Gov't Patent Infringement: Zoltek V. U.S.

J. Steven Rutt, J.D., Ph.D.,
Foley & Lardner, L.L.P.
Washington DC Office

FOLEY

FOLEY & LARDNER LLP

- Presented: Aerospace Industries Association (AIA)
- Arlington, VA
- April 23, 2007

FOLEY

FOLEY & LARDNER LLP

TODAY'S OUTLINE

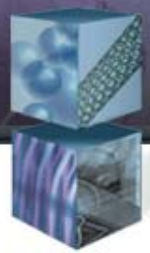
- INTRODUCTIONS
- ZOLTEK OVERVIEW – WHY IMPORTANT
- ZOLTEK FACTS
- CONSTITUTION & STATUTES
- COURT OF FEDERAL CLAIMS
- 2006: FEDERAL CIRCUIT
- 2007: SUPREME CT. CERT. PETITION
- PRACTICE TIPS
- CONCLUSIONS

AEROSPACE & NANOTECH?

FOLEY

FOLEY & LARDNER LLP

AEROSPACE & NANOTECHNOLOGY

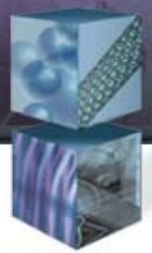


- **Lockheed Martin Hosts Small Business Nanotechnology Day**
- *Business Wire* (April 13, 2007)
- ORLANDO, Fla., Apr 13, 2007 (BUSINESS WIRE) -- Lockheed Martin (NYSE: LMT) will host 23 small business nanotechnology enterprises on Friday, April 13, to showcase a wide range of nanotechnology products as well as encourage networking on this emerging science.
- "While nanotechnology implies processing materials or making devices at the molecular level, this area of science is truly in its infancy," said Dr. Les Kramer, director and chief technologist at Lockheed Martin Missiles and Fire Control. "There is tremendous potential in nanotechnology and related disciplines to have a very positive impact on our future. For example, weapons will become smaller, lighter, and smarter. Electronics will shrink in size, but have greater capabilities and memory. Sensors will see farther, with greater resolution."

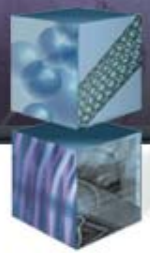
ZOLTEK LITIGATION REVIEW

- Rutt et al., *Nanotechnology Law & Business*, "A New Pitfall in Patenting Nanomaterial Manufacturing: The Need for Reform" (December 2006)

ZOLTEK: PRESENT STATUS



- ZOLTEK INITIATES PATENT INFRINGEMENT LAWSUIT AGAINST US GOVERNMENT
- GOV'T SEEKS FAST EXIT !
- UNUSUAL FEDERAL CLAIMS COURT OUTCOME: ZOLTEK "WINS" ABILITY TO STAY IN LITIGATION ON AN UNCONVENTIONAL TAKINGS THEORY
- 2006, FEDERAL CIRCUIT RULED AGAINST ZOLTEK, TAKING AWAY TAKINGS THEORY
- FEBRUARY 2007, CERT PETITION FILED WITH SUPREME COURT



PATENT LITIGATION

- Zoltek initiates patent litigation for carbon fiber patent, RE 34,162
- Method of manufacture claims
- Lockheed Martin production of F-22
- Subcontracts go to Japan
- 10 years of litigation, suit filed 1996

F-22 – JAPAN MADE??!!

FOLEY

FOLEY & LARDNER LLP

WHY ZOLTEK IMPORTANT?

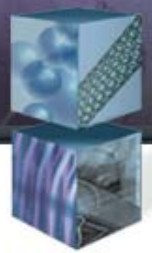
- FUNDAMENTAL TAKINGS JURISPRUDENCE WORTH BILLIONS
- In 2001, the government purchased more than $143 billion of equipment and services from top 100 defense contractors.
- In 2003, $198 billion.
- Between 2001-2006, five of the large defense contractors collectively were issued 7,678 patents.
- Invitation to future “takings”??

- CONSTITUTIONAL LAW
- STATUTORY LAW

FOLEY

FOLEY & LARDNER LLP

COMPLEX LEGAL HISTORY DATING BACK 100 YEARS !



