Pitfalls Government Contractors Should Avoid When Sued In District Court For Patent Infringement: Asserting the Section 1498(a) Affirmative Defense

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April 26, 2024

When the U.S. Government (the "Government") is the customer of a patented item, with some exceptions, the patentee must bring the patent action in the Court of Federal Claims ("CFC") against the United States and not against the government contractor.[1] Although the governing statute, 28 U.S.C. § 1498(a), does not prevent patentees from filing a patent infringement action against government contractors in the district courts, when applicable, the statute will stop an infringement case from going forward in the district courts. It is incumbent upon the contractor to timely plead § 1498(a) as an affirmative defense in the answer lest the defense be waived. The contractor should produce to the court an unredacted copy of the government contract, point to the pertinent clauses, and move for summary judgment on the grounds that the Government, rather than the government contractor, is the infringer.

In one recent exemplary case, the Defendant contractor found itself in the U.S. District Court for the District of Delaware facing a complaint for patent infringement related to its COVID-19 vaccine. As it was a government contractor, the Defendant moved to dismiss under Federal Rule of Civil Procedure 12(b)(6), citing § 1498(a). In its papers, the Defendant provided the district court with a heavily redacted copy of its government contract and claimed that all of the accused sales were "for the Government and with the authorization or consent of the Government" as required by the statute. The Defendant even produced a statement from the Government to the effect that the vaccines were "for the Government and with the authorization or consent of the Government". But the Defendant's motion was unsuccessful, and the case proceeded into fact discovery before the district court. At present, the parties in this case are still conducting discovery on the 1498 issue, recently had a Markman hearing, and are waiting on the Markman order. The way this case proceeded illustrates some of the pitfalls that can disrupt a government contractor's attempt to make use of § 1498(a).

First, a defense contractor should not assert its defense through a motion to dismiss the complaint pursuant to Rule 12(b)(6), as that is typically an improper vehicle. Such motions are made on the pleadings, and a § 1498(a) affirmative defense normally relies on facts that are not in the complaint. While it is true that a motion that presents matters outside of the pleadings can be treated as a motion for summary judgment, that conversion is discretionary with the court, which instead could simply exclude the extraneous matter from consideration.[2] Whether the court will exercise its discretion and allow the conversion is not predictable.

Second, an unredacted copy of the government contract should be presented to the court in the motion papers, *in camera* if necessary and if the court allows. But the court should get the entire document to review. If a redacted copy of the contract is submitted to the court, it may be incomprehensible and thus not dispositive. Generally speaking, one need not redact anything in a contract submitted to a court to review and construe, because the court can maintain confidentiality through a protective order and a signed contract should not present any issues of attorney-client privilege. If there is more than one relevant contract with the Government, all of them should be disclosed, as it is possible for there to be a contract with the Government for products that do not qualify under § 1498(a).

Third, the accused products may be a mix of products for the Government and products for the commercial world. It is

not unusual for accused products to have civilian customers in addition to the Government customer, and in some cases, not all of the accused sales are for the Government. Contractors should not oversell the § 1498 defense to the district court. When moving to exclude the § 1498 products, contractors should know, and take a clear position on, which and how many of the accused products were made for the Government. While the CFC has jurisdiction over the products for the Government, the district courts have original jurisdiction over the accused products for the commercial world.

The consequence of not avoiding these pitfalls is full blown discovery for all of the accused products, when at most only a portion of the accused products are rightfully subject to litigation in the district courts. In some cases, the district judge has ordered full discovery, even in the face of a Government statement that the accused products were for the Government and with the Government's authorization and consent. By implementing thoughtful terms and assurances, however, government contractors can better mitigate against the risk of being sued in district court for infringing a patent.

As background, § 1498(a) states, "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."

