



Government Contract

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Expert Analysis

Patent Infringement Liability: An Unexpected Risk for Government Contractors

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A company that contracts with the U.S. government to manufacture or provide products doesn't usually expect to incur patent infringement liability, especially when the items are specially made and conform to a federal specification. The validity of that expectation is now suspect in light of a Jan. 23 decision from the U.S. Court of Federal Claims.¹

Why Contractors Don't Expect Patent Infringement Liability

In traditional commercial development and manufacturing, companies may be liable for patent infringement if the product they develop, manufacture, import, sell or offer for sale is found to infringe a valid U.S. patent.² U.S. government contractors, however, enjoy some freedom from patent infringement liability, stemming from a specific provision in the U.S. Code found at 28 U.S.C. § 1498. The statute acts as a waiver of sovereign immunity for the government and provides, in relevant part, that:

Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture.³

Until now the government and most contractors have generally understood that provision of the code to mean:

- When a product is made for the United States, the government bears all patent infringement liability, and the contractors do not have infringement liability; and
- The Court of Federal Claims is the only court with jurisdiction to hear such an infringement action.

What Has Apparently Changed?

For component products that are manufactured outside the United States, imported and then incorporated into a final product (such as carbon fibers that are made in Japan and used in a U.S. fighter jet) the Jan. 23 decision in *Zoltek v. United States* appears to change the landscape.

Government contractors may have liability for patent infringement, and the government may not, absent a waiver of sovereign immunity.

First, government contractors may have liability in a U.S. district court for patent infringement. Second, the government may not have liability absent a waiver of sovereign immunity.

Background of Zoltek

Zoltek Corp. owns a U.S. patent with method claims for manufacturing sheet or mat products using partially carbonized fibers.⁴ Zoltek alleges the F-22 fighter plane, which is made by Lockheed Martin Corp., uses infringing, partially carbonized fibers. The process used to manufacture the partially carbonized fibers takes place outside the United States, in Japan. That fact is very relevant to the case.

If the F-22 was a commercial aircraft, Zoltek likely would have directly sued Lockheed Martin for patent infringement in a U.S. district court. However, the F-22 fighter plane is manufactured for the government. Therefore, relying on the provisions of 28 U.S.C. § 1498(a), Zoltek filed suit against the government in the Court of Federal Claims, alleging patent infringement for sheet and mat products that include the partially carbonized fibers used in the F-22.

In 2001 the government filed a motion for partial summary judgment, seeking to dismiss some of Zoltek's claims.⁵ The thrust of the argument was that although Section 1498(a) requires Zoltek to sue the government in the Court of Federal Claims, a different part of that same section of the code, Section 1498(c), bars the company's infringement claim for the partially carbonized fibers manufactured outside the United States.⁶

The government noted that Section 1498(c) states, "The provisions of this section [1498] shall not apply to any claim arising in a foreign country."⁷

The Court of Federal Claims acknowledged that the exception for government liability found in Section 1498(c) did present a problem and, as a result, the infringement action against the United States under Section 1498(a) likely was barred.

However, the court did not immediately dismiss Zoltek's claims and instead invited additional briefing on whether the alleged infringement might constitute a taking under the Fifth Amendment, thereby providing Zoltek with an alternative path to recovery.

Following the additional briefing, the court held in 2003 that an action against the government as a taking was available to Zoltek as a cause of action.⁸

The Court of Federal Claims' decisions with respect to an absence of government liability under Section 1498 and potential liability as a taking under the Fifth Amendment were both appealed to the U.S. Court of Appeals for the Federal Circuit, the appellate court with exclusive jurisdiction over patent appeals.⁹

On one issue the Federal Circuit agreed with the Court of Federal Claims and held that because "not all steps of a patented process have been performed in the United States, government liability does not exist pursuant to Section 1498(a)."

In the past, the acts that would constitute infringement included only using, making and vending the patented invention.

However, the Federal Circuit did not agree with the lower court that Zoltek could bring an action against the government as a taking under the Fifth Amendment.

Following the Federal Circuit's 2006 decision, Zoltek filed a motion in the Court of Federal Claims asking to transfer the portion of the case dealing with the F-22 fighter plane to the U.S. District Court for the Northern District of Georgia.¹⁰ As part of the requested transfer, Zoltek proposed to substitute Lockheed Martin, which has an F-22 manufacturing facility in Georgia, as the defendant.¹¹

On Jan. 23, after analyzing the interplay of the various statutes,¹² the Court of Federal Claims allowed Zoltek to amend its original complaint against the government to assert a patent infringement claim against Lockheed under 35 U.S.C. § 271.¹³

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liability for government contractors.*

In that decision the court indicated that if Zoltek properly framed its F-22 infringement claim, it would issue an order transferring the matter to the Northern District of Georgia.

