

2021-2049, 2024-1084, 2024-1159

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**United States Court of Appeals  
for the Federal Circuit**

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PAUL E. ARLTON and DAVID J. ARLTON,

*Plaintiffs-Appellants,*

– v. –

AEROVIRONMENT, INC.,

*Defendant-Cross-Appellant.*

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*On Appeals from the United States District Court for the Central District  
of California in Case No. 2:20-cv-07438-AB-GJS*

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JUNE 27, 2024

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**UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

**CERTIFICATE OF INTEREST**

**Case Number** 21-2049; 24-1084; 24-1159

**Short Case Caption** Arlton et al. v. AeroVironment

**Filing Party/Entity** Appellants Paul E. Arlton and David J. Arlton

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## TABLE OF CONTENTS

TABLE OF CONTENTS .....	i
TABLE OF AUTHORITIES.....	iv
STATEMENT OF CROSS-APPEAL ISSUE .....	1
STATEMENT OF THE CASE .....	1
A.    The district court (twice) denied AeroVironment’s request to declare this case “exceptional” and to award attorneys’ fees pursuant to 35 U.S.C. § 285.....	1
B.    The Government breaks its silence on Terry.....	3
SUMMARY OF ARGUMENT.....	4
STANDARD OF REVIEW.....	8
ARGUMENT.....	9
I.    The district court erred in holding AeroVironment immune from suit under 28 U.S.C. § 1498.....	9
A.    The Government’s “freedom of contract” is constrained by its obligation to award contracts to Phase III recipients.....	9
B.    Section 1498 should not override the protections afforded by the SBIR statute.....	15
C.    The Government’s supply of goods is not endangered by 15 U.S.C. § 638.....	19
II.   AeroVironment’s manufacture and uses of Terry constitute cognizable infringement to be resolved in the district court. ...	23
A.    The Government confirms the errors in the district court’s factual findings and legal holdings related to Terry.....	23

B.	The district court erred in refusing to allow the Arltons to pursue infringement claims for Terry based on an unsupported application of an unrecognized <i>de minimis</i> principle.....	29
1.	<i>De minimis</i> has one meaning for patent infringement regardless of context and AeroVironment’s commercial uses of Terry were not <i>de minimis</i> .....	30
2.	AeroVironment’s uses of Terry for marketing and promotional purposes do not fall within the scope of Section 1498.....	35
3.	AeroVironment incorrectly asserts that Section 1498 prohibits any action before the district court related to Terry.....	37
4.	There is no basis for shifting the burden of AeroVironment’s affirmative defense to the Arltons. ....	40
III.	AeroVironment’s peripheral arguments are illogical, irrelevant, or incorrect.....	41
A.	AeroVironment’s argues illogically that Lite failed to file a bid protest it could not have filed.....	41
B.	AeroVironment’s proposed relief of an administrative appeal is similarly illusory.....	44
C.	AeroVironment’s new arguments are without merit or raise additional issues of fact. ....	46
D.	AeroVironment also seeks to distract this Court by confounding the Arltons’ arguments regarding Terry.....	50
IV.	The district court’s denial of the Arltons’ motion to amend must be reversed.....	51

V.	The district court properly exercised its discretion in denying AeroVironment’s motion for attorneys’ fees.....	54
A.	This matter is not “exceptional” under 35 U.S.C. § 285..	54
1.	The district court properly considered the totality of the circumstances.....	55
2.	The underlying purpose of Section 1498 does not render this case exceptional.....	58
3.	This Court should not second guess the determination of the district court. ....	59
B.	The Arltons have not waived their right to challenge the amount of AeroVironment’s requested fees. ....	66
	CONCLUSION .....	67

## TABLE OF AUTHORITIES

	Page(s)
<b>Cases</b>	
<i>Advanced Software Design Corp. v. Fed. Rsrv. Bank of St. Louis</i> , 583 F.3d 1371 (Fed. Cir. 2009) .....	40, 41
<i>Alifax Holding SPA v. Alcor Sci. LLC</i> , Nos. 2022-1641, 2022-1721, 2024 WL 2932910 (Fed. Cir. June 11, 2024) .....	59
<i>Applera Corp. v. MJ Rsch., Inc.</i> , 311 F. Supp. 2d 293 (D. Conn. 2004).....	40
<i>Arbutus Biopharma Corp. v. Moderna, Inc.</i> , No. CV 22-252, 2023 WL 2455979 (D. Del. Mar. 10, 2023).....	28, 40, 65
<i>Astronet Techs., Inc. v. BAE Sys., Inc.</i> , 802 F.3d 1271 (Fed. Cir. 2015) .....	39
<i>BAE Sys. Info. &amp; Elec. Sys. Integration Inc. v. Aeroflex Inc.</i> , No. CIV 09-769-LPS, 2011 WL 3474344 (D. Del. Aug. 2, 2011) .....	36
<i>Baxter Diagnostics v. AVL Sci. Corp.</i> , 924 F. Supp. 994 (C.D. Cal. 1996) .....	34
<i>Bayer CropScience AG v. Dow AgroSciences LLC</i> , 851 F.3d 1302 (Fed. Cir. 2017) .....	9, 55
<i>Benchmark Young Adult Sch., Inc. v. Launchworks Life Servs., LLC</i> , No. 12-CV-02953-BAS(BGS), 2014 WL 3014720 (S.D. Cal. July 3, 2014) .....	53
<i>Checkpoint Sys., Inc. v. All-Tag Sec. S.A.</i> , 858 F.3d 1371 (Fed. Cir. 2017) .....	58
<i>eBay, Inc. v. MercExchange L.L.C.</i> , 547 U.S. 388 (2006) .....	21



*Embrex, Inc. v. Serv. Eng’g Corp.*,  
 216 F.3d 1343 (Fed. Cir. 2000) ..... 34

*Foman v. Davis*,  
 371 U.S. 178 (1962) ..... 52

*Gaymar Indus., Inc. v. Cincinnati Sub-Zero Prods., Inc.*,  
 790 F.3d 1369 (Fed. Cir. 2015) ..... 58

*Golden Bridge Tech., Inc. v. Nokia, Inc.*,  
 527 F.3d 1318 (Fed. Cir. 2008) ..... 47

*Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*,  
 572 U.S. 559 (2014) ..... 8

*Impax Lab’s Inc. v. Lannett Holdings Inc.*,  
 893 F.3d 1372 (Fed. Cir. 2018) ..... 59

*J. & G. Dev. Co. v. All-Tronics, Inc.*,  
 198 F. Supp. 392 (E.D.N.Y. 1961) ..... 33

*Johnson v. Mammoth Recreations, Inc.*,  
 975 F.2d 604 (9th Cir. 1992) ..... 52

*Leesona Corp. v. United States*,  
 599 F.2d 958 (Ct. Cl. 1979) ..... 18

*Lite Machines Corp. v. United States*,  
 143 Fed. Cl. 267 (2019) ..... *passim*

*Madey v. Duke Univ.*,  
 413 F. Supp. 2d 601 (M.D.N.C. 2006) ..... 25

*Medical Solutions, Inc. v. C Change Surgical LLC*,  
 541 F.3d 1136 (Fed. Cir. 2008) ..... 35

*Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*,  
 150 F.3d 1374 (Fed. Cir. 1998) ..... 55

*Molinaro v. Watkins-Johnson CEI Div.*,  
 359 F. Supp. 467 (D. Md. 1973) ..... 38

*Neff Instrument Corp. v. Cohu Electronics, Inc.*,  
 269 F.2d 668 (9th Cir. 1959)..... 32, 33

*Night Vision Corp. v. United States*,  
 469 F.3d 1369 (Fed. Cir. 2006) ..... 10, 11, 12, 13, 14

*Northhill Co. v. Danforth*,  
 51 F. Supp. 928 (N.D. Cal. 1942), *modified on other grounds*,  
 142 F.2d 51 (9th Cir. 1944) ..... 31, 32

*Novartis AG v. Torrent Pharms. Ltd.*,  
 853 F.3d 1316 (Fed. Cir. 2017) ..... 56

*Nuvo Pharms. (Ireland) Designated Activity Co. v. Dr. Reddy’s Labs. Inc.*,  
 923 F.3d 1368 (Fed. Cir. 2019) ..... 47

*Octane Fitness, LLC v. ICON Health & Fitness, Inc.*,  
 572 U.S. 545 (2014)..... 54, 55, 58

*Off. of Pers. Mgmt. v. Richmond*,  
 496 U.S. 414 (1990) ..... 17

*OneSubsea IP UK Ltd. v. FMC Techs., Inc.*,  
 68 F.4th 1285 (Fed. Cir. 2023)..... 9

*Park-in-Theatres v. Perkins*,  
 190 F.2d 137 (9th Cir. 1951)..... 58

*Pierce v. Underwood*,  
 487 U.S. 552 (1998) ..... 9

*Raymond Eng’g Inc. v. Miltope Corp.*,  
 No. 85 CIV 2685 (RWS),  
 1986 WL 488 (S.D.N.Y. May 23, 1986) ..... 36

*Richmond Screw Anchor Co. v. United States*,  
 275 U.S. 331 (1928) ..... 39

*Stone Basket Innovations LLC v. Cook Med. LLC*,  
 892 F.3d 1175 (Fed. Cir. 2018) ..... 58

*Systron-Donner Corp. v. Palomar Sci. Corp.*,  
239 F. Supp. 148 (N.D. Cal. 1965)..... 33

*Toxgon Corp. v. BNFL, Inc.*,  
312 F.3d 1379 (Fed. Cir. 2002) ..... 40

*TVI Energy Corp. v. Blane*,  
806 F.2d 1057 (Fed. Cir. 1986) ..... 17, 26, 36

*Univ. of Utah v. Max-Planck-Gesellschaft  
zur Feorderung der Wissenschaften e.V.*,  
851 F.3d 1317, 1323 (Fed. Cir. 2017) ..... 56, 60

**Statutes**

15 U.S.C. § 638..... *passim*

28 U.S.C. § 1491..... 44

28 U.S.C. § 1498..... *passim*

35 U.S.C. § 271..... *passim*

35 U.S.C. § 285..... *passim*

**Other Authorities**

48 C.F.R. § 33.1..... 43

81 Fed. Reg. 20,487 (Apr. 7, 2016)..... 13

Federal Rule of Civil Procedure 15..... 52

Federal Rule of Civil Procedure 16..... 1, 51, 52

## STATEMENT OF CROSS-APPEAL ISSUE

In their principal brief, Paul E. Arlton and David J. Arlton (collectively, the “Arltons”) ask this Court to review three issues—the grant of immunity from suit under 28 U.S.C. § 1498 where the Government’s authorization violates its statutory obligations under the Small Business Innovation Research (“SBIR”) Phase III Mandate, the application of a broad *de minimis* use exception to extend Section 1498’s protection, and the imposition of an extreme diligence standard to show the “good cause” required by Federal Rule of Civil Procedure 16. AeroVironment, Inc. (“AeroVironment”) cross-appeals, raising a single additional issue for review: Did the district court abuse its discretion when it declined to find this case “exceptional” under 35 U.S.C. § 285 and denied AeroVironment’s request for attorneys’ fees and costs?