- **APPENDIX A: TIMELINE OF LEGAL DEVELOPMENTS**
- 1881 – Supreme Court's *James v. Campbell*, 104 U.S. 356
- 1887 – Federal legislation: Tucker Act (added to then Court of Claim's jurisdiction "All claims founded upon the Constitution of the United States ... in cases not sounding in tort..."
- 1894 – Supreme Court's *Schillinger v. United States*, 155 U.S. 163 (holding that Court of Claims did not have jurisdiction over patent infringements because such actions sounded in tort and were thus not within the Tucker Act.)
- 1910 – Federal Legislation: Original 1498 legislation
- 1912 – Supreme Court's *Crozier v. Fried. Krupp Aktiengesellschaft*, 224 U.S. 290
- 1918 – Amendment to 1910 Act; required that any patent infringement action brought against a government contractor who is under contract and doing work for the government be brought against the United States in the Court of Claims. This aided the war effort by lessening government contractors' exposure to patent liability.
- 1918 – *Supreme Court's Cramp & Sons Ship & Engine Bldg. Co. v. Int'l Curtis Marine Turbine Co.*, 246 U.S. 28.
- 1928 – *Richmond Screw Anchor Co. v. United States*, 275 U.S. 330 (1928).
- 1933 · *Jacobs v. United States,* 290 U.S. 13 (1933).
- 1960 – 28 USC § 1498 amended to include § 1498(c), excluding government liability in cases where the claim arises outside of the United States. The language was proposed by the State Department.
- 1988 – 35 U.S.C. § 271 amended to include § 271(g).
- 1988 – Zoltek enters carbon fiber business
- 1992 – Zoltek IPO
- 1996 – Zoltek sues government
- 2003 – Federal Claims Court final ruling in Zoltek.
- 2005 – NTP Federal Circuit case (Blackberry case).

FOLEY

FOLEY & LARDNER LLP

U.S. Constitution

- 5th amendment: "Takings"
- [N]or shall private property be taken for public use, without just compensation.

Patent Statute #1

- 35 USC § 261: "...patents shall have the attributes of personal property."
- Patents are property

Patent Statute #2

- 35 USC § 271(a): "[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefore, infringes the patent."

Patent Statute #3 (1988)

- 35 USC § 271(g): "Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent."

Federal Claims Court: Statute #1

- 28 USC § 1491 (Tucker Act): "The United States Court of Federal Claims shall have jurisdiction to render judgment upon any claim against the United States founded either upon the Constitution or upon any express or implied contract with the United States, or for liquidated or unliquidated damages **in cases not sounding in tort**."

STATUTE #2: PATENT INFRINGEMENT BY FEDERAL GOVERNMENT AND CONTRACTORS

- 28 USC § 1498(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 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 US Court of Federal Claims for the recovery of his **reasonable and entire compensation for such use and manufacture.**

STATUTE #3

- 28 USC § 1498(c): "The provisions of this section shall not apply to any claim arising in a foreign country."

ZOLTEK V. GOVERNMENT: LINING UP THE POSITIONS

FOLEY

FOLEY & LARDNER LLP

COURT OF FEDERAL CLAIMS

- FOR ZOLTEK:
- BAD NEWS: No infringement under statute: 1498, “legislative gap”
- GOOD NEWS: Infringement based on takings theory (Aggressive Judge)

FEDERAL CIRCUIT DECISION

- REJECTION OF TAKINGS THEORY AND 1498 THEORY (2-1, splintered majority)
- "We conclude that under § 1498, the U.S. is liable for the use of a method patent only when it practices every step of the claimed method in the U.S."
- "...we reverse the trial court's determination that it had jurisdiction under the Tucker Act based on a violation of the Fifth Amendment."

STATUTORY ISSUE, 1498

- Federal Circuit cites Blackberry case "direct infringement under section 271(a) is a necessary predicate for government liability under section 1498." AND
- "a process cannot be used within the U.S. as required by section 271(a) unless each of the steps is performed within this country."

CONSTITUTIONAL ISSUE

- Federal Circuit accepts gov't position that 1894 Sup Ct Schillinger v. U.S. controls.
- Rationale: "The Supreme Court rejected an argument that a patentee could sue the government for patent infringement as a Fifth Amendment taking under the Tucker Act. Schillinger remains the law."

SCHILLINGER OVERRULED?

- "The trial court determined that the Sup Ct 'effectively overruled Schillinger sub silentio in Crozier v. Fried. Krupp Aktiengesellschaft, (1912). ... We disagree. The Court of Federal Claims, like this court, is bound by Schillinger, and the trial court rulings to the contrary are not viable."

LOGIC OF FEDERAL CIRCUIT

- Patent rights are a creature of federal law.
- Need exception to sovereign immunity
- In response to Schillinger, Congress provided a specific sovereign immunity waiver for a patentee to recover for infringement by the government. Had Congress intended to clarify the dimensions of the patent rights as property interests under the Fifth Amendment, there would be no need for the new and limited sovereign immunity waiver.

SUPREME COURT PETITION

- February 2007, two questions presented:
- 1. Whether conduct by the government through its authorized contractors that would otherwise constitute patent infringement under § 271(g) or § 271(a) is a taking of property subject to the Fifth Amendment?

