

No.

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IN THE  
**Supreme Court of the United States**

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ZOLTEK CORPORATION,

*Petitioner,*

v.

UNITED STATES OF AMERICA,

*Respondent.*

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*On Petition for Writ of Certiorari  
to the United States Court of Appeals for the Federal Circuit*

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**PETITION FOR WRIT OF CERTIORARI**

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## QUESTIONS PRESENTED

Patent infringement under 35 U.S.C. § 271(a) includes “us[ing] \* \* \* any patented invention, within the United States.” Patent infringement under 35 U.S.C. § 271(g) includes “import[ing] into the United States or \* \* \* us[ing] within the United States a product which is made by a process patented in the United States.” Where a patented invention is “used or manufactured by or for the United States” 28 U.S.C. § 1498(a) provides that 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 or manufacture.” Under 28 U.S.C. § 1498(c), § 1498 does “not apply to any claim arising in a foreign country.”

Where a government-authorized contractor performed some or all of the steps of a patented process outside the United States, but the products of that process were imported into and used in the United States by and for the United States, the questions presented by this Petition are:

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?
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 United States; or, if not, (B) as a claim for just compensation under the Fifth Amendment cognizable pursuant to the Tucker Act, 28 U.S.C. § 1491(a)?

**PARTIES TO THE PROCEEDINGS BELOW**

Petitioner Zoltek Corporation (“Zoltek”) was the appellee and cross-appellant in the Court of Appeals and the plaintiff in the Court of Federal Claims. Zoltek Corporation is 100% owned by Zoltek Companies, Inc., a publicly traded company.

Respondent the United States (“Government” or “U.S.”) was the appellant and cross-appellee in the Court of Appeals and the defendant in the Court of Federal Claims.

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## **PETITION FOR WRIT OF CERTIORARI**

Petitioner Zoltek Corporation (“Zoltek”) respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.

### **OPINIONS BELOW**

The opinion of the Court of Federal Claims (“CFC”) addressing plaintiff’s claims under 28 U.S.C. § 1498(a) is published at 51 Fed. Cl. 829 and is attached as Appendix B (pages B1-B19). The opinion of the CFC addressing the availability of a Fifth Amendment takings claim and denying the government partial summary judgment is published at 58 Fed. Cl. 688 and is attached as Appendix C (pages C1-C41). The decision of the Federal Circuit affirming the CFC’s rejection of the statutory claims and reversing as to the availability of a takings claim is published at 442 F.3d 1345 and is attached as Appendix A (pages A1-A68). The Federal Circuit’s denial of rehearing and rehearing *en banc* is published at 464 F.3d 1335 and is attached as Appendix D (pages D1-D9).

### **JURISDICTION**

The Federal Circuit issued its opinion on March 31, 2006 and denied rehearing and rehearing *en banc* on September 21, 2006. The Chief Justice granted petitioner an extension of time to file this petition through January 19, 2007, and a further extension through February 18, 2007, which, per Supreme Court Rule 30.1, extends through February 20, 1987. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

### **CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED**

The Fifth Amendment provides, in relevant part:

[N]or shall private property be taken for public use, without just compensation.

U.S. CONST., AMEND. V.

Section 154(a)(1) of the Patent Act, 35 U.S.C. § 154(a)(1), provides, in relevant part:

Every patent shall contain \* \* \* a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and if the invention is a process, of the right to exclude others from using, offering for sale, or selling throughout the United States, or importing into the United States, products made by that process \* \* \*.

Section 261 of the Patent Act, 35 U.S.C. § 261, provides, in relevant part:

Subject to the provisions of this title, patents shall have the attributes of personal property.

Section 271(a) of the Patent Act, 35 U.S.C. § 271(a), provides, in relevant part:

[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.

Section 271(g) of the Patent Act, 35 U.S.C. § 271(g), provides, in relevant part:

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.

The Tucker Act, 28 U.S.C. § 1491, provides, in relevant part:

(a)(1) 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.

Section 1498(a) of Title 28 of the United States Code provides, in relevant part:

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. \* \* \*

For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

Section 1498(c) of Title 28 of the United States Code provides:

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

### **STATEMENT OF THE CASE<sup>1</sup>**

1. Petitioner Zoltek manufactures sophisticated materials produced from carbon fiber. Zoltek holds U.S. Patent No. RE 34,162 (the “‘162 Patent”), which claims a method for producing carbon-fiber sheets having properties useful in military applications, such as providing stealth qualities to aircraft. The patented method uses partially carbonized fibers that are then processed into sheets for use on military aircraft.

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<sup>1</sup> Unless otherwise noted, the facts are taken from the decisions below.

As relevant to this case, Lockheed Martin Corporation (“Lockheed”) and its subcontractors used Zoltek’s patented process to produce carbon-fiber sheets and imported such materials into the United States for use in making the F-22 Fighter Plane pursuant to a contract with the government.

Under 28 U.S.C. § 1498(a), Lockheed’s “use or manufacture of [a patented] invention” is “construed as use or manufacture for the United States.” Section 1498(a) further provides that whenever a patented invention “is used or manufactured by or for the United States without license of the owner thereof \* \* \* the owner’s remedy shall be by action against the United States in the [CFC] for the recovery of his reasonable and entire compensation for such use or manufacture.”

2. Pursuant to § 1498(a), Zoltek brought an action against the United States in the CFC seeking compensation for Lockheed’s infringement of Zoltek’s patent. The First Amended Complaint addressed the use of Zoltek’s process to produce, import, and use two types of carbon-fiber sheets. App. A4-5.<sup>2</sup> The first type at issue involved Nicalon® silicon carbide fibers produced and formed into sheets in Japan, which were then imported into the United States. The second type at issue involved Tyranno® silicon carbide fibers produced in Japan and imported into the United States, and then formed into sheets in the United States. Both types of sheets were then used on the F-22 Fighter Plane in the United States.