## STATEMENT OF THE CASE

The Arltons supplement the Statement of the Case from their principal brief as follows:

- A. The district court (twice) denied AeroVironment’s request to declare this case “exceptional” and to award attorneys’ fees pursuant to 35 U.S.C. § 285.**

On the very same day that the Arltons moved for relief from judgment based on the public unveiling of Terry, AeroVironment argued

that the Arltons’ positions and litigation conduct rendered this case “exceptional” under 35 U.S.C. § 285. Appx806, Appx813. It asserted that an award of attorneys’ fees was appropriate because, among other things, the Arltons should not have filed or proceeded with this matter in view of AeroVironment’s Section 1498 defense and the Government’s express consent with respect to the Mars Helicopter Ingenuity. *See, e.g.*, Appx812–813. But, on June 24, 2021, the district court vacated its judgment in favor of AeroVironment and reopened the matter for limited discovery into Terry—a carbon copy of the Mars Helicopter Ingenuity AeroVironment built at private expense outside of its contracts with NASA Jet Propulsion Laboratory (“JPL”). It also denied AeroVironment’s motion for fees. Appx1037.

In September 2023, AeroVironment renewed its request before the district court to declare the case “exceptional.” *See* Appx54 (showing filing at Dkt. 137). A month later, the district court again denied AeroVironment’s motion. This time the district court expressed surprise at AeroVironment’s persistence, noting that it did not believe that “the outcome was a foregone conclusion that should have been ‘crystal clear early on to any reasonable person.’” Appx1851. The district court also

plainly stated that “[i]t was not an obvious slam dunk for either party.”

*Id.* It further called into question the sincerity of AeroVironment’s assertions:

If Defendant were truly concerned about lengthy litigation, it could have been more forthcoming concerning the timing and scope of the government’s consent, and about its own marketing and commercial-related activities, rather than concealing information through the first round of summary judgment proceedings.

Appx1852. Undaunted by this ruling, AeroVironment now argues that the district court abused its discretion in declining AeroVironment’s invitation—twice—to assess attorneys’ fees against the Arltons and their counsel.<sup>1</sup>

**B. The Government breaks its silence on Terry.**

Now, after standing on the sidelines for three full years, the Government asserts to this Court that it authorized and consented under 28 U.S.C. § 1498 to the manufacture of Terry pursuant to AeroVironment’s existing subcontracts. Gov’t. Br. at 17–18.<sup>2</sup> But while

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<sup>1</sup> It appears AeroVironment has dropped any claim for attorneys’ fees pursuant to 28 U.S.C. § 1927 on appeal.

<sup>2</sup> Reference to “Gov’t Br.” is to the Brief for the United States as Amicus Curiae in Support of Defendant-Cross-Appellant and Affirmance filed on April 24, 2024. Reference to “AV Br.” is to Defendant-Cross-Appellant AeroVironment’s Principal and Response Brief filed on April 17, 2024.

AeroVironment contends that “AeroVironment’s work on Terry” is covered across the board pursuant to Section 1498, AV Br. at 16, the Government demurs, asserting that “[f]ederal contractors cannot unilaterally expand the government’s liability by undertaking unauthorized activities for their own benefit.” Gov’t Br. at 20. While the Government consents to the use of Terry in “tests for the resolution of Ingenuity’s audio anomalies,” it provides no consent for AeroVironment’s uses of Terry for “additional purposes, including educational events, promotion, and marketing.” *Id.* at 18. As such, the Government urges this Court to determine “whether any of AeroVironment’s uses of Terry were both outside the scope of Section 1498(a) and non-infringing.” *Id.* at 21.

### SUMMARY OF ARGUMENT

On appeal, AeroVironment questions the Arltons’ motives for pursuing this matter and fails to engage on the core legal issues before this Court. Between denouncing the Arltons’ litigation as “baseless,” “frivolous,” and “meritless,” AeroVironment rebukes the Arltons for wanting to “set the historical record straight.” AV Br. at 2. But, of course,

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Reference to “Br.” is to the Opening Brief for Appellants Paul E. Arlton and David J. Arlton.

the Arltons want to set the record straight. Their innovative technology—developed by Lite Machines Corporation (“Lite”) in Small Business Innovation Research (“SBIR”) programs over the course of ten years—enabled the historic first flight on another planet. Moreover, after the Air Force inexplicably discontinued Lite’s SBIR Phase III funding in 2016 after years of successful collaboration the Arltons were forced to shut down Lite.

Nonetheless, the question the Arltons present—irrespective of their desire to set the record straight and be made whole—is whether Section 1498 allows the Government absolute freedom of contract, even if exercising this freedom disregards its preexisting contractual and statutory obligations under the SBIR statute, 15 U.S.C. § 638(r)(4). Instead of addressing this tension, AeroVironment denies this is even a question. AeroVironment *again* offers up the unqualified, overly broad, and false proposition that “the SBIR statute does not entitle a contractor to Phase III work,” AV Br. at 16, based on precedent from this Court analyzing *different facts* and a *different version* of the SBIR statute, *id.* at 33–34. The Arltons have corrected this sleight of hand throughout this litigation. AeroVironment’s remaining arguments, joined in part by the



Government, are either self-defeating or undeveloped. For example, AeroVironment inconsistently argues both that the Arltons or Lite should have and could not have filed a bid protest. AV Br. at 27–28 & n.2. In reality, Lite *did* file a bid protest. See *Lite Machines Corp. v. United States*, 143 Fed. Cl. 267, 274 (2019) At the end of the day, AeroVironment’s failure to engage in a discussion of the interplay between Section 1498 and the SBIR statute speaks volumes.

AeroVironment’s failure to engage on the issues before this Court extends to its manufacture and use of Terry following the launch of the Mars Helicopter Ingenuity. AeroVironment does not so much as acknowledge the question the Arltons present—namely, whether Section 1498 immunizes non-governmental infringement that is otherwise compensable under 35 U.S.C. § 271. Instead, AeroVironment embraces the district court’s flawed analysis and asserts that “Terry” is a “textbook example” of non-governmental uses encompassed within Section 1498’s “broad immunity.” AV Br. at 42. Its superficial analysis, which led the district court to error, invites this Court to leave patentees with no remedy for infringement that provides no benefit to the government.

Weighing in for the first time as *amicus curiae*, the Government offers a starkly different perspective. It states that “Terry’s development was not required by AeroVironment’s subcontracts.” Gov’t Br. at 6–7. It further proposes that, “[o]nly activities that are closely associated with the underlying governmental work enjoy protection.” *Id.* at 20. The Government affirmatively takes “no position” on whether AeroVironment’s uses of Terry (other than for certain limited acoustic tests) were or were not within Section 1498(a) or non-infringing. *Id.* at 18. With this, the district court’s errors of (i) resolving disputed factual matters and (ii) shifting the burden to the Arltons to demonstrate a “commercial use” is even more apparent. Stunningly, the Government also now purports to consent to the manufacture of Terry, thereby creating a *new* question: can retroactive consent by the Government to the manufacture of Terry also retroactively render that manufacture “for the Government”? The district court never had the opportunity to address this question.

AeroVironment further fails to tackle any of the Arltons’ arguments regarding the district court’s denial of their motion to amend. In their opening brief, the Arltons detail how the district court required a showing

of extreme diligence and did not account for material circumstances beyond the Arltons' control. Br. at 52–63. AeroVironment provides no response, leaving the Arltons' arguments wholly un rebutted.

Against this backdrop AeroVironment claims that this matter should be declared exceptional so that AeroVironment can recoup *its* attorneys' fees. But while it faults the district court for failing to consider the “totality of the circumstances,” it is AeroVironment—not the district court—that cherry picks facts. Under no circumstances would it be proper to award fees when AeroVironment concealed Terry and now offers nothing more than complaints and factual tidbits carefully selected from a complex record.

### STANDARD OF REVIEW

The Arltons refer the Court to, and incorporate by reference, the standard of review in their principal brief. Br. at 27–29. As to AeroVironment's cross-appeal issue, this Court reviews a district court's “exceptional” case determination under the highly deferential abuse of discretion standard. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 572 U.S. 559, 563–64 (2014) (“[T]he district court ‘is better positioned’ to decide whether a case is exceptional, because it lives with the case over

a prolonged period of time . . . [T]he question is ‘multifarious and novel,’ not susceptible to ‘useful generalization’ of the sort that *de novo* review provides . . . .”) (quoting *Pierce v. Underwood*, 487 U.S. 552, 559–60, 562 (1998)). The abuse of discretion standard of review directs the reviewing court to accept the district court’s decision unless “the district court has made ‘a clear error of judgment in weighing relevant factors or in basing its decision on an error of law or on clearly erroneous factual findings.’” *OneSubsea IP UK Ltd. v. FMC Techs., Inc.*, 68 F.4th 1285, 1294 (Fed. Cir. 2023) (quoting *Bayer CropScience AG v. Dow AgroSciences LLC*, 851 F.3d 1302, 1306 (Fed. Cir. 2017)).

## ARGUMENT

- I. The district court erred in holding AeroVironment immune from suit under 28 U.S.C. § 1498.**
  - A. The Government’s “freedom of contract” is constrained by its obligation to award contracts to Phase III recipients.**

The Arltons submit that the general policy allowing the Government absolute freedom to contract with whomever it pleases (and thus to authorize and consent to patent infringement) ends where Congress has determined the Government is bound to contract with SBIR awardees. Here, pursuant to 15 U.S.C. § 638(r)(4), the Government was

obligated “to the greatest extent practicable” to issue follow-on SBIR Phase III contracts to Lite, the SBIR “recipient that developed the technology.” Indeed, the Government previously issued contracts to Lite on multiple occasions over a period of ten years. Appx360–362. As noted in the Arltons’ opening brief, Lite was *already* a Phase III Recipient when Lite was negotiating with the Air Force between October 2015 and February 2016 for follow-on contracts that included the Mars Helicopter. Br. at 5–6; Appx393. Thus, the Government’s subsequent consent to patent infringement pursuant to 28 U.S.C. § 1498 to immunize another company (AeroVironment) performing substantially the same Phase II work was void *ab initio*.

AeroVironment offers no more than a half-hearted response to this clear statutory conflict. Below AeroVironment argued that (1) Lite’s claims to SBIR Phase III awards were premised on its “successful completion of certain SBIR Phase I and II contracts,” *see, e.g.*, Appx515–516, and (2) this Court determined in *Night Vision Corp. v. United States*, 469 F.3d 1369 (Fed. Cir. 2006), that the SBIR statute imposes no restrictions on the Government’s freedom of contract, Appx520. Both arguments are factually and legally incorrect. And although the Arltons

expended considerable time and energy attempting to correct AeroVironment's mischaracterizations, which also capitalized on the Court of Federal Claims' erroneous decision in *Lite Machines*,<sup>3</sup> AeroVironment ultimately reaped the benefit of the confusion it intentionally sowed. Based on AeroVironment's misguidance, the district court concluded that the SBIR statute does not establish a mandate and "the Government was not obligated [statutorily] to contract with Lite." Appx71.