In 1918, Congress added "manufacture" to § 1498 after government contractors were found liable for patent infringement when producing warships in accordance with the Navy's specifications during World War I.[3] This amendment was made to address the "difficult situation" where contractors that manufacture patented articles for the Government "are exposed to expensive litigation" and "are reluctant to take contracts." [4] The addition of "manufacture" to § 1498 "indicates Congressional intent to protect government contract awardees . . . from infringement claims from patent holders."[5]

The statutory purpose of § 1498 was thus to "relieve the contractor entirely from liability of every kind for the infringement of patents in manufacturing anything for the government" in order "to stimulate contractors to furnish what was needed . . . without fear of becoming liable themselves for infringements to inventors or the owners or assignees of patents."[6]

Accordingly, § 1498(a) permits the Government to take a license to a patented invention during times of need, while providing immunity from claims of infringement to the private company building the patented invention on the Government's behalf. This framework enables the Government to procure its requirements without any threat of injunction, while offering patentees a venue to later pursue compensation in a suit against the Government before the CFC.[7] As the Federal Circuit has explained, § 1498 acts as a "consent to liability by the United States." [8]

It may appear upon reading that § 1498(a) is jurisdictional in nature, but that is not the case. The Supreme Court in 1926 and the Federal Circuit in 1990 ruled that § 1498(a) is not jurisdictional, leaving district judges to proceed unfettered to examine the facts to ensure § 1498(a) is indeed applicable.[9]

Section 1498(a) is properly raised where a private party's use of a patented invention is (1) "for the Government" and (2) with the "authorization and consent of the Government." [10] 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."[11] Many courts assume that a use is "for the Government" if the accused infringer is performing under a government contract.[12] However, conduct leading up to the award of a government contract has also been found to be "for the Government." [13] Under certain circumstances, even conduct between private parties, outside of any contract and without direct government involvement, has been found to be "for the Government." [14]

The "authorization and consent of the Government" can be express or implied. [15] The most reliable method of

expressly satisfying this is to include an “Authorization and Consent” clause, such as FAR 52.227-1, in one’s contract with the Government.[16] Additionally, the Government can intervene by granting authorization and consent even after the patent owner has brought suit.[17]

Ideally, patent holders would identify in advance when a suit should be filed against the Government in the CFC rather than against the private party alleged infringer in federal district court. But sometimes it is unclear whether the facts call for a Federal Claims suit, and other times the plaintiff simply files in the wrong forum. In such situations, § 1498(a) operates as an affirmative defense, which can be raised to overcome the claims, in favor of the patentee pursuing its suit against the Government before the CFC.[18] Importantly, under 28 U.S.C. § 1500, a plaintiff cannot sue the Government in the CFC while simultaneously pursuing its case against the contractor in district court: “[t]he purpose of this section is to require the plaintiff to make an election between a suit filed in the Claims Court and one brought in another court when the same basic `claim' is prosecuted against the United States, or an agent of the United States, in both courts simultaneously.”[19]

Accused infringers should first consider the appropriate vehicle for their § 1498(a) defense. Typically, a defendant files either a Rule 12(b)(6) motion to dismiss for failure to state a claim, or a Rule 56 motion for summary judgment. However, courts finding that § 1498(a) was applicable have overwhelmingly done so in the context of motions for summary judgment. In fact, many courts have converted the defendant’s motion to dismiss into a motion for summary judgment before finding the suit was barred under § 1498(a).[20] Thus, the most viable and straightforward implementation of a § 1498(a) defense is in the form of a motion for summary judgment.

Accused infringers should also consider how to raise the § 1498(a) defense from an evidentiary standpoint. When briefing early in discovery, defendants should take care to attach all the documentary evidence needed to provide the proper basis for dismissal. This is important because the § 1498(a) defense is a highly factual determination,[21] and much of the relevant evidence is under the accused infringer’s control. In the large majority of § 1498(a) cases, this means attaching all relevant contracts and subcontracts with the Government.

For example, in *Arlton v. Aerovironment,* the Court relied solely on the contracts and subcontracts Defendant produced with its motion for summary judgment, as well as a statement of interest filed by the Government, in finding that Plaintiff’s Rule 56(d) motion for additional discovery was unwarranted and that Plaintiff’s claim for patent infringement was barred by § 1498(a).[22] In *Saint-Gobain*, the Defendant provided the Court with unredacted versions of its government contracts to review *in camera*.[23]

Another issue with allowing a case to proceed in district court when it should be brought at the CFC is that the government contractor may be exposed to discovery regarding information that would not have been at issue at the CFC. First, unlike private parties, the Government is not required to pay extra compensation for “willful infringement.”[24] Second, the Government can only be sued for direct infringement of a patent, and not for inducing infringement by another or for contributory infringement.[25] Third, unlike the district courts, the CFC is precluded from granting injunctive relief except in very narrow circumstances.[26]