The government sought partial summary judgment on Zoltek’s claims under § 1498(a), arguing that the accused processes were used, in whole or in part, outside the United States and thus the claims were excluded from § 1498 by § 1498(c) as “claim[s] arising in a foreign country.”

3. On March 14, 2002, the CFC ruled that, per § 1498(c), § 1498(a) does not apply to “claims arising in a foreign coun-

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<sup>2</sup> Zoltek’s complaint also addressed infringing activities in connection with the B-2 Bomber. Those activities are not relevant to this petition.

try,” and that a claim for the “use” of a patented process arises in a foreign country where *any* step in the process is performed in a foreign country. App. B8, B13.<sup>3</sup> Although recognizing that the “general purpose of § 1498 was to provide a cause of action against the government for patent and copyright infringement that reflected causes of action against private parties,” App. B10-B11, the CFC rejected Zoltek’s argument that § 1498(a) should be construed to apply to all forms of direct infringement, including infringement by importation and use of the products of a patented process under 35 U.S.C. § 271(g), and not merely to infringement by domestic use of the process itself under § 271(a). App. B13-15.

Instead, the CFC held that because § 1498 was adopted before Congress added § 271(g) to the Patent Act, there was a “legislative gap” such that § 1498(a) only covered infringement under the pre-existing § 271(a), but not infringement under § 271(g). The CFC reasoned that it was unable to fill that gap because it lacked sufficient evidence that the coverage of § 1498 was intended to expand with the expansion of infringement under 35 U.S.C. § 271. App. B15-B17.<sup>4</sup>

Having determined that § 1498(c) precluded Zoltek’s cause of action under § 1498(a) for infringing “use” insofar as any step of its patented processes was performed outside the United States, the CFC nonetheless held that other forms of

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<sup>3</sup> The CFC held that the phrase “arising in a foreign country” in § 1498(c) had the same meaning as the phrase “within the United States,” a phrase that limits infringement by use or manufacture of an invention under § 271(a). App. B7 n. 7. Similar language appears in § 271(g) limiting infringement by importation or use of the *products* of a patented process, but such language applies only to the location where such *products* were imported or used, regardless where they were manufactured.

<sup>4</sup> Despite its conclusion that § 1498(a) did not apply to claims under § 271(g), the CFC nonetheless stated that Zoltek could not sue Lockheed under § 271(g) because the very same language of § 1498 that did not apply to Zoltek’s claims nonetheless *did* apply to those claims for purposes of immunizing Lockheed from such claims. App. B4 nn. 4 & 5.

patent infringement by the government could constitute a Fifth Amendment taking. App. B18-B19. It thus ordered further briefing on whether the alleged infringement here constituted a Fifth Amendment taking and whether its construction of § 1498(c) therefore violated the Fifth Amendment.<sup>5</sup>

4. On December 9, 2003, the CFC ruled that the government's actions, if proven, would constitute a taking under the Fifth Amendment and that it had jurisdiction under the Tucker Act, 28 U.S.C. § 1491, to hear a claim for just compensation not covered by § 1498. It thus denied the government's motion for partial summary judgment. App. C2.

After reiterating its earlier ruling that § 1498 only applied to claims for use of a process where all of the steps of that process were performed inside the United States, and finding that such construction meant that § 1498 did not cover Zoltek's claims in connection with the Nicalon® and Tyranno® fiber sheets, the CFC recognized the "curious position" now facing Zoltek: Although Zoltek has an exclusive property right in its patented process and in the importation and use of the products thereof, § 1498 immunizes Lockheed against such claims and yet simultaneously the same provision and language does not cover those claims for purposes of providing compensation. App. C4-C5.

The CFC then undertook an extensive review of the cases from this Court and others and concluded that patents are property rights and government activity that would otherwise infringe patent rights, but that is not covered by § 1498, con-

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<sup>5</sup> The CFC also sought further briefing on where the Nicalon® fiber sheets were manufactured, a question not resolved by the evidence then before the court. The Tyranno® fiber sheets at issue were shown to be partially manufactured abroad, imported into the United States, and then assembled and used in the United States.

stitutes a taking of a compulsory license, subject to a claim under the Fifth Amendment. App. C17-C26.<sup>6</sup>

The CFC rejected the government’s claim that there was no taking because § 1498 narrowed the *scope* of patent rights by failing to provide compensation for conduct not covered therein. It instead held that Zoltek’s property rights were defined by the substantive grant of rights in the Patent Act, including the rights regarding importation and use of *products* made by patented processes set forth in 35 U.S.C. §§ 154 and 271(g). App. C23 & n. 19. Section 1498, by contrast, only provides a “remedy” for violation of an otherwise existing patent right, does not “*grant* the government anything” or limit the “metes and bounds” of Zoltek’s patent rights, and hence does not negate the *existence* of property rights not covered therein. App. C23-26 (emphasis in original).

Addressing this Court’s decision in *Schillinger v. United States*, 155 U.S. 163, 169 (1894), which held that a particular claim for patent infringement against a government contractor sounded in tort and hence was not within the grant of jurisdiction under the Tucker Act, the CFC held that *Schillinger* was no longer good law and that for over 80 years a claim for government patent infringement has been deemed a Fifth Amendment takings claim, over which the Tucker Act provides jurisdiction. App. C26-C30 (discussing, *inter alia*, Justice Harlan’s dissent in *Schillinger*, the adoption in response to *Schillinger* of the 1910 precursor to § 1498, this Court’s decision in *Crozier v. Fried, Krupp Aktiengesellschaft*, 224 U.S. 290 (1912), and this Court’s earlier decision in *James v. Campbell*, 104 U.S. 356, 357-58 (1882)). The CFC concluded that “Congress and the Supreme Court now see acts of the U.S. government that between private parties would be patent infringement as eminent domain takings.” App. C31.

