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En Banc Federal Circuit Decision Clarifies Contractor Immunity for Patent Infringement

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On March 14, 2012, the Federal Circuit issued its long-awaited ruling in *Zoltek Corp. v. United States*, No. 2009-5135. Acting *en banc*, the court clarified the scope of a contractor's immunity for patent infringement under 28 U.S.C. § 1498(a) when operating with the authorization and consent of the Government.[1] Reversing both itself and the Court of Federal Claims (CFC), the court held that the federal Government has waived its sovereign immunity under 28 U.S.C. § 1498(a) for all types of direct infringement of a United States patent, including for the importation of a product made overseas using a process that is patented in the United States. Further, the Federal Circuit held that the contractor is immune from individual liability to the patentee when the Government is subject to suit under § 1498(a).

Background

This case has spanned the better part of two decades and generated multiple opinions. In 1996, Zoltek sued the United States based on Lockheed Martin Corporation's (Lockheed) infringement of a Zoltek patent. Lockheed had the contract to manufacture the F-22 fighter plane for the United States. As part of the manufacturing process, Lockheed allegedly practices Zoltek's patented methods in Japan and imports the resulting products into the United States, potentially infringing Zoltek's patent under 35 U.S.C. § 271(g), which provides for infringement liability when a product made by a patented process is imported into or used in the United States.

Early on, the Government moved for summary judgment that, under 28 U.S.C. § 1498(c), the Government was not liable for Lockheed's overseas use of the claimed method. Section 1498(c) excludes "claim

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[s] arising in a foreign country" from the scope of section 1498(a). The trial court agreed that, because Lockheed was practicing Zoltek's patented process at least partially in Japan, the Government could not be held liable for Lockheed's conduct under section 1498(a). *Zoltek Corp. v. United States*, 51 Fed. Cl. 829 (2002) (*Zoltek I*).

In 2006, the Federal Circuit agreed that Zoltek had no claim for patent infringement, but it did not rely on § 1498(c) in reaching this conclusion. Instead, citing *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005), the Federal Circuit held that "direct infringement under section 271(a) is a necessary predicate for government liability under section 1498" and that "a process cannot be used 'within' the United States as required by section 271(a) unless each of the steps is performed within this country." *Zoltek Corp. v. United States*, 442 F.3d 1345 (Fed. Cir. 2006) (*Zoltek III*) (internal quotations omitted). Because Lockheed practiced at least some steps of Zoltek's claimed methods overseas, there could be no infringement under § 271(a) and thus no Government liability under 28 U.S.C. § 1498(a).

In 2009, on remand, Zoltek sought to amend its complaint to assert infringement directly against Lockheed under § 271(g) and to transfer that claim to the district court. The CFC concluded that, whenever § 1498(c) applies, it nullifies § 1498(a) in its entirety. According to the CFC, "section 1498(a) only insulates government contractors from suit when the Government can be found liable." *Zoltek v. United States*, 85 Fed. Cl. 409 (2009) (*Zoltek IV*). Concluding that the patentee would otherwise be left without any remedy whatsoever, the court rejected the Government's argument that, under the circumstances, § 1498(c) barred suit against the Government and § 1498(a) barred suit against the contractor. Thus, the trial court granted Zoltek's request to amend its complaint. Thereafter, the CFC certified the following controlling question of law to the Federal Circuit as an interlocutory appeal: "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."

The Partial *En Banc* Decision

Admitting error, the Federal Circuit's *en banc* holding reverses its decision in Zoltek III. The court now holds that, "under § 1498(a) the Government has waived its sovereign immunity for direct infringement, which extends not only to acts previously recognized as being defined by § 271(a) but also acts covered under § 271(g) due to unlawful use or manufacture." In other words, the Government has waived sovereign immunity for any direct infringement by a contractor operating with the authorization and consent of the Government.

In reversing *Zoltek III*, the en banc court relied on four primary reasons. First, the prior holding "was contrary to the plain language of § 1498." The court concluded that the plain language of the statute "waives the Government's sovereign immunity from suit when (1) an invention claimed in a United States patent; (2) is 'used or manufactured by or for the United States,' meaning each limitation is present in the accused product or process; and (3) the United States has no license or would be liable for direct infringement of the patent right for such use or manufacture if the United States was a private party."

Second, the full court concluded that the earlier decision "relied on dicta and a fundamental misreading of the statute." The court explained that the statement in *NTP* relied upon by the *Zoltek III* panel-that "direct infringement under section 271(a) is a necessary predicate for government liability under section 1498"-was not the holding of that case, and thus the *Zoltek III* panel was not bound thereby.

Third, the prior ruling "impermissibly rendered subsection (c) of § 1498 inoperative." Section 1498(c) eliminates Government liability "for a claim arising in a foreign country." By limiting § 1498(a) to activities within the United States, the Zoltek III panel in essence injected the same limitation into § 1498(a) that is already in § 1498(c). Such an interpretation, the court noted, contravenes the canon of statutory construction that disfavors an interpretation that renders a statutory subsection superfluous.

Finally, the earlier holding "caused 19 U.S.C. § 1337(l) to become ineffective while ignoring Congress's clear intent."[2] The full court examined the language and purpose of § 1337. The court reasoned that, "[b]ased on the plain language of § 1337, Congress clearly intends that patent holders shall have a remedy under 28 U.S. C. § 1498 for the importation of products made by a patented process if the products could have been excluded under § 1337."

Judge Dyk, the lone dissenter, argued both that the *en banc* decision was beyond the court's jurisdiction given the procedural posture and that it was wrong on the merits.

Panel Decision

With the full court having vacated its *Zoltek III* decision, the panel addressed the narrower question of whether Lockheed's actions in this case created liability under § 1498(a). The panel voted yes. The panel reasoned that, "[i]f 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 [35 U.S.C.] § 154(a)(1) and § 271(g). We hold that the Government is subject to the same liability in this case, and that precedent and legislative intent dictate that result."

Assuming the Federal Circuit's decision withstands any review by the Supreme Court, this decision should end the battle over who is potentially liable for the alleged infringement of Zoltek's patent. The saga continues, however, as the case has been remanded to the CFC for adjudication on the merits of liability.

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1 28 U.S.C. § 1498(a) provides:

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.

2 19 U.S.C. § 1337(l) prevents International Trade Commission exclusion orders from applying to "articles imported by and for the use of the United States, or imported for, and to be used for, the United States with the authorization and consent of the Government" and provides that the patentee shall instead be entitled to a remedy under 28 U.S.C. § 1498.