If unable to avoid discovery altogether, a secondary approach is to limit discovery to evidence regarding the § 1498(a) defense. For example, in *Saint-Gobain*, the parties filed a stipulated temporary restraining order limiting discovery to the sole issue of Defendant’s § 1498(a) defense. [27] Similarly, in *Racing Optics*, the parties filed a joint position statement proposing an abbreviated period of discovery to address only Defendant’s § 1498(a) defense. [28]

In sum, an excellent opportunity for government contractors to mitigate the burden of discovery is through the utilization of a § 1498(a) defense early in the case, but there are many pitfalls they must avoid when doing so. An understanding of whether the underlying infringement was “for the Government” and “with the authorization or consent of the Government” may lead to the filing of motions for summary judgment early in the discovery phase, or may possibly limit the scope of discovery. Unfortunately, because there is no nationwide standard for the extent of

discovery needed in a case where § 1498(a) has been raised, the timing and format can vary significantly. Some courts may send the case to the CFC early in discovery, while others will not decide the issue until extensive discovery has been conducted. Whatever the case, the procedural handling of a § 1498(a) defense has been left to the urgings of the parties and, ultimately, the discretion of the court.

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1. 28 U.S.C. § 1498(a). ↩
2. Fed. R. Civ. P. 12(d).↩
3. *See FastShip, LLC v. U.S.*, 892 F.3d 1298, 1304 (Fed. Cir. 2018) (citing *Zoltek Corp. v. United States*, 672 F.3d 1309, 1315 (Fed. Cir. 2012)). ↩
4. *See id*. ↩
5. *Id*. ↩
6. *See Richmond Screw Anchor Co. v. U.S.*, 275 U.S. 331 (1928). ↩
7. Section 1498(a) limits a patent owner's remedy for infringement of inventions "used or manufactured by or for the United States" to an "action against the United States in the United States Court of Federal Claims for the recovery of . . . reasonable and entire compensation for such use and manufacture." ↩
8. *See Madey v. Duke Univ.*, 307 F.3d 1351, 1359 (Fed. Cir. 2002). ↩
9. *Crater Corp. v. Lucent Techs., Inc.*, 255 F.3d 1361, 1364 (Fed. Cir. 2001) ("In *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544 (Fed. Cir. 1990), we noted that pursuant to the United States Supreme Court's decision in *Sperry Gyroscope Co. v. Arma Engineering Co.*, 271 U.S. 232, 235–36 (1926), § 1498(a) 'is to be applied, at least with respect to suits to which the United States is not a party, as a codification of a defense and not as a jurisdictional statute.'"). ↩
10. 28 U.S.C. § 1498(a). ↩
11. *IRIS Corp. v. Japan Airlines Corp.*, 769 F.3d 1359 (Fed. Cir. 2014) (quoting *Madey v. Duke Univ.*, 413 F. Supp. 2d 601, 607 (M.D.N.C.2006)) (internal quotations omitted). ↩
12. *See Sevenson Envtl. Servs., Inc. v. Shaw Envtl., Inc*., 477 F.3d 1361, 1366 (Fed. Cir. 2007). ↩
13. *Trojan, Inc. v. Shat-R-Shield, Inc.*, 885 F.2d 854, 856-57 (Fed. Cir. 1989). ↩
14. *See supra* note 20, at 1362. ↩
15. *Id*. ↩
16. *See Saint-Gobain Ceramics & Plastics, Inc. v. II-VI Inc.*, 369 F. Supp. 3d 963 (C.D.Cal., 2019). ↩
17. *See supra* note 20 at 1363 ("We also note that [the Government] has unequivocally stated its position that suit under § 1498(a) is appropriate here. . . . (. . .'This is use "for the Government." . . .'). Although the government's statement is not dispositive, it reinforces our conclusion that the United States has waived sovereign immunity in this case and, therefore, that IRIS's exclusive remedy is suit for recovery against the United States under § 1498(a)."); *see also Advanced Software Design Corp. v. Fed. Rsrv. Bank of St. Louis*, 583 F.3d 1371, 1376 (Fed. Cir. 2009) ("Alternatively, the district court found that the government consented 'post hoc' by seeking to intervene on the defendants' behalf during this litigation; the court stated that this 'seeking of intervention itself (and not the arguments) unambiguously demonstrates that the government authorizes and consents post hoc to any infringement that may have occurred on the government's behalf.'"); *Arlton v. Aerovironment, Inc.*, 2021 WL 1589302, at *10 (C.D. Cal., 2021) ("Further, assuming the Government did instruct Defendant to avoid the technology claimed in the '763 Patent, the Statement of Interest shows that the Government retroactively authorizes and consents to the Accused Activities."). ↩
18. *See supra* note 25 at 963 (granting motion for summary judgement because of defendant's immunity under § 1498). ↩
19. *Hill v. U.S.*, 8 Cl. Ct. 382 (1985); *see also Astornet Technologies Inc. v. BAE Systems, Inc.*, Case Nos. 2014-1854, 2015-1006, 2015-1007 (September 17, 2015) (After re-filing the case due to having previously simultaneously sued the U.S. in the CFC and the contractors in district court, which is not permitted under 28 U.S.C. § 1500, the district court dismissed this action because, under 28 U.S.C. § 1498, infringement claims involving use by the U.S. must be brought exclusively in the CFC). ↩

