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# One Step Outside the Country, One Step Back from Patent Infringement

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## Intellectual Property

### *One Step Outside the Country, One Step Back from Patent Infringement*

In *Zoltek Corp. v. United States*,<sup>1</sup> the federal circuit addressed two questions related to the remedy available for a government contractor's unauthorized use of a patentee's patent. The court found that (1) 28 U.S.C. § 1498 is inapplicable if some of the steps in the claims of a method patent are practiced in a foreign country; and (2) an unauthorized use of a patentee's patent by a government contractor does not amount to a separate taking action under the Fifth Amendment. Although the court agreed on the aforementioned points, it could not agree on a rationale as to why. Such lack of clarity makes this opinion incorrigible because it is impossible to wade through its murky waters.

Further confusing the landscape, the court also fails to address in its controlling opinion how 28 U.S.C. § 1498(c), the extraterritoriality limitation provision confining U.S. liability to certain domestic activity, fits into the landscape. Omitting a discussion on subsection 1498(c), the only part of the statute addressing territoriality, is confusing and unhelpful. At the heart of failing to write an informative and useful decision is the court's lack of appreciation as to the purpose and underlying principles behind why section 1498 was written. Unfortunately, the Federal Circuit has denied a petition to rehear *Zoltek* or to hear it en banc.<sup>2</sup> Thus, no solution to calm the churned-up waters appears to be on the horizon.

In *Zoltek*, the plaintiff owned a patent on a method to produce silicon fiber products that could be used in stealth aircraft.<sup>3</sup> The U.S. government, through its contractors, used patentee's invention in designing and building the F-22 fighter.<sup>4</sup> In producing patentee's silicon fiber products, the government contractors manufactured and processed some of the sheets entirely abroad, and some, the Tyranno fibers, were manufactured abroad and processed in the United States.<sup>5</sup> Subsequently, patentee sued the United States for unauthorized use of its patent under 28 U.S.C. § 1498.<sup>6</sup> The government moved for partial summary judgment stating that patentee's claims were barred under 28 U.S.C. § 1498(c), which prohibits any claim arising in a foreign country.<sup>7</sup> The Court of Federal Claims dismissed the motion, agreeing that the claim was barred under section 1498(c), and "directed plaintiff to amend its complaint to allege a taking under the Fifth Amendment."<sup>8</sup> The trial court certified its section 1498 analysis and its holding that the plaintiff's claims of patent infringement "sounded in the Fifth Amendment, under section 28 U.S.C. § 1292(d)(2)" for interlocutory appeal.<sup>9</sup> Although the trial court's analysis addressed 1498(c) as the reason for why no patent infringement liability attached, the federal circuit did not address that statute in its holding.

Section 1498 in pertinent part reads:

(a) 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 a license of the owner thereof or lawful right to 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.

...

(c) The provisions of this section shall not apply to any claim arising in a foreign country.

The federal circuit produced four opinions in *Zoltek*, each having different rationales. In the controlling *per curiam* opinion, two judges (Dyk and Gajarsa) agreed that 28 U.S.C. § 1498 would only hold the United States liable for the use of a method patent if each and every step of the claimed method was practiced within the boundaries of the United States.<sup>10</sup> They

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<sup>1</sup> 442 F.3d 1345 (Fed. Cir 2006).

<sup>2</sup> *Zoltek Corp. v. United States*, 464 F.3d 1335 (2006).

<sup>3</sup> *Zoltek*, 442 F.3d at 1347.