Undeterred, AeroVironment repeats the same mischaracterizations to this Court. *See, e.g.*, AV Br. at 32–33 ("Lite Machines challenged the Air Force's award of a purported Phase III contract to AeroVironment, allegedly related to Lite Machine's Phase I and Phase II efforts for its Tiger Moth UAV."); *id.* at 34 (renewing misplaced reliance on the *Lite Machines* ruling and *Night Vision* to argue "that the SBIR Statute establishes a *preference*, not a *mandate*" (emphasis in original)). As a

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<sup>3</sup> This decision, 143 Fed. Cl. 267 (2019), contains unmistakable errors and is the subject of a motion for reconsideration filed on June 18, 2019. *See* Appx1966 (Dkt. 40). Despite the pendency of that motion for five years, the Court of Federal Claims has yet to rule on it.

result, the Arltons are forced once again to devote resources to correct AeroVironment's factual and legal misstatements.

First, the Arltons have maintained throughout this litigation that Lite was entitled to the Mars Helicopter Ingenuity contracts based on its status as a SBIR Phase III award recipient. To wit: "Here, it is undisputed that the Arltons' company, Lite, was an SBIR *Phase III* award recipient . . . and was working with the Air Force under a six-year sole source SBIR *Phase III* contract during the relevant time period." Br. at 24 (emphasis added). Any notion that Lite held rights only as an SBIR Phase I or Phase II recipient is fiction.

Second, the Arltons have repeatedly discussed the precedent set by this Court in *Night Vision Corp. v. United States*, 469 F.3d 1369 (Fed. Cir. 2006). *Night Vision* involved an SBIR *Phase II* awardee—not a Phase III awardee—and a now obsolete version of the SBIR statute. Br. at 25, 35–37. Critically, the section of the SBIR statute at issue here, 15 U.S.C. § 638(r)(4), did not exist when this Court decided *Night Vision*. That does not render the Court's decision in *Night Vision* wrong; it just makes the decision inapplicable eighteen years later. For example, in *Night Vision*, the Court concluded that the then-existing SBIR statute imposed "no

duty on the government to award a Phase III contract to a concern that successfully completes a Phase II contract.” Appx740 (quoted by the district court). But in 2013 Congress amended the SBIR statute with § 638(r)(4), which is now commonly referred to as the Phase III Mandate. The Small Business Administration (“SBA”) clarified the congressional intent of the pivotal phrase in § 638(r)(4) (i.e. “to the greatest extent practicable”) in its 2016 Policy Directive.<sup>4</sup> According to the SBA, “if the government is interested in pursuing further work that was performed under an SBIR or STTR award, the government *must*, to the greatest extent practicable, pursue that work with the SBIR or STTR awardee that performed the earlier work.” Small Business Innovation Research Technology Transfer Program Policy Directive, 81 Fed. Reg. 20,487 (Apr. 7, 2016) (emphasis added) (citing 15 U.S.C. § 638(r)(4)) (hereinafter SBIR Policy Directive). Thus, the Court’s discussion in *Night Vision* of statutory obligations imposed on the Government before the statute was

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<sup>4</sup> The SBA is required to issue policy directives. *See* 15 U.S.C. § 638(j)(1). Thus, the Policy Directive reflects the intent of Congress in authorizing the SBIR statute. While AeroVironment complains that the Arltons cite the wrong Policy Directive, *see* AV Br. at 33, n.5, the 2019 Policy Directive and the 2016 Policy Directive are the same in all respects material to this appeal.



amended says nothing about the requirements of the SBIR statute after amendment in 2013. But despite the Arltons' explanation of *Night Vision* below and before this Court, AeroVironment argues *yet again* that *Night Vision* is dispositive. AV Br. at 16.

On this point, at least, the Government's *amicus* brief is a refreshing change from AeroVironment's factual and legal distortions. As explained by the Government, "[t]he [SBIR] programs consist of three phases; *as relevant here*, 'Phase III involves "commercial applications of SBIR-funded research and development" or "products or services intended for use by the Federal Government," . . . .'" Gov't Br. at 4 (emphasis added) (quoting *Night Vision*, 469 F.3d at 1371 (quoting 15 U.S.C. § 635(e)(4)(C)(i))). Further, "Congress has directed federal agencies and prime contractors, '[t]o the greatest extent practicable,' to issue Phase III contract awards relating to a particular technology to the SBIR or STTR recipient that developed the technology." *Id.* (quoting 15 U.S.C. § 638(r)(4)). Significantly, the Government acknowledges that this provision is known as the "Phase III mandate." *Id.* In contrast to AeroVironment, the Government also acknowledges Lite's status as an SBIR Phase III award recipient entitled to follow-on contracts. *Id.*

In sum, and as now demonstrated by the Government's position before this Court, AeroVironment led the district court to error. Because the SBIR Phase III Mandate compels the Government to award follow-on SBIR Phase III work to Lite, and Lite has already licensed the Arltons' patents for its SBIR programs, the Government cannot properly authorize and consent to use of the Arltons' patents by AeroVironment. Consequently, Section 1498 cannot shield AeroVironment from liability.

**B. Section 1498 should not override the protections afforded by the SBIR statute.**

AeroVironment contends that “conspicuously absent from [the Arltons’ brief]” is any argument that the application of Section 1498 “expressly contradicts” the SBIR Statute. Instead, according to AeroVironment, the Arltons have bypassed a statutory argument in favor of a policy discussion. AV Br. at 36.

AeroVironment's complaint does not reflect reality. The first issue the Arltons presented on appeal concerned the statutory question of whether 28 U.S.C. § 1498 permits the Government to consent to patent infringement where doing so would thwart its *preexisting* statutory obligations to Lite under 15 U.S.C. § 638. Br. at 3. Indeed, in contrast to AeroVironment, the Arltons engaged in a lengthy discussion of the

conflict between 15 U.S.C. § 638 and 28 U.S.C. § 1498. Br. at 31–41. AeroVironment’s only “statutory” analysis, on the other hand, concerns the argument that “a basic tenet of statutory construction is that a specific statute takes precedence over a more general one.” AV Br. at 37 (quoting *PDS Consultants, Inc. v. United States*, 907 F.3d 1345, 1358 (Fed. Cir. 2018)). But even applying this principle of statutory construction, the SBIR statute takes precedence.

The SBIR statute, 15 U.S.C. § 638, is comprehensive and extends over dozens of pages in the Federal Register. It touches on everything from the policy to support the growth and progress of industry and the national economy (§ 638(a)) to consultation and cooperation with Government agencies (§ 638(c)) to federal agency expenditures (§ 638(f)). It details the Government’s obligations toward SBIR Phase I, Phase II, and Phase III award recipients (*see* § 638(r)) as well as defines those terms (*see* § 638(e)(4)(A)–(C)).

In comparison, Section 1498(a) consists of four paragraphs, including a single sentence lifting the immunity of the United States “[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[.]” 28 U.S.C. § 1498. Section 1498 provides no guidance whatsoever for interpreting the phrase “used or manufactured by or for the United States,” leaving the courts (instead of Congress) to construe its breadth. Thus, as a matter of detailed statutory construction, the SBIR statute is controlling. Indeed, Congress itself intended the SBIR statute to be controlling. *See* 2016 Policy Directive at Executive Summary (“[N]o agency may apply policies, directives, or clauses, that contradict, weaken, or conflict with the policy as stated in the directive.”); *id.* at § 4(c)(7)(i) (“In every case, the funding agency must act in ways consistent with the Congressional intent to support the commercialization of an SBIR/STTR-develop technology by the SBIR/STTR Awardee, and all parties must proceed along these steps in good faith.”).

Moreover, despite the axiom that waivers of sovereign immunity are to be narrowly construed in favor of the Government, *see, e.g., Off. of Pers. Mgmt. v. Richmond*, 496 U.S. 414, 432 (1990), courts have broadly construed Section 1498 to protect and secure the Government’s supply of critical goods and services during times of war. *See, e.g., TVI Energy Corp. v. Blane*, 806 F.2d 1057, 1060 (Fed. Cir. 1986)). This irreconcilable

tension,<sup>5</sup> however, does not inevitably lead to the conclusion that the policies underlying Section 1498 cause that statute to prevail over all others. If AeroVironment were correct in its statutory analysis, innovative small businesses such as Lite that own or license private patents will lose twice. First, they will lose when the Government uses funds secured through their SBIR program to fund work by competitors and then immunizes those competitors against patent infringement under Section 1498. Second, they will lose when recompense for patent infringement is limited to those remedies available in the Court of Federal Claims or delayed so long as to be effectively denied altogether.<sup>6</sup>

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<sup>5</sup> See also *Leesona Corp. v. United States*, 599 F.2d 958, 967–69 (Ct. Cl. 1979) (highlighting tension in construing breadth of Section 1498 by analyzing history of the statute and holding that Section 1498 damages are to be *narrowly* construed).

<sup>6</sup> Lite’s case against the Government in the Court of Federal Claims (“COFC”) has been pending since 2018, with its patent infringement claims pending since 2021. Appx1962, Appx1969. The Government asks this Court to believe (without proof) that its position that “Lite Machines has not sufficiently pleaded patent infringement” is “consistent” with its assumption of liability under Section 1498. See Gov’t Br. at 17 n.5. Further, the Government does not explain why purportedly classified information would prevent it from disclosing its legal theory for its motion seeking to *avoid* liability in the COFC after expressly *assuming* liability in this Court. Nor does it inform the Court that an *unclassified* version of Lite’s complaint in the COFC exists. Similarly, AeroVironment fails to explain how the Arltons’ “misunderstanding” of the Government’s

In the end, large business such as AeroVironment will continue to feed at the public trough while innovative small business like Lite wither and die.

**C. The Government’s supply of goods is not endangered by 15 U.S.C. § 638.**

The Government purportedly submitted its *amicus* brief over concern that the Court will curtail Section 1498’s protections for government suppliers, thereby raising the specter of injunctions by recalcitrant patent holders and endangering the supply chain. Gov’t Br. at 1. In particular, the Government warns of “wide-ranging—and highly damaging—effects on federal procurement.” *Id.* at 14. Respectfully though, the sky is not falling.

The Government overlooks the important role the SBIR statute plays in securing new sources of supply for the Government. The SBA publicly touts the SBIR program as “America’s Seed Fund” which provides capital to innovative small business to meet specific Government needs. *See generally* SBIR, <https://www.sbir.gov/>. Small businesses spend years developing technologies in highly competitive

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authorization and consent relates to the Government’s motion to dismiss in the COFC. AV Br. at 30 & n.4.

SBIR Phase I, Phase II, and Phase III programs, thereby expanding, diversifying, and qualifying the Government's supply chain. Amplifying once again the importance of SBIR Phase III acquisition programs to Government supply, Congress set forth "special acquisition requirements" and provided detailed implementation guidelines in its SBIR Policy Directive. *See* 2016 Policy Directive at § 4(c)(7)(i).

Moreover, patentees such as the Arltons cannot simply "cut the government off from sources of supply" as the Government suggests. Nor would they want to. The Arltons expected Lite to receive an SBIR Phase III sole-source prime contract for the Mars Helicopter Program and were especially upset to have been denied the opportunity to develop the Mars Helicopter as part of the Tiger Moth SBIR program. Appx363–364. In addition, their company, Lite, had already manufactured over 15,000 helicopters and received over \$30 million in SBIR contracts by the time AeroVironment built its first rudimentary prototypes in 2014. Appx362. Lite was in the process of developing a state-of-the-art R&D and manufacturing facility in Carlsbad, California, with over ninety employees to support Lite's future government research and development contracts. Appx362–363. All of the Arltons' knowledge of rapid

prototyping and special manufacturing processes developed over years was immediately available to NASA for use in the Mars Helicopter program. Appx362. Rather than securing supply, in this case Section 1498 has had the opposite effect by driving Lite—the Government’s best source of supply for the Mars Helicopter Program—out of business. Appx363.