Zoltek filed an amended complaint Feb. 6 naming Lockheed as a defendant,¹⁴ and the court transferred the case to the Northern District of Georgia Feb. 18.¹⁵

On Jan. 13 Zoltek also filed an independent suit in the Northern District of Georgia, accusing Lockheed of infringing its patent with regard to the F-22.¹⁶ In accordance with a district court's usual practice, the two cases may be consolidated.

Why Is a Contractor Now Potentially Liable For Infringement?

In *Zoltek* the Court of Federal Claims looked at the history of the patent statute, 35 U.S.C. § 271, as it regards infringement for private parties and at the history of Section 1498, which provides for a limited waiver of sovereign immunity by the government for patent infringement when the infringing product is used or manufactured by or for the United States.

One part of the court's analysis focused on the difference in scope between Section 271 and Section 1498(a). In the past, the acts that would constitute infringement under Section 271 included only using, making and vending the patented invention, and those acts largely corresponded to acts called out in Section 1498(a).

By contrast, today there can be patent infringement liability under 35 U.S.C. § 271(f) for supplying components of a patented invention and under Section 271(g) for importing, selling or using a product made from a patented process. Those additional acts are not addressed in Section 1498(a).

Further, the Court of Federal Claims looked at the interplay between Section 1498(a) and Section 1498(c) and reached the following conclusion:

[W]hen an infringement claim arises in a foreign country, Section 1498(c) must be construed to nullify the contractor immunity provisions of Section 1498(a). According to its language and purpose, Section 1498(a) only insulates government contractors from suit when the government can be found liable. Because Section 1498(c) must be read to nullify all provisions of Section 1498(a), there is no basis remaining for limiting a patentee's "entire" recovery to suit against the government. Per the Federal Circuit's decision on appeal, the government has not waived its sovereign immunity and cannot be found liable for infringement claims arising in a foreign country. Construing Section 1498(a) otherwise — to incorporate all forms of liability defined in Section 271 (as the government advocates) — would be contrary to legislative intent and be inconsistent with the language of Section 1498 as a whole.¹⁷

What Now?

Legislative action to more closely conform Section 1498 with Section 271 would go a long way toward closing out this unexpected liability for government contractors.

However, legislative action to address this is not on the horizon. Patent reform is one of the stated goals of U.S. Sens. Patrick Leahy, D-Vt., and Orrin Hatch, R-Utah, in Senate Bill 515, introduced to the 111th Congress March 3. However, the initial text of S. 515 does not include any language that would more closely conform Section 1498 with Section 271 and resolve the inconsistency.

Alternatively, in the *Zoltek* litigation an appeals court might decide that the transfer to the Northern District of Georgia was improper and/or that an action against Lockheed Martin under Section 271 is somehow barred. However, without legislative action or further guidance from a higher court, the Court of Federal Claims' decision appears to be the controlling law and potentially opens the door to patent infringement liability for government contractors, where the accused act of infringement occurs outside the United States.

Notes

- ¹ *Zoltek Corp. v. United States*, 85 Fed. Cl. 409 (2009).
- ² 35 U.S.C. § 271.
- ³ 28 U.S.C. § 1498(a).
- ⁴ *Zoltek*, 85 Fed. Cl. 409.
- ⁵ *Zoltek Corp. v. United States*, 51 Fed. Cl. 829, 831 (2002).
- ⁶ *Id.* at 832.
- ⁷ 28 U.S.C. § 1498(c).
- ⁸ *Zoltek Corp. v. United States*, 58 Fed. Cl. 688, 707 (2003).
- ⁹ *Zoltek Corp. v. United States*, 442 F.3d 1345 (Fed Cir. 2006).
- ¹⁰ *Zoltek*, 85 Fed. Cl. 409.
- ¹¹ *Id.*
- ¹² 35 U.S.C. § 271; 28 U.S.C. § 1631; 28 U.S.C. §§ 1498(a) and 1498(c).
- ¹³ *Id.*
- ¹⁴ *Zoltek Corp. v. United States*, Nos. 96-166 and 372 (Fed. Cl.).
- ¹⁵ *Zoltek Corp. v. United States*, Nos. 96-166 and 373 (Fed. Cl.).
- ¹⁶ *Zoltek Corp. v. United States*, Nos. 09-cv-96 and 1 (N.D. Ga.).
- ¹⁷ *Zoltek*, 85 Fed. Cl. 409.



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