<sup>4</sup> *Id.* at 1349.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> 442 F.3d at 1347.

also agreed that direct infringement under section 271(a) is a necessary predicate for government liability to attach under section 1498, but not agree as to why.<sup>11</sup> In addition, the two judges held that alleged patent infringement against the United States is not a taking of private property for public use under the Fifth Amendment.<sup>12</sup>

The second opinion, a concurring opinion by Judge Gajarsa, agrees that 271(a) is a necessary predicate for infringement because *NTP, Inc. v. Research In Motion (NTP)*<sup>13</sup> stated as much in its reasoning, however erroneously. Judge Gajarsa opines that the rationale for that proposition is weak and is better justified through another line of reasoning.<sup>14</sup> He notes that in *NTP*, the federal circuit mischaracterized the holding of *Decca v. United States*<sup>15</sup> in the footnote of another decision, *Motorola, Inc. v. United States*.<sup>16</sup> In that case, the court merely was articulating that the government, under 28 U.S.C. § 1498, cannot be sued for active inducement infringement under 35 U.S.C. § 271(b) or for contributory infringement under 35 U.S.C. § 271(c).<sup>17</sup> Thus, finding infringements of sections 271(b) and (c) is precluded in a § 1498 action. This does not mean, however, that a §1498 infringement must be a predicate for a 35 U.S.C. § 271(a) infringement as *NTP* interpreted the situation.<sup>18</sup> This mischaracterization is the catalyst for how the waters started to become cloudy.

Instead of relying on *NTP*'s weak reasoning to reject Zoltek's claims against the government under § 1498, Judge Gajarsa concluded that a "use" of a method claim of a patented invention occurs only when each and every step of that method is practiced.<sup>19</sup> Further, a use "arises in a foreign country" under 28 U.S.C. § 1498 (c) when any one of the claimed steps is practiced abroad.<sup>20</sup> Thus, Judge Gajarsa would have affirmed the trial court's findings with respect to its section 1498(c) analysis and barred plaintiff from its suit, regardless of the *NTP* precedent.<sup>21</sup>

Judge Dyk, in his concurring opinion, expressed why he believes *NTP* was correctly decided in concluding that the government "can only be liable for infringement under section 1498(a) if the same conduct would render a private party liable for the infringement under section 271(a)."<sup>22</sup> Judge Dyk saw the purpose of section 1498(a) as making the government and its contractors liable for "use" of a patented invention under the similar circumstances upon which a private party would be liable for a direct infringement under section 271(a) in the patent laws. He did not see a broader and separate purpose for why section 1498 was written.

Judge Plager dissented from the *per curiam* opinion and wrote his views separately. He did not agree that a claim under section 1498 is governed by the limitations of section 271(a). Judge Plager saw section 271(a) as solely addressing infringements among private litigants.<sup>23</sup> The only issue Judge Plager agreed with the panel on is that, for an infringement of a method claim to occur under 1498(a) or 271(a), each and every step of the method must be practiced.<sup>24</sup> He did not agree, however, that each step must be practiced within the United States, as is required under section 271(a).<sup>25</sup> "[D]ealing with infringement litigation between private parties [has] no direct application to infringement litigation against the United States under 28 U.S.C. § 1498."<sup>26</sup> Accordingly, Judge Plager would have held that plaintiff has stated a cause of action under § 1498

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<sup>11</sup> *Id.* at 1372 (J. Plager, dissenting).

<sup>12</sup> *Id.* at 1347.

<sup>13</sup> 418 F.3d 1282 (Fed. Cir. 2005).

<sup>14</sup> *Zoltek*, 442 F.3d at 1353.

<sup>15</sup> 640 F.2d 1156 (Ct. Cl. 1980).

<sup>16</sup> 729 F.2d 765, 768 n.3 (Fed. Cir. 1984).

<sup>17</sup> *Id.*

<sup>18</sup> *See NTP*, 418 F.3d at 1282.

<sup>19</sup> *Zoltek*, 442 F.3d at 1358.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> *Id.* at 1368.

<sup>23</sup> *Id.* at 1372.