20. *See Toxgon Corp. v. BNFL*, Inc., 312 F.3d 1379, 1382–83 (Fed.Cir.2002) (holding that where a private party asserted § 1498 as an affirmative defense, the district court was "justified in treating the [Rule 12(b)(6)] dismissal as a [Rule 56] summary judgment since the Federal Rules of Civil Procedure permitted that approach); *see also supra* note 25 at 966; *Hutchinson Industries Inc. v. Accuride Corp.*, 2010 WL 1379720 (D.N.J. 2010); *Advanced Software Design Corp. v. Fed. Rsrv. Bank of St. Louis*, 2007 WL 3352365 (E.D. Mo. 2007), *aff'd*, 583 F.3d 1371 (Fed. Cir. 2009).↩
21. *See supra* note 21 *at* 1365 (Fed. Cir. 2007); *see also Toxgon*, 312 F.3d at 1382 ("[i]f appropriate, a defense arising under section 1498(a) should be resolved by summary judgment under Rule 56 rather than a motion to dismiss under Rule 12."). ↩
22. [IN CHAMBERS] ORDER REGARDING DEFENDANT'S MOTION FOR SUMMARY JUDGMENT (DKT. NO. 35), AND PLAINTIFFS' MOTION FOR LEAVE TO FILE FIRST AMENDED COMPLAINT AND JOIN LITE MACHINES CORPORATION AS A PLAINTIFF (DKT. NO. 46), *Arlton v. Aerovironment, Inc.*, 2021 WL 1589302 (C.D. Cal., 2021) (Dkt. No. 58). ↩
23. *See Saint-Gobain Ceramics and Plastics, Inc. v. II-VI, Inc.*, 2019 WL 1460619, at *2 (C.D. Cal., 2019). ↩
24. *See Leesona Corp. v. U.S.*, 599 F.2d 958, 969 (Ct. Cl.) (holding that Section 1498(a) does not require the Government, unlike private parties, to pay compensation for "willful infringement"), cert. denied, 444 U.S. 991 (1979).↩
25. *See Decca Ltd. v. U.S.*, 640 F.2d 1156, 1167 (Ct. Cl. 1980), cert. denied, 454 U.S. 819 (1981). ↩
26. *See, e.g., Kanemoto v. Reno*, 41 F.3d 641, 644–45 (Fed. Cir. 1994) ("The remedies available in [the Court of Federal Claims] extend only to those affording monetary relief; the court cannot entertain claims for injunctive relief or specific performance, except in narrowly defined, statutorily provided circumstances[.]"), *quoted in Columbus Reg'l Hosp. v. U.S.* , 990 F.3d 1330, 1354 (Fed. Cir. 2021). ↩
27. *See supra* note 25 at *1 ("Though there were a few modifications to the order proposed by the parties, the Court adopted the language put forth by the parties limiting the discovery solely to II-IV's affirmative defense under 28 U.S.C. § 1498(a) and ordered that '[a]ll other discovery shall be stayed until such time as the Court rules on II-VI's Motion for Summary Judgment.'"). ↩
28. *Racing Optics, Inc. v. Clear Defense, LLC*, 2017 WL 3242258, at *2 (M.D.N.C., 2017); *see also* D.I. 22 ("The parties agree that it is in the best interests of all concerned to resolve this § 1498 defense before beginning the potentially complicated and expensive claim construction process."). ↩

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