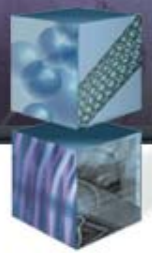
SUPREME COURT PETITION

- 2. Whether a patent holder can seek compensation in the Court of Federal Claims for such otherwise infringing conduct either: (A) under § 1498, notwithstanding that some or all steps of the process were performed outside the U.S.; or, if not, (B) as a claim for just compensation under the Fifth Amendment cognizable pursuant to the Tucker Act...?

Core Argument by Zoltek

- Patent rights are property
- Identical activity, if conducted by a wholly private party, would constitute infringement
- Statutory Compensation: § 1498
- In alternative, Constitutional takings claim
- CAUTION: SOVEREIGN IMMUNITY

Zoltek Interpretation of Schillinger



- Schillinger involved private conduct, not gov't taking (gov't disclaimed responsibility, not authorized conduct)
- Schillinger before the 1910 Act and 1918 amendment
- Superceded by Sup Ct Crozier case
- Sup Ct 1933 Jacobs case recognized non-statutory, constitutional basis for takings remedy under 5th Amd.
- Schillinger inapplicable or should be overruled

Zoltek Conclusion:

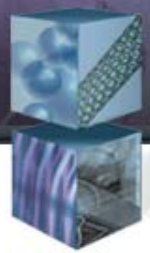
- Sup Ct should grant certiorari and adopt a broader construction that would be consonant with Congress' statutory purpose and constitutional duty, and that would avoid the forced resolution of a constitutional question that Congress has displayed no desire to force.

- **April 4, 2007 posting: Property Profs Wanted for S.Ct. Amicus Brief**
- Adam Mossoff (Michigan State University College of Law) is organizing an amicus brief asking the Supreme Court to take the Zoltek case on cert.....

PRACTICE TIP #1

SHIP CONTRACTS/WORK OUT OF U.S. ??!!

Judge Plager: "There is no basis in law or policy for absolving the Government from liability, now and forever, ... just because any one step of a multi-step patented method can be found to have occurred outside the U.S. – **that is an invitation to strategic conduct if ever there was one**."



PRACTICE TIP #2

COMPOSITION/DEVICE CLAIMS VERSUS METHOD CLAIMS

CAUTION: PRODUCT-BY-PROCESS CLAIMS

PRACTICE TIP #3

- CONSIDER ROLE OF FEDERAL GOVERNMENT IN THE MARKETS
- PREACHING TO THE CHOIR !

PRACTICE TIPS #4

- OBTAIN FOREIGN PATENTS ?

- **(BUT) 90 % Noninfringement Rate**: Japan today has the toughest patent system in the world in terms of the odds of a patentee winning a patent trial against an accused infringer:
- Japanese trial courts hold against patentees in nearly 90 % of all cases, according to statistics released today by Eiji Katayama at the "Fordham Conference", the law school's Fifteenth Annual Conference on International Intellectual Property Law & Policy that commenced yesterday.

PRACTICE TIPS #5

- BECOME KNOWLEDGEABLE ABOUT THE COMPLEX LEGAL FRAMEWORK FOR MODERN PATENT INFRINGEMENT LITIGATION INCLUDING INTERNATIONAL BORDER CROSSINGS

PRACTICE TIPS #6

- AT CONTRACT STAGE, CONSIDER EXTRATERRITORIALITY CAREFULLY IN WORKING THROUGH PATENT LICENSE AND SUBLICENSE ISSUES
- AGAIN, PREACHING TO CHOIR !

PRACTICE TIP #7

- Trade secret versus patent for technology that cannot be reverse engineered
- Also note: defensive publication

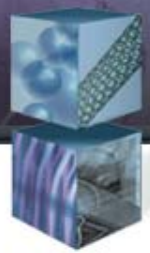
- PREDICTIONS?

FOLEY

FOLEY & LARDNER LLP

RISK ARBITRAGE: ZOLTEK STOCK PRICE???

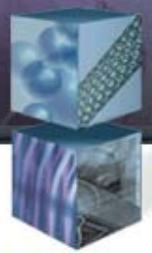
FOLEY
FOLEY & LARDNER LLP



IRONY:

- GOVERNMENT NOT EVEN USING CARBON FIBERS IN THE F-22??!!
- DOCTRINE OF EQUIVALENTS ?

RECENT AIPLA QUARTERLY JOURNAL STUDY:



- "We are inclined to believe that patentees are too often "pushing the envelope" in quests for financial return on their investments in patents. They overvalue their patents and assign an unrealistic scope to the language of the patent claims, driven perhaps by what they thought the claims ought to have said."

(Janicke et al., Vol. 34, No. 1, Winter, 2006)

ACKNOWLEDGEMENTS

- Coauthors: Steve Maebius, Leon Radomsky (Patents)
- Phil Nacke, David Ralston (Govt K)

- srutt@foley.com
- 202-672-5351

FOLEY
FOLEY & LARDNER LLP