

THE GOVERNMENT CONTRACTOR®



Information and Analysis on Legal Aspects of Procurement

Vol. 50, No. 23

June 18, 2008

Focus

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FEATURE COMMENT: *Honeywell Int'l v. U.S.*—Important Considerations Highlighted In The COFC's Most Recent Patent Infringement Decision

Honeywell Int'l Inc. v. U.S., 81 Fed. Cl. 514 (2008)

On April 14, the U.S. Court of Federal Claims issued its latest opinion in *Honeywell International Inc.*'s patent infringement suit against the Government. This decision, along with the other opinions that were incorporated into it, highlights important issues that can arise from patent infringement suits against the Government.

The COFC has issued several other opinions in this matter, including *Honeywell Int'l Inc. v. U.S.*, 66 Fed. Cl. 400 (2005) (COFC's *Markman* patent claim interpretation decision); *Honeywell Int'l Inc. v. U.S.*, 70 Fed. Cl. 424 (2006) (COFC held that defendants did not infringe Claims 1 and 3 of the patent); *Honeywell Int'l Inc. v. U.S.*, 71 Fed. Cl. 759 (2006); and *Honeywell Int'l Inc. v. U.S.*, 81 Fed. Cl. 224 (2008) (COFC held that *Honeywell* lacked standing to assert a claim under the Invention Secrecy Act because the subject patent did not issue upon the application that was subject to the secrecy order). In this case, the COFC ruled not only that the one claim in *Honeywell*'s patent that was infringed by the devices at issue was invalid, but also that *Honeywell* could not recover damages for the infringement of certain of the devices at issue even if the patent was valid and infringed because those claims were barred under the "first sale" doctrine.

This case began in December 2002, when *Honeywell International Inc.* and *Honeywell Intellectual Properties Inc.* (collectively "*Honeywell*") brought suit against the U.S. in the COFC alleging that

the Government infringed two of its patents and violated, among other things, 28 USCA § 1498(a) and the Invention Secrecy Act of 1951, 35 USCA §§ 181–188 (if the Government has authorized and consented to the use of a patent in the performance of a Government contract, a patent holder seeking judicial relief for an alleged infringement of its patent must file suit in the COFC). In its initial filing, *Honeywell* asserted that the Government infringed two of its patents. *Honeywell* subsequently amended its complaint to remove claims with respect to one of the patents.

The remaining patent at issue relates to a display system that *Honeywell* argued had, for the first time, enabled military pilots to use night vision goggles in conjunction with a full-color cockpit display. *Lockheed Martin Corp.* and its subcontractor, *L-3 Corp.*, which supplied the display system for the C-130J aircraft, subsequently intervened in the case. *Lockheed* did so because of patent indemnity provisions in certain C-130J contracts, which the Government asserted could obligate *Lockheed* to reimburse the Government for the amount of a judgment entered in favor of *Honeywell*, following a finding that the displays used in the C-130J infringed the subject patent. Likewise, *L-3* decided to intervene because of a similar indemnification provision in its contract with *Lockheed*.

The Government routinely requires patent indemnification under commercial-item contracts. See, e.g., FAR 27.201-2(c)(1); FAR 12.301(b)(3) (requiring incorporation of FAR 52.212-4, which includes a patent indemnity provision). The *Honeywell* decisions illustrate the extent to which companies can become embroiled in protracted litigation as a result of such indemnification provisions. Consequently, companies must be mindful of the financial risks associated with these provisions.

Intervention May Be a Non-Party Indemnitor's Only Opportunity to Challenge the Validity of the Disputed Patent—Although under no obligation to do so, potential patent indemnitors may join and participate in an infringement

suit pending at the COFC to protect their interests. Traditionally, an indemnitor will be notified of the existence of the pending suit under Rule 14 of the Rules of the COFC, which allows the indemnitor to “appear to assert and defend” its interest in the case as a third-party defendant. 41 USCA § 114(b) (statutory authority for RCFC 14). Additionally, RCFC 24 allows a non-party to intervene of right if it claims an interest in the subject matter of the action, if disposition of the action would practically impair or impede its ability to protect the interest, and if the non-party’s interest is not adequately represented by existing parties.

