 1362 (“When the government requires private parties to perform quasi-governmental functions, such as this one, there can be no question that those actions are undertaken ‘for the benefit of the government.’”).

Subsequent to the Federal Circuit's decision in the appeal of the JAL litigation, on February 24, 2015, Patent Owner sued the United States in the Court of Federal Claims (“the Federal Claims litigation”), alleging infringement of the '506 patent. *IRIS Corp. Berhad v. United States*

(Civil Action No. 15-cv-00175-EGB (Fed. Cl.)); *see* Pet. 4. Petitioner filed the instant Petition on January 22, 2016.

II. MOTIONS TO EXCLUDE

Petitioner filed a Motion to Exclude Exhibits 2004, 2009, 2010, 2012, 2018–2023, and 2026–2029. Paper 39. Patent Owner filed a Motion to Exclude Exhibits 1032, 1033, 1038, and 1039, and to exclude portions of Exhibit 1044. Paper 37. We do not rely on any of these exhibits herein, and we accordingly dismiss both parties’ Motions to Exclude as moot.

III. ANALYSIS

“An inter partes review may not be instituted if the petition requesting the proceeding 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.” 35 U.S.C. § 315(b). It is undisputed that Petitioner filed its Petition within a year of being served with a complaint alleging infringement of the ’506 patent. Patent Owner contends, however, that Petitioner was in privity with JAL and was at all times the real party in interest (“RPI”) in the JAL litigation. PO Resp. 58–64. Because a complaint was served against JAL more than a year before Petitioner filed the Petition, Patent Owner contends that these proceedings are barred by § 315(b), by virtue of the statutory inclusion of RPIs and privies in the analysis. *Id.*

Our Institution Decision rejected a preliminary presentation of these contentions by Patent Owner based on the incomplete record that existed at the time, and without Petitioner having had an opportunity to respond.

Paper 7, 5–9. During the trial, Patent Owner supplemented the record with additional evidence, including the evidence summarized in the Background section *supra*. Petitioner was thus afforded an opportunity to respond, in its Reply, to the time-bar contentions that Patent Owner raised again in its Response, and based on Patent Owner’s fuller presentation of evidence during the trial. Additionally, Patent Owner presented extensive argument and responded to questioning on this issue at the oral argument. Tr. 29:6–35:25. Petitioner was given an opportunity to respond to these arguments at the oral argument. *Id.* at 51:22–52:2. Nevertheless, despite multiple opportunities, Petitioner has not come forward with any evidence in rebuttal, nor has it addressed Patent Owner’s evidence and argument in its briefing.

1. Legal Framework

Patent Owner’s argument commingles the analyses of RPI and privity, but “the two terms describe distinct concepts with different effects under the statute.” *Aruze Gaming Macau, Ltd. v. MGT Gaming, Inc.*, Case IPR2014-01288, slip op. at 7 (PTAB Feb. 20, 2015) (Paper 13). That is, an RPI analysis considers the relationship between a party and the *proceeding*, while a privity analysis considers the relationship between *parties*. *Id.* at 11, 13. Because either of these forms of nonparty preclusion risks binding those who have not had a full and fair opportunity to litigate, the Supreme Court has cautioned that there is a general rule against nonparty preclusion, subject only to limited exceptions. *See Taylor v. Sturgell*, 553 U.S. 880, 892–93 (2008). While noting that it was not articulating a “definitive taxonomy,”

id. at 893 n.6, the Court organized the recognized exceptions into six categories:⁴

1. “[A] person who *agrees to be bound* by the determination of issues in an action between others is bound in accordance with the terms of his agreement.” *Id.* at 893.
2. “[N]on party preclusion may be justified on a variety of *pre-existing substantive legal relationships* between the person to be bound and a party to the judgment,” such as “preceding and succeeding owners of property, bailee and bailor, and assignee and assignor.” *Id.* at 894.
3. “[I]n certain limited circumstances,” such as class actions, “a nonparty may be bound by a judgment because she was *adequately represented* by someone with the same interests who was a party to the suit.” *Id.* The Court elaborated that this exception applies only if there are “special procedures to protect the nonparties’ interests, or an understanding by the concerned parties that the first suit was brought in a representative capacity.” *Id.* at 897.
4. “[A] nonparty is bound by a judgment if she *assumed control* over the litigation,” because that person “has had the opportunity to present proofs and argument . . . even though he was not a formal party to the litigation.” *Id.* at 895.
5. “[A] party bound by a judgment may not avoid its preclusive effect by *relitigating through a proxy*,” such as “when a nonparty later brings suit as an agent for a party who is bound by a judgment.” *Id.*
6. “[A] *special statutory scheme*,” such as bankruptcy or probate, “may expressly foreclose successive litigation by nonlitigants . . . if the scheme is otherwise consistent with due process.” *Id.*

⁴ For clarity, we omit internal quotation marks and citations throughout the list of *Taylor* categories, and add emphasis to certain key phrases.