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<sup>6</sup> The CFC also addressed a side-issue regarding 19 U.S.C. § 1337(l), which deals with importation of infringing articles, and held that § 1337 had no affect on this case. App. C15. That section is not at issue here.

Finally, the CFC rejected the notion that the limited statutory remedies provided in § 1498 implicitly repealed its jurisdiction under the Tucker Act over the constitutional remedies for takings not covered by § 1498. Finding that “the Tucker Act can provide jurisdiction to this Court without conflicting with § 1498,” and citing this Court’s decision in *Ruckelshaus v. Monsanto*, 467 U.S. 986, 1017 (1984), for the proposition that such implied partial repeals of the Tucker Act are disfavored, the CFC concluded that the two sources of jurisdiction, read together, “both confer jurisdiction on this court to hear Zoltek’s claim, albeit for different rights.” App. C32-C34.

The CFC then granted Zoltek leave to file a Second Amended Complaint in order to add a count for a Fifth Amendment taking. App. C40-C41.

The CFC certified both the statutory and constitutional issues for interlocutory appeal, both parties appealed, and the Federal Circuit accepted jurisdiction. App. A1.

5. On March 31, 2006, the Federal Circuit, *per curiam*, affirmed in part and reversed in part, in favor of the government on both issues on appeal. Judges Dyk and Gajarsa each issued a separate concurring opinion. Judge Plager dissented.

The *per curiam* opinion affirmed the CFC’s initial holding that Zoltek’s claims were not covered by § 1498(a), though it did so on slightly different grounds. The court began with the implicit and erroneous suggestion that a patent-holder’s *only* “judicial recourse against the federal government, or its contractors, for patent infringement, is set forth and limited by” § 1498. App. A6. It then quoted its earlier decision in *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1316 (CA Fed. 2005), to hold that “[d]irect infringement under 35 U.S.C. § 271(a) is a necessary predicate for Government liability under § 1498,” and that a “process cannot be used “within” the United States as required by § 271(a) unless each of the steps is performed within this country.” App. A6. Rather than relying on the territorial exclusion contained in

§ 1498(c), as the CFC had done, the court imported the territorial limits of § 271(a) directly into § 1498(a) itself and held that because some or all of the steps of the patented process were performed outside the United States, government “liability does not exist pursuant to § 1498(a).” App. A7.

The *per curiam* opinion also reversed the CFC’s holding that Zoltek could assert a Fifth Amendment takings claim under the Tucker Act and found that this Court’s 1894 decision in *Schillinger*, that a particular claim for patent infringement by a government contractor sounded in tort and hence could not be brought against the United States under the Tucker Act, remained the law and had not been overruled. App. A7. The court distinguished this Court’s subsequent 1912 decision in *Crozier* as not involving the Tucker Act, and only discussing the potential for filing in the Court of Claims under the then-newly enacted 1910 Act (the precursor to § 1498). App. A8. The court below viewed *Crozier* as endorsing the description of the law in *Schillinger* and argued that passage of the 1910 Act confirmed that the right to sue the government for patent infringement did not “already exist[] under the Fifth Amendment” because otherwise the added jurisdiction would have been unnecessary. App. A9.

The court rejected the CFC’s discussion of the subsequent century of takings jurisprudence, arguing that patent rights were not “property” protected by the Fifth Amendment, but rather were “a creature of federal law” protected only by such relief as the federal government saw fit to grant under § 1498. App. A10-A11.<sup>7</sup> It distinguished inverse condemnation and regulatory takings claims, which are covered by the Tucker Act and not barred as torts, with the argument that “the ‘tak-

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<sup>7</sup> Although seeming to recognize the inconsistency between its view of patents and this Court’s holding in *Monsanto* that government interference with trade secrets could constitute a taking, the court held that because *Monsanto* did not expressly overrule *Schillinger*, the earlier case remained controlling law.

ing’ of a license to use a patent creates a cause of action under § 1498,” and allowing a takings claim under the Tucker Act would render § 1498 “superfluous.” App. A11.

In a concurring opinion, Judge Gajarsa concluded that while the panel was bound by *NTP* regarding the scope of § 1498(a), *NTP* was wrongly decided. App. A12-A20. He argued that § 1498(a) is neither identical to nor limited by § 271(a), and that an interpretation incorporating the provisions of § 271(a) into § 1498(a) would render § 1498(c) unnecessary. App. A16-A17. Judge Gajarsa would have reached the same result, however, by holding, as the district court did, that § 1498(c) excludes coverage for infringing use of a patented process where some or all steps of the process are performed outside the United States. App. A21.

In another concurring opinion, Judge Dyk disagreed with Judge Gajarsa and supported applying *NTP* to incorporate the territorial limits of § 271(a) into § 1498(a). App. A37-A42. Curiously, he noted that the 1918 amendments to the 1910 Act, which extended the Act’s coverage to infringing conduct by authorized government contractors in addition to conduct by the government itself, “confirm that the purpose of the statute was simply to obligate the United States to the same extent as private parties.” App. A40. Judge Dyk quoted this Court’s decision in *Richmond Screw Anchor Co. v. United States*, 275 U.S. 331, 343, 345 (1928), for the propositions that the intention of the 1918 amendments was ““to relieve the contractor entirely from *liability of every kind* for the infringement of patents in manufacturing anything for the government,”” to substitute a remedy against the United States for the patent owner’s ““reasonable and entire compensation,”” and that in ““attempt[ing] to take away from a private citizen his lawful claim for damage to his property by another private person which but for this act he would have against the private wrongdoer[,] \* \* \* [w]e must presume that Congress in the passage of the act of 1918 intended to secure to the owner

of the patent the *exact equivalent* of what it was taking away from him.” App. A40-A41.<sup>8</sup>

Judge Dyk also rejected the takings analysis of the CFC and the dissent, arguing that patent rights are “creatures of federal statute,” the right to compensation under § 1498(a) is no broader than the rights against a private party under § 271(a), and hence there is “no taking resulting from the refusal to recognize a greater right against the government.” App. A42.