Before deciding to intervene, companies should review the extent of their potential liability and consider the value of cooperating with the Government and providing a joint defense. Of particular importance to a potential intervenor are the res judicata or stare decisis implications of the COFC’s decision on future litigation involving the patent’s validity. For example, an indemnitor must know that it could be precluded from challenging the validity of a patent as a defense to a Government claim if the COFC already found the patent valid and infringed. Here, the preclusive effect of the COFC’s judicial treatment of the patent on subsequent litigation was a basis for granting L-3’s motion to intervene under RCFC 24(a)(2). See *Honeywell*, 71 Fed. Cl. 759.

Judge Braden, in finding that L-3 met the requirements for intervention of right under RCFC 14, held that the indemnification obligation and the possibility that L-3 could be a defendant in a separate action involving the subject patent’s validity “more than satisfies a direct and immediate interest” for purposes of intervention. *Id.* at 765. To reach this result, the Court applied the rationale of *Klamath Irrigation Dist. v. U.S.*, 64 Fed. Cl. 328 (2005), a non-patent infringement case in which the COFC found that the potential impact of adverse precedent on future litigation involving the same resources was a sufficient “interest” for RCFC 24 intervention.

In *Klamath*, the Court held that potentially adverse precedent need not be binding under res judicata or stare decisis to impair a non-party’s ability to protect its interest because in “practical reality,” an adverse decision in one case could impact a succeeding court in an action involving similar issues, regardless of whether that decision is formally binding. See *id.* at 334–35. In *Honeywell*, 71 Fed. Cl. 759, Judge Braden applied this rationale in the

patent infringement context, holding that litigation involving the subject patent “would have a persuasive, if not collateral effect, on future litigation in which infringement ... is at issue.” *Id.* at 765. Stated differently, a finding of patent validity in the COFC litigation could be persuasive for another court in a subsequent patent validity dispute between the Government and the indemnitor, even if the other court is not formally bound under res judicata or stare decisis. Thus, before intervening in a patent litigation, patent indemnitors should consider the consequences of not intervening in the pending suit because it may be their only effective opportunity to challenge the patent’s validity. See *Bird v. U.S.*, 51 Fed. Cl. 536, 547 n.12 (2002).

COFC Relies on KSR in Finding Patent Invalid—After an extensive *Markman* claim construction hearing, see *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995), *aff’d*, 517 U.S. 370 (1996), and stipulations from the parties, the COFC found that Claim 2 of Honeywell’s patent was invalid. As a consequence of its earlier decision that Claims 1 and 3 were not infringed, the COFC’s decision effectively defeated Honeywell’s suit with respect to the devices at issue. In addition, the COFC found Claim 2 invalid because the patent did not meet the “written description requirement,” i.e., it did not readily disclose that the invention described in the amended application was within the subject matter of the original filed claims. See *Honeywell*, 81 Fed. Cl. at 572 (holding that “written disclosure in the original [application] ... would not necessarily lead one skilled in the art, in 1985, to conclude that the original [application] ... contained the same subject matter as the amendments”).

Significantly, *Honeywell* is the first COFC patent infringement decision since the U.S. Supreme Court issued *KSR Int’l Co. v. Teleflex Inc.*, 127 S.Ct. 1727 (2007). Following this new mandate, the COFC applied *KSR*, the factors outlined in *Graham v. John Deere Co.*, 383 U.S. 1 (1966), and other established precedent, and found that the defendants established by clear and convincing evidence that Claim 2 of Honeywell’s patent was invalid because it was obvious to one of ordinary skill in the field of night vision compatible aids and military cockpit displays. See *Honeywell*, 81 Fed. Cl. at 539. In reaching this result, the Court clarified the rules applicable to what courts must consider in deciding whether claims of a patent are invalid for obviousness. The

Court specifically rejected the U.S. Court of Appeals for the Federal Circuit's practice of rigidly applying the "teaching, suggestion, or motivation" validity factors announced in *John Deere*, reiterating the importance of a more "expansive and flexible approach." See *KSR*, 127 S.Ct. at 1739.

