wiley

ARTICLE

The Government Made Me Do It: The Federal Circuit Expands the Reach of § 1498(a) to Protect Private Companies Performing "Quasi-Governmental Functions" from Traditional Patent Infringement Liability

October 23, 2014

On October 21, 2014, the United States Court of Appeals for the Federal Circuit ruled that IRIS Corporation (IRIS) must sue the federal government under 28 U.S.C. § 1498 for Japan Airlines Corporation's (JAL) use of IRIS's patented electronic passports as part of JAL's routine commercial operations at airports throughout the United States. *IRIS Corp. v. Japan Airlines Corp.*, No. 2010-1051 (Fed. Cir. Oct. 21, 2014). The Federal Circuit's decision marks an expansion of the protections afforded by § 1498(a) to private companies performing quasi-governmental functions outside of a Government contract.

IRIS owns United States patent no. 6,111,506 (the '506 patent), which claims methods of making secure identification documents including embedded computer chips, such as electronic passports. In 2009, IRIS sued JAL in the Eastern District of New York, alleging that JAL infringed the '506 patent by using electronic passports while boarding and processing passengers at domestic airports.

JAL moved to dismiss IRIS's action for failure to state a claim under Federal Rule of Civil Procedure 12(b)(6), arguing that IRIS's only remedy for JAL's alleged use of the '506 patent was an action against the government under § 1498. JAL also argued that the federal laws that require JAL to examine passports conflict with patent law, thereby exempting JAL from infringement liability. The district court granted JAL's motion on the basis of the conflict-of-laws rationale

Authors

Scott A. Felder
Partner
202.719.7029
sfelder@wiley.law

Practice Areas

Data Rights and Other Contractor IP Issues
Government Contracts
Intellectual Property

alone.

Following Second Circuit law, the Federal Circuit reviewed the dismissal of IRIS's infringement claim *de novo.* Focusing on 28 U.S.C. § 1498, rather than the conflict-of-laws argument, the Federal Circuit affirmed the dismissal.

Section 1498(a) is a patentee's exclusive remedy for the use or manufacture of patented inventions "by or for the United States." Specifically, patent owners are required to seek their "reasonable and entire compensation" for any such use or manufacture of their inventions in an action against the United States at the Court of Federal Claims. Thus, § 1498 insulates private parties acting "for the Government" and "with the authorization or consent of the Government" from traditional district court patent infringement actions.

In most cases that have examined the reach of § 1498, the private party is operating under a Government contract, rendering the "for the Government" prong of the analysis a foregone conclusion and collapsing the matter to a question of authorization and consent. Here, however, the reverse was true: the parties agreed that JAL had authorization and consent, but disputed whether JAL's use was "for the Government."

Following well-established caselaw, the Federal Circuit reiterated that "[a] use is 'for the Government' if it is 'in furtherance and fulfillment of a stated Government policy' which serves the Government's interests and which is 'for the Government's benefit.'" Performance of a Government contract is one way to satisfy this standard. Here, however, JAL was not operating under any Government contract. Nonetheless, the Federal Circuit concluded that the Government benefitted "because JAL's examination of passports improves the detection of fraudulent passports and reduces demands on government resources[,]" which "in turn, directly enhances border security and improves the government's ability to monitor the flow of people into and out of the country."

Put simply, in the Federal Circuit's view, "[w]hen the government requires private parties to perform quasi-governmental functions . . . there can be no question that those actions are undertaken 'for the benefit of the government'" and covered by § 1498.

This continues the Federal Circuit's efforts to reaffirm the broad protections afforded by § 1498, most recently seen in *Zoltek Corp. v. United States*, 672 F.3d 1309 (Fed. Cir. 2012). Under *IRIS*, companies filling quasi-governmental roles, even as part of their routine, commercial activities, can now assert that their infringing conduct is protected by § 1498. Indeed, some parties may argue that *IRIS* immunizes routine commercial activities occurring in a regulated environment from traditional patent infringement liability.