Judge Plager dissented. Viewing this case to be of “major significance to our understanding of the Constitutional obligations of the United States,” App. A42-A43, he explained that the *per curiam* opinion misconstrued this Court’s decision in *Schillinger* and ignored nearly 80 years of holdings by this Court that a takings claim for just compensation is a separate and independent cause of action under the Fifth Amendment, jurisdiction over which is provided by the Tucker Act. App. A50-A54. Regarding *Schillinger*’s treatment of the patent infringement in that case as a tort, Judge Plager noted that it was not until *Jacobs v. United States*, 290 U.S. 13 (1933), that this Court recognized that the Fifth Amendment itself provided “a separate, non-statutory, constitutional basis for takings remedies,” and that the Tucker Act’s provision of jurisdiction for such constitutional claims was “separate from its other bases.” App. A52. He further quoted *Jacobs*, 290 U.S. at 16, for the proposition that the absence of a statutory basis for compensation was irrelevant because:

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<sup>8</sup> Judge Dyk inexplicably stated he had no occasion to consider whether suit could be brought against the government for conduct violating § 271(g), App A41 n. 4, even though such section was *precisely* the subject of the CFC’s holdings on the limited scope of § 1498 and the availability of a takings claim. App. B4 n. 4, B17, C5 & n. 6, C31-C32, C38. The *per curiam* opinion likewise resolved precisely such issue in affirming the CFC’s holding that § 1498 was limited to conduct violating § 271(a) and in reversing the CFC’s holding that § 271(g) could provide the property rights that formed the basis of a takings claim.

The form of the remedy did not qualify the right. It rested on the Fifth Amendment. Statutory recognition was not necessary. A promise to pay was not necessary. Such a promise was implied because of the duty to pay imposed by the amendment. The suits were thus founded upon the Constitution of the United States.

App. A52-53 (Plager emphasis omitted). After reviewing additional cases where regulatory takings and inverse condemnations were cognizable under the Tucker Act notwithstanding their origins in tort, he concluded that whatever relevance *Schillinger* may have had to constitutional takings and Tucker Act jurisdiction as applied to contracts and tort claims, “it has none now.” App. A54. Addressing the majority’s “remarkable view” of the Constitution that because there “is no remedy on these facts under § 1498, there is no right either,” Judge Plager observed that arguing that “§ 1498 successfully cabined the Constitution is the reverse of the understanding that the Constitution trumps legislation.” App. A55.

Regarding Zoltek’s claim for compensation under § 1498(a), Judge Plager, like Judge Gajarsa, rejected the direct incorporation of § 271(a) into § 1498(a), and rejected the proposition that § 1498(c)’s exclusion for claims “arising in a foreign country” applied to the performance of a single step in a multi-step patented process outside the United States. App. A57-A63. He also concluded that such an interpretation would frustrate the purpose of the statute to compensate patent holders for government takings, and, insofar as it allowed § 1498(a) to provide less than just compensation for otherwise actionable patent infringement, “would be unconstitutional.” App. A66-A67.

Zoltek petitioned for rehearing and rehearing *en banc*.

6. On September 21, 2006, the Federal Circuit denied rehearing and rehearing *en banc*. App. D1-D7. Judge Newman dissented from the denial of rehearing *en banc*, disputing the panel’s “apparent rejection of the premise that patents are

property subject to the Fifth Amendment.” App. D3. Referring to “almost a century of precedent” and the legislative history of the 1910 Act that confirmed that government infringement of a patent constitutes a taking of property, she argued that the panel’s reliance on *Schillinger* “is almost a century out of date.” App. D3-D6. And citing this Court’s treatment of trade secrets in *Monsanto*, she noted that the decision below “produces the anomalous result that patent property receives less protection from the Constitution than other forms of property” and concluded that the denial of jurisdiction in the CFC to hear the claims in this case “is contrary to clear statutory text and long-resolved application of constitutional remedy.” App. D6-D7.

7. This petition for certiorari followed.

### **REASONS FOR GRANTING THE WRIT**

Certiorari should be granted because the decision below strips an entire class of property owners – patent holders – of their Fifth Amendment right to just compensation for the taking of their patent rights. Under the Federal Circuit’s decision, the government, either itself or through its authorized contractors, is free to use a patented process, and to import and use the products of such process, without compensation if any step of the accused process is performed outside the United States. Identical infringing activity by a wholly private party would result in liability for patent infringement.

The decision below conflicts with numerous decisions of this Court, of the Federal Circuit, and of the predecessor Court of Claims recognizing that patent rights are property that is “taken” by otherwise infringing government conduct, and that takings claims are within the Tucker Act’s grant of jurisdiction.

Furthermore, the Federal Circuit’s limiting construction of § 1498 to deny petitioner any statutory rights to compensation for the government-authorized infringement here reflects deep division within the Federal Circuit, undermines Congress’

intent to live up to its Fifth Amendment obligations, and unnecessarily forced the court to address serious constitutional issues that could have been avoided by a more sensible statutory construction.

Because of the significant role that patents occupy in the economy and the substantial governmental abuse of its takings power sanctioned by the decision below, this petition presents vitally important questions on which this Court should grant a writ of *certiorari*.

**I. THIS PETITION RAISES IMPORTANT NATIONAL ISSUES THAT SHOULD BE DECIDED BY THIS COURT.**

Because the Federal Circuit is the sole court of appeals that can hear patent infringement and takings claims against the federal government and its agents, the decision below denying statutory or constitutional compensation for a wide class of government patent infringement is of tremendous national importance and will have a devastating national effect.