<sup>24</sup> ***Id.* at 13779.**

<sup>25</sup> *Id.*

<sup>26</sup> *Id.* (citing *Motorola, Inc. v. United States*, 729 F.2d 765, 768 (Fed. Cir. 1984)).

with regard to the Tyranno mats manufactured in Japan, but processed in the United States.<sup>27</sup> He would have found no cause of action for all activity occurring entirely outside U.S. boundaries.<sup>28</sup>

In addition, Judge Plager analyzed in great detail why the unauthorized use of a patent by the government or its contractors exercises the taking power of the government requiring just compensation under the Fifth Amendment.<sup>29</sup> His professorial opinion exhibited an incredible command of takings law and is extremely convincing. For example:

In my view, the existence of a proper takings claim is an issue wholly independent of whether under § 1498 there is a valid claim that triggers a remedy under that statute. The latter is a question of statutory right granted by Congress under its legislative authority pursuant to the Constitution; the former is a matter of constitutional principle the vindication of which Congress has properly provided for by remedy in the Court of Federal Claims pursuant to the provisions of the Tucker Act. The mixing and merging of these two separate legal concepts in the manner the majority has done is incorrect as a matter of law, and leads them to an erroneous conclusion.<sup>30</sup>

In reading through these four opinions, very little is agreed upon and the sole areas of agreement have no common rationale. What is missing in all of these opinions is the purpose behind why section 1498 was written and the underlying policy reasons behind the statute. Judge Plager noted that section 1498 and section 271 relate to different players, the government and private litigants, but did not delve into this issue more deeply.

In 1928, the Supreme Court of the United States, with Chief Justice Taft writing for the Court, addressed the purpose of granting patentees a remedy against the United States where the government, through its own use or through that of its contractors, used a patent without a license.<sup>31</sup> The Court referred to the Naval Appropriations Act of 1918, the precursor to 1498(a), in holding that the “purpose of the [act] was to stimulate contractors and furnish what was needed for the war, without fear of becoming liable themselves for infringements to inventors or owners or assignees of patents.”<sup>32</sup> The Court further held that Congress, in passing the 1918 Act, “intended to secure to the owner of the patent the exact equivalent of what it was taking away from him. . . .”<sup>33</sup> Although the Court was clear in the purpose of the 1918 Act, the Federal Circuit failed to adequately address the purposes behind 28 U.S.C. § 1428 in *Zoltek*.

Instead, the federal circuit compared the scope of 35 U.S.C. § 271(a) of the Patent Act with that of 28 U.S.C. § 1498(a) instead of looking at the broad policy reasons behind section 1498 on its own merits. In other words, the court failed to acknowledge that the purpose of 28 U.S.C. 1498 is to protect the procurement process from any disruption through eliminating the threat of patent infringement lawsuits against U.S. government contractors.<sup>34</sup> Evidence that the purpose of 1498 is distinct from that of the Patent Act lies in the different remedies available. The Patent Act in Title 35 of the United States Code, allows for adequate compensation for patent infringement in various forms, including but not limited to, lost profits,<sup>35</sup> reasonable royalty,<sup>36</sup> treble damages,<sup>37</sup> injunctions,<sup>38</sup> and attorney fees.<sup>39</sup> In contrast, the remedy under 28 U.S.C. § 1498 is limited to “reasonable and entire compensation,” which disfavors awarding lost profits,<sup>40</sup> and punitive damages,<sup>41</sup> and

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<sup>27</sup> *Id.* at 1385

<sup>28</sup> *Id.*

<sup>29</sup> *Id.* at 1374-78.

<sup>30</sup> *Id.* at 1378.

<sup>31</sup> *Richmond Screw Anchor Co., Inc. v. United States*, 275 U.S. 331, 343-45 (1928).

<sup>32</sup> *Richmond*, 275 U.S. at 345. David R. Lipson, *We're Not Under Title 35 Anymore: Patent Litigation Against the United States Under 28 U.S.C. 1498(A)*, 33 PUB. CONT. L.J. 243, 247 (Fall 2003).

<sup>33</sup> *Richmond*, 275 U.S. at 345.

<sup>34</sup> *See id.* at 343-45; *see also* *Coakwell v. United States*, 372 F.2d 508, 511 (Ct. Cl. 1967) (citing *Richmond*, 275 U.S. at 343).

<sup>35</sup> 35 U.S.C.S. § 284 (LEXIS 2006).

<sup>36</sup> *Id.*

<sup>37</sup> *Id.* § 284.

<sup>38</sup> *Id.* § 283.

<sup>39</sup> *Id.* § 285.

