The Flow and Ebb of Patent Infringement Risk for Government Contractors

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A recent decision by the U.S. Court of Appeals for the Federal Circuit in Zoltek Corp. v. United States ("Zoltek V") appears to have answered an open question of patent infringement liability for U.S. government contractors.

Patent infringement liability is generally addressed in the Patent Act at 35 U.S.C. § 271(g), and that liability would normally include infringement by contractors performing work under a U.S. government contract.

However, because such work is done at the direction of and for the government, which is a sovereign entity, the United States would be immune to patent infringement suits under Section 271(g). To provide a remedy in the case of patent infringement by contractors performing work under a government contract, 28 U.S.C. § 1498 waives governmental immunity and provides for a suit against the United States brought in the U.S. Court of Federal Claims as the sole remedy. In addition, under 28 U.S.C. § 1498, the government contractor has no infringement liability.

Until 2006, that basic framework with respect to government contractors was generally understood to apply for any type of patent infringement. However, a 2006 Federal Circuit decision (Zoltek III) brought that basic framework into question.

According to the Federal Circuit in Zoltek III, in cases in which steps in a method covered by a U.S. patent are performed outside the United States to create products that are then imported into the United States under a federal contract, the patent holder would not be able to bring an infringement action against the government in the Court of Federal Claims pursuant to 28 U.S.C. § 1498(a). After Zoltek III, it appeared that if the patent holder sued the government contractor in an infringement action in a U.S. district court, the contractor might have to defend against the charges of patent infringement and potentially bear the liability.

The Federal Circuit’s decision in Zoltek V appears to have restored the earlier expectations regarding infringement liability for government contractors.

Zoltek V clarifies that the government is not liable for patent infringement under 35 U.S.C. § 271(g). However, legislative intent, coupled with changes to the
Patent Act, as reflected in 35 U.S.C. § 154, subject the government to liability that includes “importing into the United States, products made by [the patented] process.” As stated by the Federal Circuit in Zoltek V:

The liability of the United States under Section 1498 is thus linked to the scope of the patent holder’s rights as granted by the patent grant in title 35 U.S.C. § 154(a)(1). As the patent grant has expanded over the years, so too has the coverage of 1498(a). If a private party had used Zoltek’s patented process to create the resulting product, there would be liability for infringing Zoltek’s patent right under Section 154(a)(1) and Section 271(g). We hold the government is subject to the same liability in this case, and that precedent and legislative intent dictate that result.3

A BRIEF HISTORY OF THE ZOLTEK ACTIONS

Zoltek Corp. is the assignee of a patent with claims that relate to methods of manufacturing carbon fiber sheets. Under a contract with the United States, Lockheed Martin Corp. used carbon fiber products in manufacturing the F-22 aircraft. Zoltek alleged that the steps used to make the F-22 carbon fiber products infringed its method patent claims.

If the steps used to make those carbon fiber products had been performed entirely within the United States, this case would not have opened the question of patent liability by government contractors. However, some of the steps used to create the F-22 carbon fiber products were performed outside of the United States, and then the carbon fiber products were imported to the country and used in the F-22. That subtle distinction changed the landscape.

ZOLTEK I, II, III AND IV

In 1996, Zoltek filed a patent infringement action against the government in the Court of Federal Claims, alleging infringement in the manufacture of F-22 carbon fiber products by Lockheed Martin. In 2001, the government moved, on summary judgment, to dismiss some of the infringement claims, arguing that under the provisions of 28 U.S.C. § 1498(c), a suit was barred concerning carbon fibers that were manufactured outside the United States. Section 1498(c) states, “The provisions of this section [1498] shall not apply to any claim arising in a foreign country.”

In Zoltek I and II, the Court of Federal Claims denied the government’s motion for summary judgment, but stated that Section 1498(c) probably barred the action against the government.5

On appeal, the Federal Circuit in Zoltek III agreed that a Court of Claims action against the government was precluded.6 The Federal Circuit’s Zoltek III decision relied on NTP Inc. v. Research in Motion Ltd., 418 F.3d 1282, 1316 (Fed. Cir. 2005), for the proposition that “direct infringement under Section 271(a) is a necessary predicate for government liability under Section 1498.”

After the decision in Zoltek III, an action against the government in the Court of Federal Claims pursuant to Section 1498 was apparently barred. Zoltek then moved the Court of Federal Claims to transfer the case dealing with the F-22 to the U.S. District Court for the Northern District of Georgia, asked to substitute
Lockheed Martin as the defendant and asked to amend the complaint to assert an infringement claim against Lockheed under 35 U.S.C. § 271.

In Zoltek IV, the Court of Federal Claims granted Zoltek’s motion to amend the complaint and transfer. The Court of Federal Claims also certified the following question of law for interlocutory appeal to the Federal Circuit: “whether 28 U.S.C. § 1498(c) must be construed to nullify any government contractor immunity provided in § 1498(a) when a patent infringement claim aris[es] in a foreign country.”

In accepting the appeal, the Federal Circuit described the issues as “whether the trial court should have transferred the case and whether the court should have allowed the complaint to be amended to add Lockheed as a defendant.”

ZOLTEK V

The Federal Circuit’s Zoltek V decision holds that it was a legal error by the Court of Federal Claims to allow Zoltek to amend its complaint to add Lockheed Martin as a defendant and then to transfer the case to the Northern District of Georgia. Realizing that its earlier decision in Zoltek III had precipitated that legal error, the Zoltek V court sua sponte voted to address a part of the opinion en banc for the limited purpose of vacating the Zoltek III opinion.