Numerous companies and entire industries have developed over the decades to meet the technological needs of the federal government, particularly in the area of defense. In Fiscal 2001, the government purchased more than \$143 billion of equipment and services from the top 100 defense contractors. In Fiscal 2003, the figure was more than \$198 billion.<sup>9</sup> A substantial portion of such purchases was and is protected by United States patents. By way of example, between 2001-06, five of the large defense contractors collectively were issued 7,678 U.S. patents.<sup>10</sup> Numerous other contractors, subcontractors, and their competitors likewise rely on

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<sup>9</sup> See Government Executive Magazine website, [www.govexec.com](http://www.govexec.com).

<sup>10</sup> Between 2001-06, the number of U.S. patents issued to the following major defense contractors, as reported by Delphion, were: (1) Northrop Grumman Corp. – 2,063; (2) Lockheed Martin Corp. – 1,749; (3) Boeing – 2,063; (4) Raytheon – 1,583; and (5) General Dynamics Corp. – 220.

patented products and processes to provide for defense and other government needs.

The Federal Circuit's decision renders those patents second-class property not entitled to Fifth Amendment protection, barring recourse to the CFC under § 1498 and the Tucker Act. According to the Federal Circuit, the myriad patents driving the defense and other industries are no longer matters of property, but instead are matters of government grace, to be taken with or without compensation as the government sees fit.

The negative economic consequences of the Federal Circuit's decision will be widespread and substantial. This case alone involves a taking of a compulsory license worth more than \$1 billion. And the decision below actively invites numerous such takings in the future. As Judge Plager noted in his dissent below, allowing the government, without liability, to appropriate the products of a patented process merely by performing "any one step" of such process outside the United States "is an invitation to strategic conduct if ever there was one." App. A63. Indeed, by encouraging the government and its contractors to shift infringing activities abroad, the Federal Circuit's decision causes substantial harm to domestic industries producing items used or desired by the government.

By reducing the security, and hence the value, of patent property, patent-driven industries that provide technologies useful to the government will become far riskier endeavors, causing capital to flow out of those industries and into other, less risky, investments. Many patent-dependent industries are highly capital intensive, with long time-horizons required for product development. Stripping patent holders of their constitutionally protected property rights will lead inevitably to a substantial chilling effect on investment in these high-risk areas where federal government takings are a real possibility, and the development of innovative products and processes to meet government needs will suffer accordingly.

Nor are the ramifications of the decision below limited to the defense industry. Numerous other industries likewise rely on patented products and processes coveted by the government. For example, the pharmaceutical industry may be particularly vulnerable to loss of protection for patent property rights as against the government. Between 2001-06, five of the large pharmaceutical manufacturers were issued 7,653 U.S. patents.<sup>11</sup> The government's desire to take or break the patent for Bayer's antibiotic Cipro® is well-documented.<sup>12</sup> Similarly, the government's interest in demanding compulsory licenses from drug-makers at fees below what would be just compensation under the Fifth Amendment has been growing in light of the Medicare Prescription Drug Act enacted in 2003. That program has an estimated ten-year cost through 2013 of \$500 - 600 billion.<sup>13</sup> Under the Federal Circuit's decision, the government could simply legislate that pharmaceutical manufacturers accept whatever level of compensation it chooses for the drugs it takes or buys, without

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<sup>11</sup> Between 2001-06, the number of U.S. patents issued to the following pharmaceutical companies, as reported by Delphion, were: (1) Pfizer Corp. – 2,721; (2) Eli Lilly and Co. – 547; (3) Glaxo Smith Kline Corp. – 1,554; (4) Merck & Co. – 1,754; and (5) Bristol Myers Squibb – 1,037.

<sup>12</sup> Jill Carroll & Ron Winslow, *Bayer to Slash Price U.S. Pays for Cipro Drug*, Wall St. J., October 25, 2001 at A3 (discussing “high-stakes threat by Tommy Thompson, H.H.S. Secretary, to break the Bayer Patent for Cipro if he didn't get the price he wanted”); Shankar Vedantam, *Cipro is Not the Only Pill That Fights Anthrax* Wash. Post, October 17, 2001 at A20 (Reporting public appeal by Senator Schumer for “the Government [to] suspend Bayer's patents and allow generic companies to add to the supply”).

<sup>13</sup> Robert Pear, *Democrats Demand Inquiry into Charge by Medicare Officer*, New York Times, March 14, 2004. On January 12, 2007, the House of Representatives passed the Medicare Prescription Drug Price Negotiation Act, H.R. 4, that requires the Secretary of HHS to negotiate the bulk purchase of pharmaceuticals for individuals participating in the Medicare and/or Medicaid programs.

concern for the Fifth Amendment's constraint of just compensation.

The Federal Circuit's decision also undermines the entire patent system by treating patents as second-class, constitutionally unprotected, property. To the extent possible, inventors thus will be incited to protect their inventions as trade secrets in order to receive the Fifth Amendment protection provided by this Court's decision in *Monsanto*. The decision below thus undermines the public disclosure and other benefits of the patent system by driving inventors and investors toward less socially beneficial means of protecting their intellectual property. Such an affront to the economy and to the patent system amply warrants review by this Court.

**II. THE DECISION BELOW CONFLICTS WITH NUMEROUS DECISIONS OF THIS COURT AND OTHERS, WHICH HOLD THAT PATENTS ARE PROPERTY PROTECTED BY THE TAKINGS CLAUSE OF THE FIFTH AMENDMENT.**

Flying in the face of statute and precedent, the decision below held that patent rights are not subject to the Fifth Amendment. That proposition is shockingly wrong.

**A. Patent Rights Are Property.**

The Fifth Amendment to the United States Constitution states, in pertinent part:

[N]or shall private property be taken for public use, without just compensation.

Pursuant to its constitutional power under Article I, section 8, clause 8, Congress has provided for patents since 1790. The current Patent Act, as enacted in 1952 and amended thereafter, provides that,

[s]ubject to the provisions of this title, *patents shall have the attributes of personal property.*

35 U.S.C. § 261 (emphasis added).<sup>14</sup> It is difficult to imagine anything simpler or more clearly articulated in the law than the proposition that patents are property.