What’s more, despite the Government’s purported fears, injunctions are no longer an automatic remedy. *See, e.g., eBay, Inc. v. MercExchange L.L.C.*, 547 U.S. 388 (2006) (curtailing the issuance of permanent injunctions upon a finding of infringement). Neither AeroVironment nor the Government cite any instance where the Government could not obtain a critical product as a result of a patent monopoly. To obtain a permanent injunction, moreover, requires a party to demonstrate that the public interest would not be disserved, a nigh impossible task under the dire scenario hypothesized by the Government. *See id.* at 391.

Congress designed the SBIR program to grow and diversify the national economy. What AeroVironment and the Government urge instead is an interpretation of Section 1498 extending far beyond any



defensible rationale that would allow the Government to abandon SBIR Phase III awardees on a whim, just as it did here. If, hypothetically, an SBIR Phase III recipient was truly unwilling or unable to supply the Government, nothing would prevent the Government from invoking Section 1498 to ensure its supply. Indeed, the SBIR statute protects only those Phase III SBIR recipients that are “available, capable and willing to perform the work.” 2016 Policy Directive at § 4(c)(7)(i) (implementing the Phase III requirement).

In sum, there is no danger that the Government’s “ability to procure necessary goods from contractors” will be “frustrated.” Gov’t Br. at 14. If a Phase III recipient is unable to deliver, the SBIR statute and Policy Directive allow the Government to go elsewhere after notifying the SBA. *See* 2016 Policy Directive at § 4(c)(7)(i)–(ii) (implementing the special acquisition requirements and sole source awards). Thus, the SBIR statute provides a safety-valve to address the Government’s avowed concerns and must take precedence over 28 U.S.C. § 1498. While AeroVironment makes much ado about the important policies underlying Section 1498, none justifies the scope of immunity conferred here.

**II. AeroVironment’s manufacture and uses of Terry constitute cognizable infringement to be resolved in the district court.**

**A. The Government confirms the errors in the district court’s factual findings and legal holdings related to Terry.**

In stark contrast to its three-year silence before the district court, the Government alleges for the first time during the pendency of this appeal that “Terry was . . . *ultimately* used to support the Mars mission” and the Government consented to certain limited uses of that device. Gov’t Br. at 7 (emphasis added). The Government further asserts for the first time that the manufacture of Terry should fall under the umbrella of 28 U.S.C. § 1498. These allegations and assertions support rather than belie the Arltons’ appeal because they (i) establish AeroVironment manufactured and used Terry in ways that were not authorized by the Government and not associated with or in furtherance of AeroVironment’s work for the Government and (ii) reveal the existence of genuine disputes of material fact.

As a threshold matter, both the Government and AeroVironment allege that AeroVironment used Terry to support “acoustic investigations” related to “anomalous audio records” from the Mars

Helicopter Ingenuity. *See* Gov't Br. at 17; AV Br. at 13, 42, 46. To be clear, if the Government can assume liability pursuant to Section 1498 irrespective of its obligations under the SBIR statute (which it cannot), the Arltons do not dispute that this specific use of Terry could have been for and with the consent of the Government. The Government in its *amicus* brief now (belatedly) provides its express consent to Terry's use for this acoustic-testing purpose. Assuming *arguendo* this Court concludes that the Government can consent to this specific use, the Arltons have acknowledged that they would not pursue infringement claims against AeroVironment in the district court for this specific use. *See* Br. at 42–52 (excluding any reference to acoustic testing involving Terry).<sup>7</sup>

But the Government's ultimate use of Terry for acoustic tests does not absolve AeroVironment for its manufacture and widespread use of Terry for its own purposes. In fact, the Government has explicitly

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<sup>7</sup> The Arltons' position with respect to the use of Terry for specific acoustic tests is without waiver of any of their rights to contest that any other uses of Terry (including for subsequent acoustic testing) fall within the scope of Section 1498, especially given that the Government has other Ingenuity helicopters (i.e., EDM-1) that it could use for this testing. Appx406, Appx414–415.

withheld its retroactive consent to all of AeroVironment's other uses of Terry, including for purposes of "educational events, promotion, and marketing." Gov't Br. at 18. It further asks this Court to decline expanding the Government's express waiver of sovereign immunity and assumption of liability under Section 1498 based on the unilateral actions taken by AeroVironment. *Id.* at 20. Coining the phrase "associated infringement," the Government suggests that this Court should take a narrow view as to what limited "activities that are closely associated with the underlying government work" fall within Section 1498. *Id.* (describing "associated infringement" as including only "limited infringing activity that follows from, but is not required by, a government contract"); *see also Madey v. Duke Univ.*, 413 F. Supp. 2d 601, 609 (M.D.N.C. 2006) (holding that, in the absence of express consent by the Government, implied consent must be found which should be "narrowly construed" and requires the Government have some knowledge of the infringement). Even the Government admits that this analysis is "independent" from activity that may fall outside of Section 1498 and be considered *de minimis* under 35 U.S.C. § 271. Gov't Br. at 20.

Notably, lacking the Government’s new-found theory of “associated infringement” or its position on Terry, the district court never analyzed whether AeroVironment’s uses of Terry, for example, during a *60 Minutes* segment, at a conference of the Association for Unmanned Vehicle System International (“AUVSI”), or at the Wright Brothers National Memorial, could be considered “associated infringement” within the scope of Section 1498. *See* Appx1593–1600. The district court merely concluded that each of these uses “relates to the protected activity” and, thus, must fall within the Government’s assumption of liability under Section 1498. Appx1598. But the district court cited to no legal principle or evidence of record to support its “relates to” conclusion. *Id.* This is understandable because no support exists.<sup>8</sup>

Finally, the Government’s position on Terry compounds, rather than resolves, the problems surrounding the district court’s application of Section 1498 to AeroVironment’s initial manufacture of Terry. Indeed,

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<sup>8</sup> The record, for example, is devoid of evidence that AeroVironment’s public uses and showcasing of Terry furthered or was consistent with Section 1498’s espoused purpose: “to not limit the Government’s freedom in procurement by considerations of private patent infringement.” *See, e.g., TVI Energy Corp.*, 806 F.2d at 1060.

the Government states flatly “Terry’s development was not required by AeroVironment’s subcontracts.” Gov’t Br. at 6–7. It further contends that in July 2021—several months *after* AeroVironment completed Terry—JPL identified a use for Terry. *Id.* at 17 (citing Appx1939, Appx1396). This contention is consistent with testimony elicited from Matt Keennon, AeroVironment’s technical lead on the Mars Helicopter program, who stated that at the time Terry was manufactured its “primary purpose was basically to have a marketing visual aid that we could use to promote AeroVironment’s capabilities.” Appx1936. While he suggested that “there could be uses for testing,” AeroVironment clearly manufactured Terry for its own purposes, i.e., not “for the Government.” Thereafter someone at JPL identified a use for Terry.<sup>9</sup> Nevertheless, before any discovery into

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<sup>9</sup> AeroVironment proclaims that “AeroVironment built Terry at JPL’s suggestion . . . .” AV Br. at 41. But AeroVironment relies on the declaration of Mr. Keennon filed in opposition to vacatur, which he later contradicted at his deposition. *Id.* (citing Appx990–991). AeroVironment further cites an email discussing a proposal to JPL to modify Terry *after* it had already been built. *Id.* (citing Appx1945). Accordingly, even the evidence cited by AeroVironment supports the Arltons’ claim that AeroVironment manufactured Terry outside of any Section 1498 immunity for Ingenuity.

Terry, the district court concluded that “the Terry helicopter is clearly related to the Mars Ingenuity project” and was “developed as part of the Mars Ingenuity helicopter program.”<sup>10</sup> Appx1036. These fact findings are, at best, contravened by the evidence discovered later below and now before this Court and, at worst, wholly without support. In all events, the application of Section 1498 to the manufacture of Terry should not be based “solely on the Government’s say-so.” *See Arbutus Biopharma Corp. v. Moderna, Inc.*, No. CV 22-252, 2023 WL 2455979, at \*2 (D. Del. Mar. 10, 2023).

At bottom, the Government confirms in its *amicus* brief that AeroVironment’s non-governmental, public uses of Terry, at least “for purposes of educational events, marketing, and promotion,” fall outside of Section 1498 as a matter of both fact and law. Moreover, genuine issues of material fact as to AeroVironment’s manufacture and use of Terry

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<sup>10</sup> The Arltons specifically asked the district court to vacate its initial summary judgment order to allow discovery into whether Terry was made or used “for the Government.” *See, e.g.*, Appx1022–1025. The district court, however, made its own findings on this issue and then held that the Arltons were “not entitled to discovery regarding the authorization and consent of the government for the Terry product.” *See* Appx1960; *see also* Appx1957 (objecting to the Arltons’ request to subpoena the Government).

exist. The district court usurped the role of the fact finder as to those issues.<sup>11</sup> These reasons alone warrant reversal of the August 15, 2023 order affirming summary judgment.

**B. The district court erred in refusing to allow the Arltons to pursue infringement claims for Terry based on an unsupported application of an unrecognized *de minimis* principle.**

Rather than address the lack of doctrinal support for the district court's analysis of Terry, AeroVironment adopts the same erroneous legal framework applied by the district court and then deflects. That deflection seeks to redefine "*de minimis*" under 28 U.S.C. § 1498 contrary to its long-established meaning under 35 U.S.C. § 271. AeroVironment also applies inapposite case law to mischaracterize the breadth of the government's assumption of liability with respect to non-governmental infringing activity and attempts to shift the burden of establishing AeroVironment's affirmative defense to the Arltons.

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<sup>11</sup> In rendering its fact findings as to Terry's relationship to the Ingenuity program, the district court avoided answering the novel legal question of whether the earlier manufacture of Terry for commercial purposes can be deemed "for the Government" as required by Section 1498 simply because the Government later found a limited use for it.



1. ***De minimis* has one meaning for patent infringement regardless of context and AeroVironment's commercial uses of Terry were not *de minimis*.**

While AeroVironment criticizes the Arltons for allegedly conflating the “de minimis exception to infringement with the scope of immunity under Section 1498,” AV Br. at 40, it is the district court that conflated these distinct issues. Rather than undertake a two-part analysis to (1) assess what infringement is within the scope of Section 1498 and then (2) determine what, if any, infringement outside the statute’s scope is not actionable as *de minimis*, the district court announced a single *de minimis* rule. Appx1596. It held that to avoid application of that *de minimis* rule the Arltons must establish that AeroVironment “*sold or offered to sell [Terry] commercially, or otherwise used [it] commercially in a substantial way.*” Appx1596 (emphasis added). This holding—which the district court based on a single district court case—reflects significant confusion in the lower court regarding how to distinguish between infringement that falls within the scope of Section 1498 from infringement that is *de minimis* and non-actionable. It also highlights the dearth of authority regarding a *de minimis* infringement rule unique to Section 1498. Such a rule does not and should not exist.