After reviewing the history of Section 1498, the Federal Circuit determined that the Zoltek III decision had incorrectly relied on NTP v. Research in Motion, instead of the plain language of the statute. Although NTP did say that “direct infringement under Section 271(a) is a necessary predicate for government liability under Section 1498,” that case did not involve the government as a party.

Further, the analysis in NTP was provided as a “framework for analyzing Section 271(a).” As such, the statement was not a holding of the NTP case, and as dictum it is not binding.

The Federal Circuit’s Zoltek V decision further considered the earlier Motorola Inc. United States, 729 F.2d 765 (Fed. Cir. 1984), and Decca Ltd. v. United States, 640 F.2d 1156 (Ct. Cl. 1980), decisions on which the NTP holding relied. The Motorola decision had stated “the government can only be sued for any direct infringement of a patent (35 U.S.C. § 271(a)), and not for inducing infringement by another (Section 271(b)) or for contributory infringement (Section 271(c)).”

First, when the Federal Circuit decided Motorola in 1984, there was no Section 271(g), and the patent grant in Section 154(a)(1) “did not include the right to exclude others from using products made by a patented process — statutory provisions that were not implemented until 1988.”

Accordingly, the Federal Circuit in Zoltek V noted that “it was logical to use those sections of Title 35 to illustrate the idea that Section 1498 requires direct infringement and does not apply to indirect infringement. But using Section 271(a) as shorthand to define direct infringement under Section 1498 was not a holding of the case and did not reflect Motorola’s holding, which was that Section 1498 did not incorporate 35 U.S.C. § 287.”

Similarly, in reviewing the underlying facts and analysis of Decca, the Federal Circuit in Zoltek V confirmed that Decca can not be “read to mean that Section 1498 requires as a predicate liability under Section 271(a).” According to the Federal Circuit in Zoltek V, “when the panel in Zoltek III concluded that the government’s liability
under Section 1498(a) is limited to infringement under Section 271(a), it was relying on dictum as expressed by NTP, and not the tools of statutory construction.”

The earlier Zoltek III holding requiring liability under Section 271(a) as a predicate for Section 1498 would have also affected investigations at the International Trade Commission, which are brought pursuant to 19 U.S.C. § 1337. A patentee can petition the ITC for an exclusion order barring the importation of articles made outside the United States under a process that is covered by claims of a U.S. patent. But, under the provisions of Section 1337(l), an exclusion order is not available where the products are imported for the government. Instead, 19 U.S.C. § 1337(l) states, “Wherever any article would have been excluded from entry ... but for the operation of this subsection, an owner of the patent ... adversely affected shall be entitled to reasonable and entire compensation in an action before the United States Court of Federal Claims pursuant to the procedures of Section 1498 of Title 28.”

Congress therefore clearly intended that patent holders in ITC actions would have a remedy under Section 1498 for importation even when that importation is for the government. The Federal Circuit in Zoltek V noted that Zoltek III disturbed that Congressional scheme and intent.

Having determined that liability under Section 271(a) is not a predicate for government liability, the Federal Circuit in Zoltek V looked instead to the scope of the patent grant under 35 U.S.C. § 154(a)(1) to describe government liability. “[B]ecause the scope of the government’s ‘lawful right’ to ‘use’ the invention under Section 1498(a) is determined by the scope of Section 154(a)(1), Congress’s expansion of the patent grant makes Section 1498(a) cover the use of a product that incorporates the patented process by which it was created.”

The Federal Circuit in Zoltek V further held that “based on clear congressional intent to protect contractors from infringement so that the government’s important business may not be disturbed, it would be absurd to find that the importation or use of a product created through the use of a patented process as prohibited by 35 U.S.C. §§ 154(a)(1) and 271(g) fails to be the equivalent to use of the invention without lawful right to do so.”

The Federal Circuit in Zoltek V also considered whether Section 1498(c) applied, and it determined that “in this case, Section 1498(c) does not exempt the United States from liability because the infringing acts — use or importation of the products resulting from the process — occurred in the United States. Importation occurs when the product crosses the border of the United States, and use occurs within the United States. Both of those acts occur within the United States and any claim regarding those acts similarly arises within the United States.”

CONCLUSION

After a somewhat lengthy detour, the Federal Circuit’s Zoltek V decision appears to have returned the government, patent holders and contractors to their earlier-held expectations. Where a patented process is allegedly infringed by a contractor performing acts outside the United States to create products under a government contract and those products are later imported and/or used within the United States, a patent holder’s remedy is a suit against the government in the Court of Federal Claims pursuant to 28 U.S.C. § 1498.
NOTES

2 Zoltek Corp. v. United States (“Zoltek III”), 442 F.3d 1345 (Fed. Cir. 2006).
3 Zoltek V at *12.
5 Zoltek I, 51 Fed. Cl. 829; Zoltek II, 58 Fed. Cl. 688.
6 Zoltek III, 442 F.3d 1345.
7 Zoltek IV, 85 Fed. Cl. 409.
8 Zoltek V, 2012 WL 833892.
9 Id. at *9.
10 Id.
11 Id. at *10.
12 Id. at *11.
13 Id. at *14.
14 Id. at *15.
15 Id. at *16.

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