This Court has likewise recognized, for over a century, that patents constitute property. *See Consolidated Fruit-Jar Co. v. Wright*, 94 U.S. (4 Otto) 92, 96 (1876) (“A patent for an invention is as much property as a patent for land. The right rests on the same foundation and is surrounded and protected by the same sanctions.”); *Cammeyer v. Newton*, 94 U.S. (4 Otto) 225, 234-35 (1876) (rejecting sovereign immunity defense because “an invention [secured by a valid letter-patent] is property in the holder of the patent, and \* \* \* is as much entitled to protection as any other property \* \* \* [¶] Public employment is no defense [sic] to the employee for having converted the private property of another to the public use without his consent and without just compensation.”) (citations omitted); *James v. Campbell*, 104 U.S. 356, 357-58 (1882) (rejecting sovereign immunity defense; “That the Government of the United States when it grants letters-patent \* \* \* confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the Government itself, without just compensation, any more than it can appropriate or use land which has been patented to a private purchaser, we have no doubt.”).<sup>15</sup>

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<sup>14</sup> Patents are assigned, licensed, mortgaged, and otherwise hypothecated. Transfers and encumbrances on patents are recorded. 35 U.S.C. § 261 ¶4. Bankruptcy statutes treat patents as property. 11 U.S.C. § 101 (35A); 11 U.S.C. § 365(m). They are also subject to federal taxation. *Eg.*, 26 U.S.C. § 1235 (u).

<sup>15</sup> *Cf. Festo Corp. v. Soketsu Kinzoqu Kogyokabusiki Co.*, 535 U.S. 722, 730-31, 739 (2002) (“The [temporary patent] monopoly is a property right; like any property right”) (citations omitted); *Monsanto*, 467 U.S. at 1002, 1003-04 (“Trade secrets have many of the characteristics of more tangible forms of property. A trade secret is assignable. \* \* \* A trade secret can form the *res* of a trust, \* \* \*, and it passes to a trustee in bankruptcy.”); trade secrets are property rights “protected by the Takings Clause of the Fifth Amendment.”) (citations omitted); *id.* at 1002-03

The *per curiam* opinion also conflicts with prior holdings of the Federal Circuit itself, and its predecessor court, the United States Court of Claims. See *Hughes Aircraft Co. v. United States*, 86 F. 3d 1566, 1571 (CA Fed. 1996) (government’s “unlicensed use of a patented invention is properly viewed as a taking of property under the Fifth Amendment \* \* \*, and the patent holder’s remedy for such use is prescribed by 28 U.S.C. § 1498(a.)”); *Leesona Corporation v. United States*, 599 F. 2d 958, 964 (Ct. Cl. 1979) (“When the government has infringed, it is deemed to have ‘taken the patent license under an eminent domain theory, and compensation is the just compensation required by the Fifth Amendment.’”) (citation omitted); *Pitcairn v. United States*, 547 F.2d 1106, 1114 (Ct. Cl. 1976) (“The use or manufacture by or for the Government of a device or machine embodying any invention by a United States patent, is a taking of property by the Government under its power of eminent domain.”); see also, App. C17-21 (second CFC opinion) (reviewing the case law in the Federal Circuit, its predecessor, and the Court of Federal Claims).<sup>16</sup>

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(viewing “trade secrets as property is consonant with the notion of ‘property’ that extends beyond land in tangible goods and includes the products of an individual’s ‘labour and invention’”) (citations omitted).

<sup>16</sup> The legislative history of the 1910 Patent Act also supports the existence of Fifth Amendment rights in patents. See App. D4-D5 (Newman, J., dissenting from denial of rehearing *en banc*) (quoting Representative Currier, Chairman of the House Committee on Patents: “The status of a patent as private property, which even the Government is prohibited from taking for public use without compensation (Amendment to Constitution, Article V) has been declared and redeclared in many opinions by the Supreme Court of the United States.”) (45 *Cong. Rec.* 8755, 8769 (June 22, 1910)); *id.* at D7 (quoting Rep. Dalzell: “And every time that the United States government assumes to take forcibly, without the consent of the owner, a patented process, it violates the Constitutional provision which says that no man’s property shall be taken without compensation and without due process of law.”) (45 *Cong. Rec.* at 8780)).

In the face of such authority, the court below relied on this Court's 1894 decision in *Schillinger v. United States* for the proposition that a claim against the government for patent infringement sounds in tort, rather than under the Fifth Amendment. The court further argued that if Congress had viewed patents as "property interests under the Fifth Amendment, there would have been no need for the new and limited sovereign immunity waiver" provided in the 1910 precursor to § 1498. App. A10-A11.

Both the court's understanding of *Schillinger* and the implication it drew from Congress' passage of a statutory compensation remedy are far off the mark.

In *Schillinger*, this Court held that the patentee could not bring a claim for damages in the Court of Claims because the patent infringement therein was a tort, and the Court of Claims had no jurisdiction over tort claims. But the claim in *Schillinger* did not involve the government-*authorized* use of a patent by the contractor. Rather, it involved use by the contractor for which the government specifically disclaimed responsibility, 155 U.S. at 165, 170, and hence it is hardly surprising that this Court viewed the conduct as a private tort (for which the contractor itself was liable) as opposed to a government taking.

Since the 1918 amendments to the 1910 Act, however, the government is only substituted as a defendant for conduct by its contractors taken with "the authorization of consent of the Government." 28 U.S.C. § 1498(a). Insofar as the government accepted its substitution as defendant in this case, it cannot dispute that Lockheed's infringing conduct was authorized by the government and the government has never sought to disavow Lockheed's immunity under § 1498. Even under the rationale in *Schillinger*, such authorization would remove this case from the realm of tort and create an implied contract (under the Fifth Amendment) for compensation for such authorized infringement.