In listing these categories, and cognizant of due-process considerations, the Court rejected nonparty preclusion based merely on “identity of interests and some kind of relationship between parties and nonparties.” *Id.* at 901.

2. Privity

“The notion of ‘privity’ is more expansive [than the concept of real party in interest in postgrant proceedings], encompassing parties that do not necessarily need to be identified in the petition as a ‘real party-in-interest.’” Trial Practice Guide, 77 Fed. Reg. at 48,759. In the context of § 315(b), one goal of the preclusion based on privity “is to prevent successive challenges to a patent by those who previously have had the opportunity to make such challenges in prior litigation.” *Aruze Gaming* at 14. As such, the Board has considered the privity inquiry by focusing on the relationship between the parties *during the prior litigation*. See, e.g., *ABB Technology, Ltd. v. IPCO, LLP*, Case IPR2013-00482, slip op. at 8–10 (PTAB Feb. 4, 2014) (Paper 8) (“Patent Owner has not shown persuasively that Petitioner was a privy of Tropos in 2006 when Tropos was served with a complaint alleging infringement of the ’062 patent”); *Arris Group, Inc. v. C-Cation Technologies, LLC*, Case IPR2014-00746, slip op. at 8–10 (PTAB Nov. 24, 2014) (Paper 22) (“Patent Owner has not shown persuasively that Petitioner was a privy of Comcast at the time that Comcast was served with the 2011 complaint or the amended 2011 complaint alleging infringement of the ’833 Patent”); *Johnson Health Tech Co. Ltd. v. Icon Health & Fitness, Inc.*, Case IPR2014-01242, slip op. at 8–10 (PTAB Feb. 11, 2015) (Paper 16) (“In determining whether JHT is a privy of JHTNA, we consider

the nature of the relationship between the parties at the time the statutorily-relevant complaint was served”).⁵

In considering *Taylor*’s fourth category (control), we focus on the relationship between the Petitioner and the prior litigant—as it relates to the lawsuit. *Aruze Gaming* at 14. As summarized by our Practice Guide, “[a] common consideration is whether the non-party exercised or could have exercised control over a party’s participation in a proceeding.” 77 Fed. Reg. at 48,759. In this instance, the level of control exercised by the Government over JAL’s participation in the JAL litigation was substantial, ranging from mandating performance of the allegedly infringing activity to dictating which party was subject to suit, perhaps the ultimate form of “control over a party’s participation in a proceeding.”

First, the Government acknowledged that the allegedly infringing activity was performed by JAL pursuant to a governmental directive. Ex. 2038, 11–12 (“In the present case, the government *mandates* that JAL perform the very acts that [Patent Owner] claims are infringing”; “the government’s requirements cannot be met without JAL’s alleged infringement”) (emphasis added). Although the Government had no contract or agreement with JAL, Petitioner took the position that “the government may also give its authorization and consent implicitly,” and that

⁵ In *VMware, Inc. v. Good Technology Software, Inc.*, Case IPR2015-00027, slip op. at 3–4 (PTAB Mar. 6, 2015) (Paper 11), a panel held that “privity under § 315(b) is [not] determined *only* at the time of service of a complaint alleging infringement” (emphasis added), and that “at least some of the factors analyzed in determining whether a party is . . . a privy of the petitioner involve actions or events that may occur *after* service of a complaint alleging infringement” (emphases added).

it had done so. *Id.* at 10–11 (“There is no denying the fact that authorization and consent is present when JAL examines United States passports.”).