The Arltons are unaware of any decision by this Court addressing the existence or scope of a specific *de minimis* rule relating to Section 1498, and AeroVironment cites none. Moreover, the notion that such a specific rule exists is contradicted by early cases addressing the application of immunity to non-governmental infringing activities. For example, reference to a so-called “de minimis’ doctrine” applied alongside Section 1498 can be found in *Northhill Co. v. Danforth*, 51 F. Supp. 928 (N.D. Cal. 1942), *modified on other grounds*, 142 F.2d 51 (9th Cir. 1944). There, the evidence revealed that historically (i.e., before the reissue of the patent and relevant infringement period) less than one percent (.59%) of the accused products—anchors—were sold commercially with the remaining sales (99.41%) made to the Government. *Id.* at 929. Nonetheless, the district court held that the “case is not within the ‘de minimis’ doctrine, for there is no evidence that these percentages will remain static,” and thus were not representative of sales activity during the relevant period. *Id.* The court further held that the defendant’s manufacture and uses of the anchors—even though they did not result in actual sales—were actionable because they were not undertaken “for philosophical or amusement purposes.” *Id.* In other words, the district

court applied *de minimis* in exactly the same way this Court has defined that phrase in connection with 35 U.S.C. § 271. *See, e.g.*, Br. at 43–44.<sup>12</sup>

Similarly, in *Neff Instrument Corp. v. Cohu Electronics, Inc.*, activities deemed not *de minimis* for purposes of infringement were likewise deemed not *de minimis* with respect to Section 1498. 269 F.2d 668, 672–73 (9th Cir. 1959). The appeals court expressly chastised the district court for “refus[ing] to apply the same rule measuring *de minimis* to the patent defense arising from 28 U.S.C. § 1498, as this Court has heretofore applied to the measurement of *de minimis* in patent infringement.” *Id.* at 672. Moreover, the court noted that demonstrations at trade shows would not necessarily be deemed *de minimis* where, as here, the record revealed that the accused devices had uses that were not exclusive to the Government. *Id.* at 673. Accordingly, in the decades immediately following the 1918 amendment to Section 1498, courts viewed any and all infringing activity outside the scope of the Government’s knowledge and consent—and providing no benefit to the

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<sup>12</sup> That application led the district court to hold that the manufacture and use of the anchors were sufficient to allow the case to proceed before the district court despite the lack of a commercial sale during the relevant period. *Northill*, 51 F. Supp. at 929–30.

Government—as beyond the waiver of sovereign immunity and assumption of liability by the Government. In fact, the decision in *Neff* provides “a clear inference that the rule of *de minimis* must be strictly applied.” *Systron-Donner Corp. v. Palomar Sci. Corp.*, 239 F. Supp. 148, 151 (N.D. Cal. 1965) (holding that presence at tradeshow and acceptance of purchase orders were sufficient to find actionable infringing activity not subject to Section 1498).

As noted in the Arltons’ opening brief, however, district courts later expanded the *de minimis* rule with respect to Section 1498 without explanation. *See* Br. at 45–46. For example, Judge Zavatt in the Eastern District of New York suggested in 1961 that a difference may exist in the meaning of *de minimis* for commercial infringement under 35 U.S.C. § 271 versus Government infringement under 28 U.S.C. § 1498. *J. & G. Dev. Co. v. All-Tronics, Inc.*, 198 F. Supp. 392, 394 (E.D.N.Y. 1961). He then listed a variety of factors considered in earlier Section 1498 cases regarding *de minimis* activities, including whether the evidence established inconsequential sales, whether the alleged infringer displayed the accused product “in its showrooms or at trade shows” with intent to make commercial sales, and the nature of the accused products.

*Id.* at 394–95. These factors, however, merely reflect the variety of facts presented to those earlier courts, not that “*de minimis*” has a different meaning in the context of Section 1498. Even the district court here acknowledges that a Section 1498 affirmative defense “is a highly factual determination.” *See* Appx1595.

Regardless of how the *de minimis* rule as applied in the context of 28 U.S.C. § 1498 and 35 U.S.C. § 271 diverged, this Court can and should now clarify that they are the same. Infringing activity outside the scope of Section 1498 is not actionable *only* if that infringement is “for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry.” *See Embrex, Inc. v. Serv. Eng’g Corp.*, 216 F.3d 1343, 1349 (Fed. Cir. 2000) (quotations omitted). Here, AeroVironment does not contest that it used Terry outside of these purposes and with a business interest in mind, including in public demonstrations on a high-profile national television program and at industry events to promote AeroVironment’s brand and “technical capabilities.” *See, e.g., Baxter Diagnostics v. AVL Sci. Corp.*, 924 F. Supp. 994, 1016 (C.D. Cal. 1996) (holding that the *de minimis* exception does not apply to acts committed with a business

interest in mind).<sup>13</sup> So the question is not whether AeroVironment's infringing uses of Terry were *de minimis*, but rather whether they fall within the scope of Section 1498. They do not.

**2. AeroVironment's uses of Terry for marketing and promotional purposes do not fall within the scope of Section 1498.**

As discussed above, the district court's conclusion regarding the breadth of Section 1498 is neither supported nor supportable. *See supra* at Section II. For example, the district held that "much of the use [of Terry] identified by [the Arltons] relates to Defendant's work on Ingenuity, which relates to the protected activity that was done for and authorized by the government and is shielded by § 1498." Appx1598. But even AeroVironment provides no precedent to support this "relates to" theory. *See AV Br.* at 39–46. In addition, contrary to AeroVironment's arguments, its various demonstrations of Terry after the Mars Helicopter

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<sup>13</sup> Notably, neither AeroVironment nor the Government addresses *Medical Solutions, Inc. v. C Change Surgical LLC*, 541 F.3d 1136 (Fed. Cir. 2008), on which the district court relied. In *Medical Solutions*, this Court concluded that the display of an allegedly infringing product at a trade show could not be an act of infringement because the mere display of a prototype "f[e]ll short of practicing all of the elements of any one" of the *method* claims asserted. *Br.* at 46 (quoting *Medical Solutions*, 541 F.3d at 1141). Here, the use of Terry at tradeshow practices every element of the '763 patent's *device* claims.

was on its way to Mars are not “textbook” pre-contracting activities that this Court associates with government work within the scope of Section 1498. *See* AV Br. at 42; *see also TVI Energy Corp.*, 806 F.2d at 1060 (holding that demonstration at Fort Knox as required under the guidelines of Government’s bidding procedure was within the scope of Section 1498). Nor were AeroVironment’s marketing and promotional activities associated with research, development, and testing indisputably “for the benefit of the government.” *Cf. BAE Sys. Info. & Elec. Sys. Integration Inc. v. Aeroflex Inc.*, No. CIV 09-769-LPS, 2011 WL 3474344, at \*10–12 (D. Del. Aug. 2, 2011) (finding pre-contractual activity can be “for the government” and within Section 1498 if the activity is “for the benefit of the government”); *see also Raymond Eng’g Inc. v. Miltope Corp.*, No. 85 CIV 2685 (RWS), 1986 WL 488, at \*3 (S.D.N.Y. May 23, 1986) (holding that giving a prototype to a defense subcontractor for evaluation of use by the Government consistent with standard industry practice is within the scope of protected activity under Section 1498). Instead, AeroVironment publicly used Terry to attract commercial customers and derive commercial value as demonstrated by the thousands of documents AeroVironment produced revealing its

strategic plans to broadly commercialize that device. That AeroVironment was unsuccessful or unwilling to execute those plans—especially in light of the pendency of this lawsuit—does not forgive AeroVironment’s commercial motives or otherwise make its uses “for the benefit” of the Government.

**3. AeroVironment incorrectly asserts that Section 1498 prohibits any action before the district court related to Terry.**

AeroVironment now fabricates a strawman and plucks truisms from the case law out of context to argue that its uses of Terry subject to Section 1498 also immunize its infringing uses of Terry outside the scope of Section 1498. For example, it asserts that “there is no authority for [the Arltons’] contention that limited non-governmental uses provide an end-run around Section 1498’s broad immunity.” AV Br. at 42. But the Arltons merely seek a remedy for those infringing uses where the Government has not assumed liability. Even with immunity for the Mars Helicopter Ingenuity and certain use of Terry (which there is not), it does not follow that AeroVironment is free to otherwise violate the Arltons’ patent rights with impunity.



Contrary to AeroVironment’s argument, courts have recognized that—even if Section 1498 applies to a particular infringement or some infringements—any infringement that does not fall within Section 1498 (and is not *de minimis*) is actionable, giving rise to parallel proceedings before both the district court and the Court of Federal Claims. *See, e.g., Molinaro v. Watkins-Johnson CEI Div.*, 359 F. Supp. 467 (D. Md. 1973) (granting only partial summary judgment after finding Section 1498 applied to governmental sales so case could proceed as to foreign sales). The Government agrees with this proposition. Gov’t Br. at 20 (“Federal contracts cannot unilaterally expand the government’s liability by undertaking unauthorized activities for their own benefit. And the federal government does not become liable for a contractor’s commercial sales or other activities that happen to involve the same or related products.”).

In addition, although the remedy provided by Section 1498 is both “exclusive and comprehensive,” *see* AV Br. at 42 (quoting *Richmond Screw Anchor Co. v. United States*, 275 U.S. 331, 343–44 (1928)), it is not all encompassing. The Supreme Court has made clear that for infringing acts within Section 1498 the Government waives sovereign immunity,

“effect[ing] an assumption of liability.” *Richmond Screw*, 275 U.S. at 344. But it has never held that Section 1498 is so broad as to deprive a patentee of recourse when the Government does not assume liability.

Similarly, AeroVironment’s reliance on *Astronet Techs., Inc. v. BAE Sys., Inc.*, 802 F.3d 1271 (Fed. Cir. 2015), is misplaced. *See* AV Br. at 42–43. There, the patentee alleged theories of indirect infringement—that is, that private-party defendants induced and contributed to direct infringement by the Transportation Security Administration (“TSA”), a government agency. *Astronet Techs.*, 802 F.3d at 1277. This Court affirmed dismissal of those claims because they fell “squarely within the statutory terms” of Section 1498. *Id.* On appeal, the patentee made “some passing references” to an additional theory of direct infringement for certain testing activities by defendants. *Id.* at 1278. This Court rejected the patentee’s attempts to inject new legal and factual theories into the case, especially where these new theories could also be related to work done on behalf of, in furtherance of, or in association with the work for the TSA. *Id.* In addition, the Court disregarded the new direct infringement references because the patentee “nowhere argues to us that only part, rather than the whole, of its case should be reinstated; it

presents only an all-or-nothing argument.” *Id.* In contrast, the Arltons here ask this Court to reverse and remand as to the manufacture and non-governmental uses of Terry even if Section 1498 applies to the Mars Helicopter Ingenuity and to limited, governmental uses of Terry.