Furthermore, even aside from *Schillinger*'s inapplicability to this case, Judge Plager correctly noted that *Schillinger* was decided nearly 40 years before this Court in *Jacobs v. United States*, 290 U.S. 13 (1933), recognized "the identity of a separate, non-statutory, constitutional basis for takings remedies under the Fifth Amendment." App. A52.

Indeed, in *Jacobs*, this Court rejected the same argument relied upon below that limited statutory remedies somehow negate any independent claim for just compensation:

The suits were based on the right to recover just compensation for property taken by the United States for public use in the exercise of its power of eminent domain. \* \* \* The form of the remedy does not qualify the right. It rested upon the Fifth Amendment. Statutory recognition was not necessary. A promise to pay was not necessary. Such a promise was implied because of the duty to pay imposed by the amendment. The suits were thus founded upon the Constitution of the United States.

290 U.S. at 16; *see* App A52-A53 (Plager, J., dissenting) (discussing *Jacobs*). Thus, at least since 1933 this Court has recognized that takings claims under the Fifth Amendment sound neither in tort nor contract, but are independent claims "founded on the Constitution." *See also First English Evangelical Lutheran Church of Glendale v. County of Los Angeles*, 482 U.S. 304, 315-16 (1987) ("Government action that works a taking of property rights necessarily implicates 'the constitutional obligation to pay just compensation.'"; recognizing ""the self-executing character of the Constitutional provision with respect to compensation.""") (citations omitted).

*Schillinger* thus can hardly stand for the proposition that patent infringement authorized by the government sounds *exclusively* in tort in that this Court had no occasion to consider it as a constitutional claim. The correct answer after *Jacobs*,

of course, is that such infringement gives rise to *both* statutory claims insofar as a statute provides compensation *and*, if uncompensated by statutory means, an independent constitutional claim.

Additionally, as the CFC and both Judges Plager and Newman correctly recognized, *Schillinger* was effectively superseded by this Court's decision in *Crozier*, which expressly characterized patent use by and for the government as the exercise of the government's power of eminent domain. 224 U.S. at 305 (wrongful conduct of an officer, if adopted by the government, becomes rightful appropriation in exercise of power of eminent domain).

In any event, insofar as *Schillinger* has the meaning imputed to it below and indeed remains technically controlling law, that is simply a further reason why the issue must be addressed by *this* Court. *Schillinger* is either inapplicable or should be overruled, and given the Federal Circuit's view of that decision, only this Court has the power to sort things out.

**B. The Identical Activity in this Case, If Conducted by a Wholly Private Party, Would Constitute Infringement.**

In determining the scope of particular "property" under the Fifth Amendment, this Court necessarily should look to the owner's rights as against other private parties, rather than as against the government. In this case, there is no question that the accused activity – the importation and use in the United States of *products* made by a patented *process* performed partially or entirely abroad – constitutes actionable infringement of Zoltek's patent.

As relevant to this case, the scope of Zoltek's patent rights begins with 35 U.S.C. § 154(a)(1), which provides that every patent for an invented "process" shall contain

a grant to the patentee, his heirs or assigns \* \* \* of the right to exclude others from using, offering for sale, or selling throughout the United States, or im-

porting into the United States, products made by that process \* \* \*.

In addition, 35 U.S.C. § 271(g) defines the complementary cause of action for infringement:

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.

Regardless whether the “use” of the patented *process* occurs abroad, or whether such use of the process infringes under § 271(a), petitioner has the independent right to exclude the *products* of such foreign processes from importation into or use in the United States, and a claim for infringement under § 271(g) arises from the *domestic* importation or use of those products. *Biotechnology General Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1560 (CA Fed. 1996); *Ajinomoto Co. v. Archer-Daniels-Midland Co.*, 228 F.3d 1338, 1348 (CA Fed. 2000); *Biotec Biologische Naturverpackungen GmbH & Co. v. Biocorp, Inc.*, 249 F.3d 1341, 1351 (CA Fed. 2001); *see also* App. C38 (CFC recognizing §§ 154 and 271(g) as the source of Zoltek’s property rights).

Under the facts of this case, there is no question that, aside from § 1498(a) substituting the United States as a defendant under certain circumstances, Zoltek would have a cause of action against Lockheed or any other private party for the importation and/or domestic use of the Nicalon® and Tyrano® *products* made by its patented *process*, regardless whether some or all steps of the patented *process* itself were performed abroad.

By authorizing Lockheed to infringe Zoltek’s patent and precluding a suit against Lockheed by substituting the United States as the defendant, the government thus has taken Zoltek’s property.

**III. THE DECISION BELOW ERRONEOUSLY DENIES PATENT-HOLDERS ANY RECOURSE FOR GOVERNMENT TAKINGS OF THEIR PROPERTY.**

Once it is established that Zoltek's patent rights are property under the Fifth Amendment, and that the conduct of the government or its authorized agents infringed upon, and hence took, that property, all that remains is to determine what remedies are available. The Fifth Amendment, of course, provides a "self-executing" constitutional remedy by imposing a duty on the government to pay just compensation for its taking of property. An adequate statutory or legal remedy, of course, will provide the required "just compensation" and avoid the perfection of a Fifth Amendment claim. Absent adequate statutory compensation, however, the Fifth Amendment itself provides a constitutional claim for compensation.

In this case, the initial issue thus is whether § 1498 provides compensation for the taking here and, if it does not, the issue of the constitutional remedy arises. The essential point, however, is that some remedy must exist, either by statute or under the Constitution, because to deny *any* remedy whatsoever, as did the court below, would violate the Fifth Amendment.

**A. Statutory Compensation for the Infringement in this Case Is Available under 28 U.S.C. § 1498.**

The court below held that Zoltek lacked a claim for compensation under § 1498 because some or all of the steps of the accused processes were performed outside the United States. While the court was deeply conflicted as to the source of such geographic limitation – whether through incorporation of § 271(a) directly into § 1498(a) or through the exclusion set out in § 1498(c) – the net result was the same. But, under a proper construction of § 1498 in light of constitutional concerns, neither of the court's rationales supports excluding a claim for compensation for the 271(g)-based infringement at issue here.