Importantly, the directive at issue, requiring that JAL perform the allegedly infringing activity that formed the basis of the JAL litigation, did not merely impose a routine legal obligation, but instead was “the government requir[ing] private parties to perform *quasi-governmental functions*.” *IRIS Corp.*, 769 F.3d at 1362 (emphasis added). Indeed, in arguing on appeal to the Federal Circuit, Petitioner explained that “if [JAL] weren’t doing this, [the government] would have to do it. . . . So this is a *uniquely governmental function* that we’re talking about here.” *Id.* at 1363 (emphasis added).

Second, relying on its sovereign-immunity argument, the Government initially insulated itself from suit, until changing its position in response to *Zoltek*. *See* PO Resp., 62–63 (“The Government determined the case must be brought against the private entity and could not be brought against the Government.”). When the Government ultimately acknowledged its waiver of sovereign immunity, the Federal Circuit determined that Patent Owner’s *exclusive* remedy was against the Government under 28 U.S.C. § 1498(a), consistent with the position taken by Petitioner before the Federal Circuit. *IRIS Corp.* at 1363 (“Although the government’s statement [‘that here 1498(a) is the exclusive remedy’] is not dispositive, it reinforces our conclusion that the United States has waived sovereign immunity in this case and, therefore that [Patent Owner’s] exclusive remedy is suit for recovery against the United States under § 1498(a).”).

Together, these uncontested facts and this history—which include evidence that the Government had a significant interest and participation in

the JAL litigation—support Patent Owner’s position that JAL functioned as a proxy for the Government during the JAL litigation. The Government required that JAL assume quasi-governmental duties that were potentially infringing, and, by virtue of its sovereign immunity, effectively required that JAL be the defendant while attempting to bring JAL within the umbrella of that immunity. Only when the Government acknowledged its waiver of immunity was Patent Owner able to sue the Government as the correct defendant in the correct court. As Patent Owner contends, Petitioner “was in control at all times.” PO Resp. 61. Petitioner does not dispute these allegations, offer any other characterization of the evidence, or provide any legal support or arguments for a contrary position.

We conclude that Patent Owner sufficiently demonstrates that Petitioner and JAL were in privity at the time of the JAL litigation, and that this proceeding is time-barred because “the petition requesting the proceeding [wa]s filed more than 1 year after the date on which [a] privity of the petitioner [wa]s served with a complaint alleging infringement of the patent.” 35 U.S.C. § 315(b).⁶

In reaching this conclusion, we are mindful that the law of privity with a sovereign entity is complex, particularly when intertwined with

⁶ It is immaterial that *inter partes* review proceedings did not exist at the time the complaint was filed. The Board has consistently taken the position that § 315(b) bars an *inter partes* review based on a complaint for infringement served more than one year before filing the petition, even if the complaint at issue was served before passage of the America Invents Act. *See, e.g., Universal Remote Control, Inc. v. Universal Electronics, Inc.*, Case IPR2013-00168, slip op. at 3–7 (PTAB Aug. 23, 2013) (Paper 9); *St. Jude Medical, Cardiology Division, Inc. v. Volcano Corp.*, Case IPR2013-00258, slip op. at 2–7 (PTAB Oct. 16, 2013) (Paper 29).

shifting assertions of sovereign immunity, as in the history that underlies this proceeding. *See, e.g., Montana v. United States*, 440 U.S. 147 (1979); *In re Schimmels*, 127 F.3d 875 (9th Cir. 1997); *Equal Employment Opportunity Commission v. Pemco Aeroplex, Inc.*, 383 F.3d 1280 (11th Cir. 2004).

Petitioner was well-apprised of Patent Owner's position on this issue, which was raised initially in its Preliminary Response, reiterated and elaborated upon in its Response after we instituted trial, and supplemented with additional evidence provided during the course of the trial. Petitioner's conspicuous silence, on a potentially dispositive issue that Patent Owner devoted a significant portion of its Response to addressing, leaves us to speculate what responsive arguments and evidence Petitioner might have available to it. It is inappropriate for us to engage in such speculation, nor are we in a meaningful position to do so.

Accordingly, based on the record before us, we determine that it is appropriate to terminate the proceeding.

IV. ORDER

In consideration of the foregoing, it is

ORDERED that Petitioner's Motion to Exclude (Paper 39) is *dismissed* as moot;

FURTHER ORDERED that Patent Owner's Motion to Exclude (Paper 37) is *dismissed* as moot; and

FURTHER ORDERED that the Institution Decision (Paper 7) is *vacated* and this proceeding is hereby *terminated*.

IPR2016-00497
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