**4. There is no basis for shifting the burden of AeroVironment’s affirmative defense to the Arltons.**

This Court has held, “[w]hen raised between private parties, reliance on § 1498(a) is deemed an affirmative defense.” *Advanced Software Design Corp. v. Fed. Rsrv. Bank of St. Louis*, 583 F.3d 1371, 1375 (Fed. Cir. 2009) (citing *Toxgon Corp. v. BNFL, Inc.*, 312 F.3d 1379, 1381 (Fed. Cir. 2002)). As a result, AeroVironment bore the burden to show that *every use* of Terry was both “for the Government” and “with the authorization or consent of the Government.” *See id.* at 1375–76 (outlining two-part inquiry and quoting 28 U.S.C. § 1498); *see also Arbutus Biopharma Corp*, 2023 WL 2455979, at \*1 (“It is well settled that an accused infringer, such as Moderna, bears the burden of establishing § 1498(a) that the infringing use is ‘for the Government’ and ‘with the authorization and consent of the Government.’”); *Applera Corp. v. MJ Rsch., Inc.*, 311 F. Supp. 2d 293, 299–300 (D. Conn. 2004) (noting burden

on alleged infringer to show applicability of Section 1498 defense). Here, however, the district court shifted the entirety of that burden to the Arltons. *See* Appx1036 (“Unless Plaintiffs show that Defendant sold or offered to sell these helicopters commercially, or otherwise used them commercially in a substantial way, the Court will affirm its grant of summary judgment . . . .”); Appx1599 (“Plaintiffs have failed to show any offers for sale or commercial sales of the accused technology.”). Accordingly, not only did the district court apply the wrong legal framework in its analysis of Terry, it turned AeroVironment’s affirmative defense under Section 1498 on its head by converting it into an element of the Arltons’ infringement proof. AeroVironment seeks to exploit this improper shift of the burden, arguing to this Court that the “Arltons failed to carry their burden.” AV Br. at 39.

**III. AeroVironment’s peripheral arguments are illogical, irrelevant, or incorrect.**

**A. AeroVironment’s argues illogically that Lite failed to file a bid protest it could not have filed.**

Both AeroVironment and the Government fault the Arltons for failing to pursue hypothetical remedies.<sup>14</sup> For example, AeroVironment

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<sup>14</sup> The strategy of denying the Arltons anything other than a hypothetical remedy is part of a broader pattern. Based on the rulings of the district

and the Government both contend that the Arltons should have filed a bid protest, rather than seeking a “back-door” remedy here. *See* AV Br. at 27–29 (“[A]ny [bid] protest would have needed to have been filed *before award* to AeroVironment. . . . Instead, Lite Machines took no action.”) (emphasis in original); Gov’t Br. at 12 (“A party asserting that the government improperly awarded a contract because it disregarded the ‘Phase III mandate’ can seek relief through a bid protest.”) (multiple citations omitted). Curiously, AeroVironment also argues that the subcontracts from JPL at issue here were not subject to bid protests under the Tucker Act. AV Br. at 27 & n.2. The result is that AeroVironment appears to be scolding Lite, quite literally, for failing to file a protest it could not file.

Remarkably, both AeroVironment and the Government seem to have forgotten the evidence of record. Lite did, in fact, file a bid protest

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court—and having received no relief in the COFC despite pending litigation since 2018—the Arltons cannot prevent AeroVironment from demonstrating Terry across the United States, accepting awards, and representing the Mars Helicopter Ingenuity as its own invention without penalty. The Government, meanwhile, represented by the same attorney in multiple courts, thwarts the Arltons’ efforts to move forward in the COFC directly contravening its commitment in the district court—and now on appeal—to assume liability pursuant to 28 U.S.C. § 1498.

with the Air Force, pursuant to Federal Acquisition Regulation (“FAR”) 48 C.F.R. § 33.1, on February 25, 2016, twenty (20) days after the Air Force discontinued Lite’s SBIR Phase III funding. The *Lite Machines* decision recites this fact. *See* 143 Fed. Cl. at 274–75 (recounting the filing of Lite’s agency-level protest); *see also* Appx542–543, Appx1965 (Dkt. 26). The Air Force, however, summarily dismissed Lite’s protest, representing that “*a solicitation does not exist and a competitive award is not pending.*” 143 Fed. Cl. at 274 (emphasis added); Appx542. Lite thus had no remedy through a bid protest.<sup>15</sup>

To the extent that AeroVironment and the Government now argue that Lite should have challenged the award of the contract to AeroVironment with yet another bid protest, this would have been impossible for two reasons. First, the Air Force left the Arltons in the dark about Lite’s SBIR Phase III program when it discontinued Lite’s SBIR Phase III funding in 2016. The Arltons were shocked to learn in

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<sup>15</sup> Even though the signatory to the Government’s *amicus* brief, Mr. Brian Boynton, is the lead attorney for the Air Force in the COFC, as well as the signatory for the Government’s Statement of Interest assuming liability for AeroVironment’s patent infringement, Appx1937, he is apparently unaware that the Air Force filed Lite’s bid protest documents in 2019. Appx1965 (Dkt. 26).

2020 that the Mars Helicopter Program had actually continued forward in 2016 with AeroVironment. Appx364. Second, as discussed above, AeroVironment's subcontracts are not susceptible to bid protests under the Tucker Act because JPL is not a federal agency within the meaning of 28 U.S.C. § 1491(b). Lite had no remedy beyond the protest it had already filed with the Air Force (which the Air Force dismissed).<sup>16</sup> The Air Force circumvented the competitive acquisition process altogether by ensuring that the SBIR Phase III funds at issue here were in the hands of an entity that would not be susceptible to bid protests.

**B. AeroVironment's proposed relief of an administrative appeal is similarly illusory.**

AeroVironment and the Government also suggest the Arltons could have challenged AeroVironment's subcontracts in other ways, including asking the SBA to pursue an administrative appeal. AV Br. at 29 ("That

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<sup>16</sup> AeroVironment's response argues for the first time that because Lite is not a party to this case, the Arltons should not "be able to assert a third party's SBIR preference in a patent case that does not involve that third party." AV Br. at 32. AeroVironment does not seem to appreciate the irony in opposing the Arltons' motion to add Lite as a party while now arguing that Lite must be a party. More fundamentally, AeroVironment does not offer any legal support for its position, nor does it explain why the Arltons, as licensors of the '763 patent to Lite, would not have standing.

the award was not challenged in *any fashion* is ample reason for this Court to affirm the [district court].” (emphasis in original)); Gov’t Br. at 13 (“[A] dissatisfied SBIR/STTR participant can ask SBA to pursue an administrative appeal of a Phase III award.”).

As an initial matter, the SBIR Policy Directive requires *the Government*, not Lite or the Arltons, to inform the SBA whenever it intends to pursue Phase III work with an entity other than the small business that developed the technology. *See* 2016 Policy Directive at § 4(c)(7)(iv), “*Agency Notice of Intent to Award*” (directing that an agency that intends to pursue “Phase III work . . . elsewhere must notify the SBA in writing” prior to such an award). There is no evidence of record that any Government agency or Federally Funded Research and Development Center (“FFRDC”) informed the SBA of its intent to award Lite’s SBIR Phase III work to AeroVironment.

In addition, an administrative appeal was every bit as elusive as a bid protest. Again, the Arltons had no means of knowing that the Mars Helicopter Program had continued forward in 2016 without Lite. Appx364. Yet both AeroVironment and the Government suggest that Lite should have challenged an award that occurred in 2016. They do so even



when the Air Force affirmatively denied the existence of a pending award in the course of dismissing Lite’s bid protest.” *See Lite Machines*, 143 Fed. Cl. at 274. The Government itself shirked its obligation to both inform the SBA of its intent to award Lite’s follow-on work to AeroVironment and stop work in the meantime. *See* 2016 Policy Directive at § 4(c)(7)(iv), “*Suspension of Work*” (outlining notification requirement and requiring upon receipt of SBA’s notice of intent to appeal the funding agreement officer to suspend further action on the acquisition until the head of the contracting activity issues a written decision on the appeal).

Finally, even though the Arltons were unaware of the subcontracts to AeroVironment, they invoked Lite’s right to follow-on SBIR Phase III work in their bid protest. Appx1965 (Dkt. 26, at 16). To date, however, Lite’s challenges have yielded nothing.

**C. AeroVironment’s new arguments are without merit or raise additional issues of fact.**

AeroVironment raises a variety of new arguments and issues of fact not previously addressed by the district court to the effect that (i) the Arltons did not establish a connection between their SBIR unmanned aerial vehicle (“UAV”) technology and the technology used in Ingenuity; (ii) the Mars Helicopter Program does not satisfy the requirements of a

SBIR Phase III contract; and (iii) the Arltons' patented technology was developed outside of Lite's SBIR contracts. *See* AV Br. at 30–32. Because these positions were not presented to the district court, however, they must not be considered here. *See, e.g., Nuvo Pharms. (Ireland) Designated Activity Co. v. Dr. Reddy's Labs. Inc.*, 923 F.3d 1368, 1378 (Fed. Cir. 2019); *Golden Bridge Tech., Inc. v. Nokia, Inc.*, 527 F.3d 1318, 1322–23 (Fed. Cir. 2008).

Nonetheless, these arguments and issues require no more than cursory treatment to establish that they are unsound. For example, Mr. Paul Arlton not only submitted an un rebutted declaration explaining the Arltons' work with NASA and attaching a detailed technical paper co-authored with the senior helicopter scientist for the Army at NASA Ames, he also detailed the incorporation of the patented Tiger Moth UAV technology into the Ingenuity Helicopter. *See* Appx363–365, Appx393–403. And even AeroVironment's own witness, Mr. Keennon, testified that the Tiger Moth UAV included the critical components of claim 1 of the '763 patent, including a nonrotating structural mast, a coaxial rotor system, and separate cyclic pitch control for the upper and lower rotors. Appx1459–1463; *see also* Appx1432. He likewise placed Terry—and with

it Ingenuity—squarely within the scope of the '763 patent. *Id.*<sup>17</sup> As a result, even if AeroVironment's assertion regarding the Arltons' lack of evidence tying AeroVironment's technology to Lite Machines' SBIR work and Ingenuity was significant (which it is not), it is wrong.

Moreover, AeroVironment never disputed or asked the district court to decide whether the Mars Helicopter Program qualified as SBIR Phase III work. Instead, AeroVironment advised the Court that the issue was “irrelevant.” Appx529 at n.7. The record, nonetheless, amply supports the conclusion that the Mars Helicopter Program qualified as SBIR Phase III work, including by way of Mr. Arlton's technical comparison of the Mars Helicopter Ingenuity and the '763 patent. Appx364; *see also* Appx361 (demonstrating the Government's awareness of Lite's SBIR Phase III work by highlighting the paper co-authored by the Arltons and the lead helicopter scientist at NASA Ames analyzing the Tiger Moth control system). Notably, AeroVironment delivered the

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<sup>17</sup> Although AeroVironment takes aim at Mr. Arlton's “self-serving” declaration, AV Br. at 30–31, AeroVironment did not object to it after the Arltons incorporated it by reference into their renewed opposition to summary judgment. Appx1428. And, as AeroVironment recognizes, the district court was bound to construe the facts in favor of the Arltons. Appx1595 (citing *In re Oracle Corp. Sec. Litig.*, 627 F.3d 376, 387 (9th Cir. 2010)), *see also* Appx1598–1599.

prototype Mars Helicopter to JPL on February 9, 2016. Appx70–71. This development coincided with the abrupt end of the Arltons’ work with the Air Force on February 5, 2016. Appx363. The COFC further found that after terminating Lite’s SBIR Phase III funding the Air Force awarded Lite’s SBIR Phase III contracts to AeroVironment. *See Lite Machines*, 143 Fed. Cl. at 275–76. AeroVironment raised no dispute below—and there is none—that the Mars Helicopter Program satisfies the definition of SBIR Phase III as deriving from, extending, or completing an effort made by the Arltons’ licensee, Lite, under a prior SBIR funding agreement. *See* 15 U.S.C. § 638(e)(6)(C).

