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

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The Federal Circuit recently took another step in its efforts to reaffirm the broad protections afforded by 28 U.S.C. § 1498, which provides a patentee's exclusive remedy for the use or manufacture of patented inventions "by or for the United States." In *IRIS Corp. v. Japan Airlines Corp.*, No. 2010-1051, the court held that a private company performing a quasi-governmental function as part of its commercial activities can avail itself of the immunity against traditional patent infringement litigation conferred by § 1498.

Various federal laws and international treaties require Japan Airlines Corp. (JAL) to examine passports at domestic airports as part of its routine commercial operations. Some of the passports that JAL examines are electronic passports allegedly made using the process claimed in IRIS Corp.'s (IRIS) United States patent no. 6,111,506 (the '506 patent).

IRIS accused JAL of patent infringement under 35 U.S.C. § 271(g) by "using . . . electronic passports in the processing and/or boarding of passengers . . . at . . . JAL services passenger check-in facilities throughout the United States." JAL moved to dismiss IRIS's action for failure to state a claim under Fed. R. Civ. P. 12(b)(6), arguing both that the laws requiring JAL to examine passports conflict with patent law, thereby exempting JAL from infringement liability, and, in the alternative, that IRIS's only remedy for JAL's alleged use of the '506 patent was an action against the government under § 1498.

The district court granted JAL's motion on the basis of the conflict-of-laws rationale alone. Following Second Circuit law, the Federal Circuit reviewed the dismissal of IRIS's infringement claim *de novo*. In affirming the dismissal, however, the Federal Circuit applied § 1498, not the conflict-of-laws argument that had prevailed below.

Under § 1498, patent owners are required to seek their "reasonable and entire compensation" for any use or manufacture of their inventions "by or for the United States" in an action against the United States at the Court of Federal Claims. Therefore, a party acting "for the United States" within the meaning of § 1498(a) "is rendered immune from individual liability for the alleged infringement." *Zoltek Corp. v. United States*, 672 F.3d 1309, 1327 (Fed. Cir. 2012).

Whether or not a particular use or manufacture is "for the United States" under § 1498(a) is, in turn, a two part inquiry. First, the accused activity must be "for the Government." Second, the accused activity must be undertaken "with the authorization and consent of the Government."

Numerous cases address the second prong of this analysis – whether the Government has authorized and consented to a particular allegedly infringing act. In *IRIS*, however, the parties (and the Government, who appeared as *amicus curiae*) agreed that JAL had the Government's authorization and consent because "JAL [could] not comply with its legal obligations without engaging in the allegedly infringing activities."

That the parties agreed on this point is hardly earth-shattering; authorization and consent has been found before where the accused party has no choice but to engage in the accused conduct, lest it violate an obligation it bears to the Government. For example, in *Sevenson Envtl. Servs., Inc. v. Shaw Envtl., Inc.*, the Federal Circuit found authorization and consent because, had the defendant used any method other than the accused method, it would have breached its contract with the U.S. Army Corps of Engineers. 477 F.3d 1361, 1367 (Fed. Cir. 2007). The Court of Federal Claims reached the identical result on facts that "directly mirror[ed]" those in *Sevenson* in *TDM Am., LLC v. United States*, 83 Fed. Cl. 780, 785-86 (2008).

Fewer cases address what it means for a use to be "for the Government." In general, "[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.'" *Madey v. Duke Univ.*, 413 F. Supp. 2d 601, 607 (M.D.N.C. 2006). This is a foregone conclusion in most § 1498 cases, where the accused conduct occurs pursuant to a Government contract. *See Sevenson*, 477 F.3d at 1365 ("In context, the 'for the Government' prong of the definition appears to impose only a requirement that the use or manufacture of a patented method or apparatus occur pursuant to a contract with the government and for the benefit of the government.").

That the performance of a Government contract is *sufficient* to conclude that conduct is "for the Government" does not mean that it is *necessary* to that conclusion, however. For example, § 1498 has been invoked to protect contractors participating

in the bidding process for as-yet unawarded Government contracts. *See, e.g.*, *Trojan, Inc. v. Shat-R-Shield, Inc.*, 885 F.2d 854, 856-57 (Fed. Cir. 1989) ("[A] patent owner may not use its patent to cut the government off from sources of supply, either at the bid stage or during performance of a Government contract."); *TVI Energy Corp. v. Blaine*, 805 F.2d 1057 (Fed. Cir. 1986) (finding use "for the Government" where the alleged infringement resulted from a mandatory demonstration during the bidding process); *Hutchinson Indus. v. Accuride Corp.*, 2010 U.S. Dist. LEXIS 30527 (D.N.J. Mar. 30, 2010). Similarly, in *Advanced Software Design Corp. v. Fed. Reserve Bank of St. Louis*, the Federal Circuit found use "for the Government" where the accused infringing conduct occurred under contracts between Fiserv, Inc., a private company, and three Federal Reserve banks, which the Department of Treasury disavowed as its contractors. 583 F.3d 1371, 1373-74 (Fed. Cir. 2009).

The Federal Circuit's broad reading of the "for the Government" prong of § 1498 is consistent with the intent of § 1498 generally: A Government contractor's immunity from traditional patent infringement liability exists to avoid a chilling effect on the willingness of contractors to transact business with the Government, which in turn "promote[s] the smooth procurement of products" by the Government. *Zoltek Corp. v. United States*, 85 Fed. Cl. 409, 416 (2009), *rev'd on other grounds*, 672 F.3d 1309 (Fed. Cir. 2012); *see also TVI Energy*, 805 F.2d at 1060; *Madey*, 413 F. Supp. 2d at 606.

JAL's accused conduct did not fit neatly into any existing rubric or directly implicate the traditional rationale for granting § 1498 immunity. JAL's examination of passports was neither in furtherance of a Government contract nor pursuant to a Government solicitation that might be halted in its tracks by an injunction in IRIS's favor. Indeed, there was not even a Government contract on JAL's long-term horizon, the eventuality of which could be "chilled" by allowing IRIS to proceed against JAL. In fact, JAL was not performing *any* sort of contract when it allegedly infringed the '506 patent. Rather, JAL's accused conduct took place entirely within its commercial operations at airports nationwide. Under these circumstances, IRIS argued, JAL's conduct could not be considered "for the Government."

The Federal Circuit sided with JAL. The Government benefitted from JAL's allegedly infringing conduct "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." This benefit was sufficient to draw JAL's conduct within the scope of § 1498. Putting the matter simply, the Federal Circuit held that, "[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 thus within the ambit of § 1498.

The holding in *IRIS* reinforces that the protections of § 1498 are to be generously construed by further broadening those protections, despite the traditional rationale underpinning § 1498 immunity – ensuring the Government uninterrupted goods and services – not applying as clearly or directly (assuming it applies at all) to private parties engaged in their private businesses. Under *IRIS*, companies filling quasi-governmental roles, even as part of their commercial activities, can now assert that their infringing conduct is protected by § 1498 – at least, as long as they cannot discharge their quasi-governmental responsibilities through adoption of a non-infringing alternative. Some parties may even argue that *IRIS* immunizes routine commercial activities occurring in a regulated environment from traditional patent infringement liability. While it is not clear that *IRIS* goes that far, it does provide a fairly clear answer as to whether the Federal Circuit will continue to uphold a broad application of § 1498: All evidence points to "yes."