Section 1498(a) applies “[w]henver 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 \* \* \*.” Unlike § 271(a), § 1498(a) contains no intrinsic territorial limitation. Furthermore, the language used therein is broad enough to include any infringement under any subsection of § 271, not merely infringement under § 271(a). Regardless where the conduct occurred, the only conditions for the initial applicability of § 1498(a) is the “use or manufacture” of a patented invention “by or for the United States” without “lawful right to use or manufacture the same.”

Furthermore, as Judge Dyk curiously noted, and as this Court has held, the precursors to § 1498 were intended “to relieve the contractor entirely from *liability of every kind* for the infringement of patents in manufacturing anything for the government,” and “to secure to the owner of the patent the *exact equivalent* of what it was taking away from him.” App. A40-A41 (quoting *Richmond Screw Anchor*, 275 U.S. at 343, 345. There thus is ample room to conclude that, at least where the United States accepts substitution as a defendant, establishing “authorization or consent,” § 1498(a) covers infringement by importation and use of in the United States of products by patented processes conducted abroad. Such claims for domestic importation and use of products plainly “arise” in the United States, rather than abroad under § 1498(c). That more sensible interpretation would make it unnecessary to reach the constitutional issue.

The Federal Circuit is painfully conflicted as to the scope of § 1498, and has unnecessarily restricted it in a manner that defeats Congress’ purpose of providing a statutory mechanism to insulate its authorized contractors from “every kind” of liability for infringement and to give patent-holders exactly what had been taken away. This Court 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.

**B. In the Alternative, the Tucker Act Allows a Constitutional Claim for Just Compensation under the Fifth Amendment to Be Brought in the CFC.**

Alternatively, if this Court should agree that § 1498 does not provide a statutory remedy for the infringement at issue here, then such a remedy is plainly available through a direct constitutional claim for just compensation under the Fifth Amendment, cognizable in the CFC pursuant to the Tucker Act.

The Tucker Act covers “all claims founded upon the Constitution of the United States,” and grants the Court of Federal Claims jurisdiction over petitioner’s claim for compensation. 28 U.S.C. § 1491(a). Claims for just compensation under the Fifth Amendment are unquestionably within the purview of the Tucker Act. *See, e.g., United States v. Causby*, 328 U.S. 256, 267 (1946) (“If there is a taking, the claim is ‘founded upon the Constitution’ and within the jurisdiction of the Court of Claims to hear and determine.”); *Phelps v. United States*, 274 U.S. 341, 343 (1927) (“Under the Fifth Amendment plaintiffs were entitled to just compensation, and \* \* \* the claim is one founded on the Constitution.”).

Insofar as the Fifth Amendment itself provides a self-executing remedy in the form of a claim for just compensation, and the Tucker Act on its face provides a forum for such remedy, the decision below was extravagantly wrong. Indeed, where the underlying infringement by Lockheed was, by definition, “authorized” by the government, there exists an implied promise by the government to pay just compensation, thus satisfying even the test in *Schillinger*.

As correctly recognized by the CFC in its second opinion:

Thus, regarding rights created by the Patent Act other than use or manufacture, the Tucker Act can provide jurisdiction to this Court without conflicting with §1498.

For example, although the Court does not have jurisdiction over the Plaintiff's cause of action against the U.S. for infringement of its patented process, this Court would have jurisdiction over infringement of the Plaintiff's exclusive right over use in the U.S. or importation of product made abroad by the patented process, since these rights are not found in §1498 but are found as rights in §154 of the Patent Act, enforced through §271(g) of the Act.

App. C32.

Any suggestion that § 1498 implicitly restricts jurisdiction under the Tucker Act is definitively disposed of by this Court's ruling in *Monsanto* that such implied repeals are disfavored and are not shown by the mere existence of or limits on a statutory remedy:

In determining whether a Tucker Act remedy is available for claims arising out of a taking pursuant to a Federal statute, the proper inquiry is not whether the statute "expresses an affirmative showing of Congressional intent to permit recourse to a Tucker Act remedy," but "whether Congress has in the [statute] *withdrawn* the Tucker Act grant of jurisdiction to the Court of Claims to hear a suit involving the [statute] 'founded \* \* \* upon the Constitution.'" *Regional Rail Reorganization Act Cases*, 419 U.S. 102 (1974) (emphasis, original).

467 U.S. at 1017. Inferring the withdrawal of Tucker Act jurisdiction over constitutional claims from the mere provision of a statutory remedy for governmental patent infringement "would amount to a partial repeal of the Tucker Act. This Court has recognized, however, that 'repeals by implication are disfavored.'" *Id.* (citation omitted); *see also*, App. C32-34 (demonstrating no conflict between § 1498 and Tucker Act jurisdiction for otherwise unprovided-for takings). Having failed to demonstrate such a disfavored partial repeal of the Tucker Act, the decision

below is simply and dangerously wrong and should be reversed.

In the end, the decision below is both of extreme national importance and spectacularly wrong. As Judge Plager concluded in dissent below:

“This is a remarkable view of the Constitution. Can it be that Congress, by a stroke of the legislative pen, may withhold the remedies and revoke the protections given to the citizenry by the Fifth Amendment, not to mention the other articles of the Bill of Rights to the Constitution? Fortunately, no authority exists for such a radical departure for legislative preemption over Constitutional right. Wisely, Congress has never attempted to establish one, and in fact, Congress in the Tucker Act expressly provides for the Court’s jurisdiction over these takings claims. To argue that Congress in enacting § 1498 successfully cabined the Constitution is the reverse of the understanding that the Constitution trumps legislation \* \* \*.”

App. A55 (Plager, J., dissenting).

### **CONCLUSION**

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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