Lastly, AeroVironment’s argument (also made for the first time on appeal) that “Lite Machines would own the patent” if its inventions had been made under Lite’s SBIR contracts is a non-sequitur and irrelevant. The record shows that the Arltons patented their invention outside of the SBIR program and then licensed it to Lite. This does not undermine Lite’s status as an SBIR Phase III award recipient or otherwise change the analysis for deciding whether the Phase III Mandate prevents the Government from consenting to infringement by AeroVironment.

**D. AeroVironment also seeks to distract this Court by confounding the Arltons’ arguments regarding Terry.**

The Arltons seek to hold AeroVironment accountable for the manufacture and non-governmental uses of Terry, which include its uses of Terry on national television and at various venues throughout the country, including at tradeshow. *See, e.g.*, 35 U.S.C. § 271(a) (defining infringement as making, using, offering to sell, or selling any patent invention within the United States). AeroVironment’s response brief, however, is riddled with spurious accusations that the Arltons seek redress for events and actions that do not fall within the Patent Act.<sup>18</sup> For example, AeroVironment refers to documents that discuss a potential meeting with Elon Musk, AeroVironment’s interactions with Impulse Space, and a presentation to UP.Partners. *See* AV Br. at 44–45. In each instance, AeroVironment asserts that these documents do not reflect

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<sup>18</sup> AeroVironment also asserts that the Arltons argued AeroVironment’s acceptance of the Collier Trophy constituted an act of infringement. *See, e.g.*, AV Br. at 14 (citing Appx1437, Appx1439). Not so. The Arltons merely noted to the district court that, prior to infringing the ’763 patent, AeroVironment did not have its own technology that would have allowed it to win “prestigious industry awards” and that AeroVironment’s use of Terry was directed to attracting industry attention and building brand recognition so it could “garner coveted aerospace industry awards.” *See* Appx1437, Appx1439.

activities that could be deemed infringement. This assertion misses the point. These activities (even though they may not independently constitute an act of infringement) corroborate the Arltons' claim that AeroVironment's non-governmental, infringing uses of Terry were commercial in nature and that AeroVironment intended to capitalize upon the Arltons' technology across its commercial businesses. *See, e.g., Appx1036; see also Appx793–794.* It is the broader context of these purely commercial activities and communications that reveal AeroVironment's uses of Terry for its own benefit—and not for the benefit of the Government. AeroVironment simply invents claims that the Arltons overreach to divert the Court's attention away from this broader context.

#### **IV. The district court's denial of the Arltons' motion to amend must be reversed.**

As the Arltons explain in their opening brief, they diligently sought leave to amend their complaint to add a trade secrets claim and therefore satisfied the “good cause” standard set forth in Federal Rule of Civil Procedure 16. Br. at 52–62. The district court, however, demanded that the Arltons demonstrate extreme diligence. *Id.* at 53–57. It also ignored circumstances beyond the Arltons' control that the district court was

bound to consider. *Id.* at 57–62. AeroVironment, too, now ignores these very same circumstances.

AeroVironment’s response brief is most notable for what it does not argue. AeroVironment does not contest the Arltons’ analysis under Rule 15 or the “Foman factors,” i.e., “undue delay,” “bad faith,” “undue prejudice to the opposing party,” or “futility of amendment.” *Foman v. Davis*, 371 U.S. 178, 182 (1962); *see* AV Br. at 46–48. Nor does AeroVironment meet the Arltons’ challenge to find a single case within the Ninth Circuit applying Federal Rule of Civil Procedure 16 as harshly as this one. *Id.*; *see also* Br. at 57. The sole case cited by AeroVironment—*Johnson v. Mammoth Recreations, Inc.*, 975 F.2d 604, 607–09 (9th Cir. 1992)—reflects the unremarkable principle that Rule 16 imposes a “good cause” standard when a plaintiff seeks to amend a complaint after the deadline. AV Br. at 46–48. That case, as the Arltons have already established, is entirely distinguishable from the circumstances presented here. *See* Br. at 56–57. AeroVironment does not suggest otherwise.

AeroVironment also does not dispute a single fact related to the Arltons’ motion to amend. Nor does it claim that the facts the district court disregarded were irrelevant or immaterial. Instead,

AeroVironment levels pedestrian accusations that the Arltons “chose to ignore the [amendment] deadline,” AV Br. at 47, while ignoring each of the circumstances that undermined the Arltons’ ability to file their motion earlier. For example, AeroVironment fails to address the proximity of its document production to the deadline to amend or the impact of its designation of materials as Highly Confidential under the governing protective order. Nor does it mention the requirements imposed by the district court’s local rules, the effect of its own requests for follow-up information during the parties’ meet and confer, or its choice to file early for summary judgment on its Section 1498 defense. AeroVironment, having dictated the timing of both its document production and early summary judgment motion, presumably ignores these issues because it cannot deny that it significantly contributed to the delay in the Arltons’ filing of their motion to amend.

The timing of the Arltons’ proposed amendment was not a tactical decision but a reaction to adverse circumstances. *See Benchmark Young Adult Sch., Inc. v. Launchworks Life Servs., LLC*, No. 12-CV-02953-BAS(BGS), 2014 WL 3014720, at \*3 (S.D. Cal. July 3, 2014). The Arltons should not be punished for exercising restraint. Rather than acting on



speculation, they exercised diligence to establish a good-faith basis for asserting their theft of trade secrets claim. For these reasons, the denial of the Arltons' motion to amend must be reversed.

**V. The district court properly exercised its discretion in denying AeroVironment's motion for attorneys' fees.**

**A. This matter is not "exceptional" under 35 U.S.C. § 285.**

In 2014, the Supreme Court revisited the standard for exceptionality under 35 U.S.C. § 285 and held that an exceptional case is "one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554 (2014). Section 285 demands a "simple discretionary inquiry" that is to be undertaken on a case-by-case basis, "considering the totality of the circumstances." *Id.* at 554, 557. In the ten years since the holding in *Octane Fitness*, this Court has issued nearly ninety decisions addressing Section 285. In only exceedingly rare circumstances has the Court reversed a district court's finding that a case is not exceptional, and for good reason. "To meet the abuse-of-discretion standard, the [appellant] must show that the district court made a clear error of

judgment in weighing relevant factors or in basing its decision on an error of law or on clearly erroneous factual findings.” *Bayer CropScience AG*, 851 F.3d at 1305 (quoting *Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*, 150 F.3d 1374, 1377 (Fed. Cir. 1998)). AeroVironment fails to satisfy this standard here. It offers snippets from the district court’s decision out of context and otherwise largely ignores the analysis and findings that guided the district court’s conclusion.

**1. The district court properly considered the totality of the circumstances.**

AeroVironment argues that the district court’s decision declining to find this case exceptional was error. The heart of its contention is that the district court abused its discretion when it “failed to ‘consider[] the totality of the circumstances.’” AV Br. at 62 (citations omitted). But even a cursory review of the district court’s decision disproves this assertion. The district court expressly acknowledged the need to consider the totality of the circumstances in assessing exceptionality in connection with 35 U.S.C. § 285. The district court further confirmed that it must “determine whether a case is exceptional ‘*considering the totality of the circumstances.*’” Appx1850 (emphasis added) (quoting *Octane Fitness*, 572 U.S. at 553). Moreover, there is no evidence to suggest that the

district court failed to apply the standard it recited. After a lengthy review and detailed analysis of multiple aspects of this litigation, the district court concluded that even though “Plaintiffs ultimately lost on the merits does not mean Plaintiffs’ overall position was frivolous or that the *totality of the circumstances* demonstrates an exceptional case.” Appx1852 (emphasis added). The mere fact that the district court used exemplars of the conduct it evaluated and did not detail in its opinion the assessment of every fact it weighed is not a basis to conclude that it did not consider the totality of the circumstances. *See, e.g., Univ. of Utah v. Max-Planck-Gesellschaft zur Feorderung der Wissenschaften e.V.*, 851 F.3d 1317, 1323 (Fed. Cir. 2017) (“[The trial judge] had no obligation to write an opinion that reveals her assessment of every consideration.”); *see also Novartis AG v. Torrent Pharms. Ltd.*, 853 F.3d 1316, 1328 (Fed. Cir. 2017) (“[T]his court has said on multiple occasions that failure to explicitly discuss every issue or every piece of evidence does not alone establish that the district court did not consider it.”).

Notably, the totality of the circumstances addressed by the district court for purposes of Section 285 included facts and evidence that AeroVironment now neglects to even mention to this Court. Indeed,

AeroVironment omits any reference to the district court’s consideration of AeroVironment’s own conduct, including its concealment of Terry. AV Br. 49-66. As the district court found, “‘Terry’ should have been disclosed to Plaintiffs” during initial discovery. Appx1036. The district court specifically ruled that AeroVironment had no excuse for “failing to disclose that the ‘Terry’ helicopter was in development.” *Id.* This ruling debunks any myth that the Arltons’ case was “exceptional” or pursued in bad faith. As the district court noted in denying attorneys’ fees, “[i]f [AeroVironment was] truly concerned about avoiding lengthy litigation, it could have been more forthcoming concerning the timing and scope of the government’s consent, and about its own marketing and commercial-related activities, rather than concealing information through the first round of summary judgment proceedings.” Appx1852.<sup>19</sup> And, as this Court has held, the district court was well within its discretion to factor into its Section 285 analysis AeroVironment’s conduct because “the conduct of the parties is a

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<sup>19</sup> AeroVironment also fails to mention that in addition to seeking all of its fees in this matter, it has also demanded that the Arltons drop all claims against its “customers” NASA and JPL. Appx969, Appx1801, Appx1807. Thus, AeroVironment’s goal is to ensure the Arltons receive no relief—in any forum—for its infringement.

relevant factor under *Octane's* totality-of-the-circumstances inquiry, including the conduct of the movant.” *Stone Basket Innovations LLC v. Cook Med. LLC*, 892 F.3d 1175, 1181 (Fed. Cir. 2018) (quoting *Gaymar Indus., Inc. v. Cincinnati Sub-Zero Prods., Inc.*, 790 F.3d 1369, 1373 (Fed. Cir. 2015)).

**2. The underlying purpose of Section 1498 does not render this case exceptional.**

To support its arguments on exceptionality, AeroVironment emphasizes the policy objectives behind Section 1498. *See* AV Br. 48–49. But those objectives cannot convert every case where a defendant successfully asserts that statute as an affirmative defense into an exceptional one. As AeroVironment concedes, the court is not to award attorneys’ fees “as a penalty for failure to win a patent infringement suit.” *Octane Fitness*, 572 U.S. at 548 (quoting *Park-in-Theatres v. Perkins*, 190 F.2d 137, 142 (9th Cir. 1951)); *see also Checkpoint Sys., Inc. v. All-Tag Sec. S.A.*, 858 F.3d 1371, 1376 (Fed. Cir. 2017).