<sup>40</sup> *Brunswick Corp. v. United States*, 36 Fed. Cl. 204, 208 (1996) (rejecting the trial court's award of lost profits because such a remedy assumes a right of exclusivity that does not exist in 1498 actions, which allow the United States to take a compulsory license) (quoting DONALD S. CHISUM, PATENTS § 20.03[6], at 20-27 (1992)). *Lessona Corp. v. United States*, 36 Fed. Cl. 204, 208 (1979) (en banc) (rejecting the trial court's award of lost profits and double

injunctions are generally unavailable.<sup>42</sup> Thus, the remedies alone make recovery under 28 U.S.C. § 1498 different from that under 35 U.S.C. § 271.

Instead of being a case that clarifies a patentee's remedy for the government's unauthorized use of a patent, *Zoltek* creates more questions than answers.

Lieutenant Colonel Katherine E. White

## *Government Contractor and Grant Researcher Affirmative Defenses Against Patent Infringement*

### *I. Introduction*

Acquisition personnel are being tasked to keep pace with as well as innovate in the procurement and management of intellectual property assets for the benefit of the U.S. government. Along these lines, the U.S. government has increased federal spending for the development of research laboratories and research programs within private and public university settings. Practical and technical procurement and grant issues arise when the U.S. government undertakes research relationships with universities and private laboratories. These issues range from whether procurement regulations apply to agreements entered into between the federal government and contractors or grant recipients, to whether universities are performing research "on behalf of the government" in order to qualify for immunity from claims of infringement of intellectual property. The Federal District Court for the Middle District of North Carolina recently considered the latter issue in *Madey v. Duke University*.<sup>43</sup> This case represents protracted litigation which begun in 1995 involving claimed patent rights of a university researcher and alleged patent infringement based on unauthorized use of patented inventions by Duke University.

The issues raised and addressed in the district court's decision in *Madey v. Duke University* are significant to the U.S. government, specifically the Department of Defense's research and technology innovation missions. Specifically, universities represent fertile ground for conducting cutting-edge basic and applied research. In fact, the research being done by university faculty and graduate students is often a major component in the federal government's race to remain ahead of foreign governments in the development of dual-use technologies. Accordingly, *Madey v. Duke University* is an important case for government attorneys, acquisition/grant professionals, and technical managers to consider so that the U.S. government can better ensure that universities and their talented personnel remain willing and able to perform research under government contracts or federal grants, absent the specter of potential claims of intellectual property infringement.

### *II. Background*

In 1988, Duke University hired Dr. John M.J. Madey, a prominent scientist in the field of laser technology, as a professor in the physics department. Duke expected Dr. Madey to assist in establishing a Free Electron Laser Laboratory (FEL Lab) as well as assist the university to obtain federal research grants.<sup>44</sup> Dr. Madey in fact assisted Duke in obtaining federal research grants from the Office of Naval Research (ONR).<sup>45</sup> Dr. Madey's FEL Lab contained substantial equipment that required Duke to construct an extension onto its physics building in order to house the equipment. Several pieces of equipment contained in Dr. Madey's lab were covered by patents owned by Madey, i.e., U.S. Patent No. 4,641,103 covering a microwave electron gun, and U.S. Patent No. 5,130,994 covering a free-electron laser oscillator for simultaneous narrow spectral resolution and fast time resolution spectroscopy.<sup>46</sup>

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damages as beyond the reasonable and entire compensation damages permitted under 1498). See Lipson, *supra* note 32, at 253-54 (discussing the disfavored status of lost profits in § 1498 actions because they are based in an eminent domain theory that allows the United States to take a license and is at odds with an exclusive right).

<sup>41</sup> *Lessona*, 36 Fed. Cl. at 208.

<sup>42</sup> *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1282 (Fed. Cir. 1988) (stating: "In our view, the statute, 28 U.S.C. § 1498(a), which the injunction is said to contravene, assures it that right without interference from [alleged infringer].")

<sup>43</sup> 413 F. Supp. 2d 601 (M.D.N.C. 2006).

<sup>44</sup> *Id.* at 603.

<sup>45</sup> *Id.*

<sup>46</sup> *Id.*