Past Mergers and Acquisitions Can Have "First Sale" Implications—The COFC's decision also has important implications for companies with a history of mergers and acquisitions. Failure to review a patent's history may, as in this case, preclude a contractor from recovering any damages under the "first sale" doctrine. This doctrine provides that a patentee that sells the patented device relinquishes its right to later restrict the use of that device by the buyer under an implied license theory. See *Honeywell*, 81 Fed. Cl. at 576. The first sale doctrine is akin to the "exhaustion" doctrine that was the subject of the Supreme Court's recent decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 2008 WL 2329719 (June 9, 2008, U.S.).

Originally, the patent in *Honeywell* was owned by Allied Signal Technologies Inc. In 1999, Allied Signal merged with Honeywell and became Honeywell International Inc. Before the merger, Allied Signal sold some of the allegedly infringing color displays to the Government. Defendants argued that this sale gave the Government and its contractors an implied license to use the displays.

In response, Honeywell argued that because an entity other than Honeywell, the patentee, made the original sale, the Government did not receive an implied license to use the product from *Honeywell*. The Court dismissed this argument and found that the "patentee and the seller of the patented product ... are now the same corporate entity" as a result of their merger. *Honeywell*, 81 Fed. Cl. at 576–77. Consequently, Honeywell was "bound by the same 'restrictions, disabilities and duties' created by the 'First Sale' Doctrine, as [was] Honeywell Inc." *Id.* at 577. The COFC explained that allowing Honeywell to recover damages for patent infringement would amount to a "double recovery" because Honeywell, through Allied Signal, already received consideration from the Government for use of the invention. *Id.*

The COFC's holding is important in light of the number of mergers and acquisitions that have permeated the defense industry over the last 20 years. Pursuant to this holding, a company that otherwise believes it has a valid cause of action may learn,

during the course of discovery, that one of its merger partners may have unknowingly licensed its patented technology to the Government. Thus, to the extent a company acquires patents through an acquisition, the acquiring company, as part of its due diligence effort, should determine under what circumstances, if any, the patented goods were provided to the Government. This information may decrease the value of the patent or lead the entity to not pursue the cause of action.

A Secrecy Order Issued under the Secrecy Act Can Affect the Patentee's Ability to Recover Damages—The *Honeywell* case contains a ruling on one of the least-litigated areas of patent law—the Invention Secrecy Act. Pursuant to that Act, the Government has the authority to withhold the issuance of a patent because of national interest concerns. In this case, the U.S. Patent and Trademark Office (USPTO) found that the patent was allowable in November 1987, but it was September 2000 before the Government lifted the secrecy order and permitted the prosecution of the patent to proceed. After a series of amendments and office actions before the USPTO, the patent issued in October 2002.

As part of this action, Honeywell sought recovery under the Secrecy Act for damages caused by the Government's use of the invention during the pendency of the secrecy order. The COFC did not reach the merits of Honeywell's Secrecy Act claim because it held that Honeywell lacked standing to bring this suit.

The patent's prosecution history, upon which Honeywell based its cause of action, could charitably be described as convoluted. Indeed, at one point during the patent application's prosecution, Honeywell deleted everything in the original application except the serial number assigned by the patent office, e.g., the specification, drawing, abstract and all claims subject to the secrecy order, and replaced those items with the specification, drawing and several claims from a pending patent that had been filed as a continuation application. As a result, the COFC held, in this case of first impression, that "the '914 patent did not issue 'on the '269 Application,' since the claims in the '269 Application, subject to the April 2, 1986 Secrecy Order, were completely different than the claims in the '914 patent that issued on October 22, 2002.'" *Honeywell*, 81 Fed. Cl. at 232.

The COFC's decision highlights pitfalls of the prosecution of a patent that is or has been subject to a secrecy order. Although changes to claims and specifications are part of the normal give-and-take of

claim prosecution, inventors or companies that substantially revise the claims or the specifications risk a judicial determination that the claims in the final patent issued after the lifting of the secrecy order are not the same as the claims in the application that was subject to the order. Such a holding is significant because it could effectively eliminate any basis for recovery under the Secrecy Act.

Conclusion—Because the COFC does not issue patent infringement decisions frequently, companies and practitioners should pay close attention to the *Honeywell* cases. These decisions not only reflect the manner in which the COFC applies existing patent

law, but may also implicate other issues such as indemnification, intervention and the Invention Secrecy Act, which are not always present in cases before the federal district courts. Companies and practitioners should carefully consider these issues throughout the development and analysis of their case.



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