In addition, as a factual matter, AeroVironment’s reliance on Section 1498’s purpose is misplaced. For example, AeroVironment begins its argument on appeal by complaining “AeroVironment should not have needed to expend hundreds of thousands of dollars to litigate [this

matter] to conclusion.” AV Br. at 15. But AeroVironment’s subcontracts appear to indemnify AeroVironment against all patent-related legal expenses. Appx177, Appx231. Thus, it is far from clear whether AeroVironment has expended hundreds of thousands of dollars to litigate this matter. It is not even apparent that AeroVironment has any unreimbursed legal expenses at all. For this reason, too, AeroVironment’s assertion that “an award of fees is particularly justified here,” AV Br. at 58, rings hollow.

**3. This Court should not second guess the determination of the district court.**

AeroVironment now asks this Court to reweigh the evidence based on the same arguments it presented to the district court. *See* AV Br. at 53–60, 62–65. But its request should be denied as inconsistent with the applicable abuse of discretion standard; this Court “do[es] not and should not reweigh evidence or make factual findings anew on appeal.” *See, e.g., Alifax Holding SPA v. Alcor Sci. LLC*, Nos. 2022-1641, 2022-1721, 2024 WL 2932910, at \*10 (Fed. Cir. June 11, 2024) (quoting *Impax Lab’ys Inc. v. Lannett Holdings Inc.*, 893 F.3d 1372, 1382 (Fed. Cir. 2018)). For this reason, this Court has been appropriately “wary to wade in[t]o such

circumstantial waters” and to second-guess the determination of the district court. *See Univ. of Utah*, 851 F.3d at 1323.

Nonetheless, even those aspects of the litigation that AeroVironment cherry-picks from the record to justify an award of fees, do not demonstrate any abuse by the district court of its discretion. The totality of the record establishes that the Arltons’ claims were neither objectively unreasonable nor frivolous. For example, AeroVironment claims that the Arltons should have been dissuaded from filing a complaint because a pre-suit investigation would have led to the conclusion that Section 1498 barred their infringement claim against AeroVironment. *See AV Br.* at 1, 50, and 56. AeroVironment further claims that the Arltons should have dismissed their complaint when AeroVironment first laid out its Section 1498 defense, when AeroVironment produced the Ingenuity subcontracts, and again when the Government filed its Statement of Interest. *AV Br.* at 54, 56, and 64.

But, as the district court observed:

. . . the Court is surprised by Defendant’s assertion that the outcome was a foregone conclusion that should have been ‘crystal clear early on to any reasonable person’ . . . This case was not as cut and dried as Defendant strenuously suggests. As Defendant observes, this case presented ‘issues involv[ing] the highly specialized intersection of

patent law and government contracts.’ [citation omitted]  
It was not an obvious slam dunk for either party.

Appx1851. The district court’s findings are further confirmed by the arguments in this appeal, which make clear the question presented by the Arltons is not simply whether the Government consented to AeroVironment’s infringement but whether such consent could be properly given in view of the Government’s contractual and statutory obligations pursuant to the SBIR statute. Contrary to AeroVironment’s suggestion and consistent with the district court’s holding, the answer to that question is not dependent on the contents of JPL’s publicly-available prime contract, anything within the subcontracts belatedly produced by AeroVironment, or the Government’s Statement of Interest.<sup>20</sup> Even before this Court, AeroVironment devotes a significant portion of its response brief to the applicability of Section 1498 and thus reveals that the issue is not so indisputable as to render the Arltons’ claims exceptional for purposes of Section 285. *See* AV Br. at 19–38. Rather “the

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<sup>20</sup> Even the timeline of the disclosures regarding the Government’s consent affirmatively demonstrate that the Arltons litigated reasonably. For example, AeroVironment failed to produce the Ingenuity subcontracts until December 30, 2020—months after the case was filed. Appx131. And the Government did not file its Statement of Interest until February 17, 2021. Appx44, Appx1931.



highly-specialized intersection of patent law and government contracts” presented—and presents—a novel issue.

AeroVironment’s reliance on the Arltons’ conduct in opposing AeroVironment’s summary judgment motion is equally unavailing. It alleges that the Arltons pursued a “previously-undisclosed<sup>21</sup> and frivolous theory that the SBIR Statute forbids application of Section 1498,” failed to cite certain precedent that AeroVironment deems relevant, and inappropriately sought *ex parte* relief. AV Br. at 56–57. The district court, however, expressly held that it “[did] not find that Plaintiffs made frivolous arguments in opposing summary judgment.” Appx1851. Rather, the district court found those arguments “fascinating” and noted that “Plaintiffs’ counsel ‘made a pretty compelling argument about . . . why [the case] should stay here as opposed to elsewhere.’” *Id.* (citation omitted). Still further, the district court found

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<sup>21</sup> AeroVironment’s quip that the Arltons’ summary judgment opposition argument was “a previously-undisclosed theory” is astounding given that AeroVironment, in violation of the relevant local rule, never sought to meet and confer with the Arltons before filing its motion for summary judgment. Appx335 at n.6.

that the Arltons properly “distinguished prior caselaw.”<sup>22</sup> Appx1851. Moreover, the Arltons were forced to seek leave to file a sur-reply because AeroVironment introduced several inaccuracies into the record in its reply brief (as it does now again on appeal). Specifically, AeroVironment argued that the Arltons improperly challenged the award of an SBIR Phase III Contract to AeroVironment based on “Lite Machine’s Phase I and Phase II efforts for its Tiger Moth UAV.” Appx519. That was and is incorrect. *See supra* at 10–15. The Arltons thus sought and *were granted* leave to file a short sur-reply, which was five pages long. Appx680–684. Accordingly, nothing about the Arltons’ actions in connection with summary judgment briefing were meritless, baseless, or vexatious.<sup>23</sup>

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<sup>22</sup> AeroVironment asserts that “[m]ost telling is that the Arltons intentionally concealed the COFC’s decision from the District Court, falsely claiming that it was ‘classified.’” AV Br. at 64 (citing Appx1060). This is not true. The Arltons merely advised the district court that it had “filed a complaint in the Court of Claims against the Government related to the ’763 patent and the Mars Helicopter” and that the “Arltons’ complaint is classified . . . .” Appx1060. The Arltons never intentionally concealed the COFC decision from the district court, nor could they. That decision is publicly reported in *Lite Machines Corp. v. United States*, 143 Fed. Cl. 267 (2019). Appx535. The Arltons merely “refrained from discussing, mentioning, or referring this Court to the matter, to avoid any confusion about their compliance with security protocols.” Appx684.

<sup>23</sup> AeroVironment references the fact that the Arltons filed a motion seeking leave to amend their complaint after the deadline in the

Similarly, the district court thoroughly considered the Arltons' positions in connection with their renewed opposition to AeroVironment's motion for summary judgment. It held:

The Court also does not find that Plaintiffs made frivolous arguments in opposing the renewed motion for summary judgment. Plaintiffs challenged whether public promotional appearances and private business meetings rose to the level of actionable conduct, but the Court does not believe they did so in bad faith. Considering that Defendant did not disclose Terry during the first round of summary judgment [] Plaintiff was entitled to discovery on these activities because they were relevant to Defendant's potentially dispositive § 1498 defense. This is especially true where Defendant made presentations to and/or contemplated meetings with SpaceX, Up Partners, Impulse Space and UAVSI trade show attendees, among others, any of which could have been a commercial activity and for all of which discovery was warranted. Just because Plaintiffs turned out to be wrong on this point does not mean the case is exceptional.

Appx1852. Thus, despite AeroVironment's suggestion, the district court did not rely solely on a lack of bad faith. AV Br. at 65. Considering the *totality of circumstances*, the district court found that—even though their arguments did not prevail—the Arltons should not be saddled with

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scheduling order and filed an *ex parte* application to continue the hearing on AeroVironment's Motion for Summary Judgment. AV Br. at 57–58. But AeroVironment does not explain why either of these submissions merit an “exceptional” case finding or an award of attorneys' fees.

attorneys' fees for legitimately renewing their opposition to AeroVironment's summary judgment motion.

Finally, AeroVironment's accusations regarding counsels' alleged failure to research case law are hollow. Counsel for the Arltons truthfully responded to the district court's question regarding whether the timing of the Government's consent mattered for purposes of the application of Section 1498 and their request for discovery. Counsel responded simply, "I haven't researched that from a legal matter." Appx752. Importantly, for purposes of the Arltons' arguments, that question is irrelevant. The Arltons contend that, under the unique facts of this case including AeroVironment's sudden shift to the Arltons' technology after its own technology failed, they were entitled to discovery on the circumstances surrounding the Government's purported consent. As at least one district court has noted, "[d]iscovery is necessary to ensure that any application of § 1498(a) is based on developed facts and not solely on the Government's say-so." *Arbutus Biopharma Corp.*, 2023 WL 2455979, at \*2.

The overall facts and circumstances demonstrate that neither the Arltons' claims nor their litigation conduct was "exceptional." And

AeroVironment presents nothing to this Court that would compel it to find that the district court abused its discretion in declining to award attorneys' fees here.

**B. The Arltons have not waived their right to challenge the amount of AeroVironment's requested fees.**

AeroVironment's argument that the Arltons have waived their right to challenge a lodestar fee calculation—and that this Court should accept that calculation wholesale—is baseless.

AeroVironment faults the Arltons for objecting to AeroVironment's fees on the whole, insisting that, unless they challenge specific tasks and hourly rates from counsel's time entries, the Arltons acquiesce to the reasonableness of all time entries. AV Br. at 66. But, the Arltons objected before the district court to the mischaracterization that they acquiesced in any way to AeroVironment's fee request. Appx1803 at n.6. Moreover, AeroVironment's insistence that the Arltons challenge "specific tasks" on an itemized basis misses the forest for the trees; the Arltons have challenged entire swaths of AeroVironment's litigation costs as unreasonable. For example, the Arltons contested the reasonableness of seeking fees for all work predating AeroVironment's belated production of its subcontracts on December 30, 2020. Appx1802. The Arltons also

noted the unreasonable and excessive nature of nearly \$400,000 in fees prior to the Court's June 2021 order granting the Arltons' relief from judgment in light of AeroVironment's argument that its summary judgment motion was such a simple matter that the Arltons should never have even defended against it. Appx1803.

Most critically, the Arltons contested the reasonableness of nearly \$420,000 in fees *after* the Court vacated its judgment because (1) AeroVironment concealed Terry precipitating continued discovery and litigation after June 2021 and (2) litigation activity during that time period was limited in scope and did not justify the expenditure of hundreds of thousands of dollars for legal services. Appx1803. Lastly, the Arltons noted the unreasonableness of AeroVironment's fee request when no fewer than eight timekeepers devoted time to this matter, even though lead counsel maintains he is an expert in the field. Appx1803–1804. Thus, the Arltons have expressly challenged the amount of AeroVironment's fee request.

## CONCLUSION

The district court erred in both holding that the Government could properly consent to AeroVironment's willful infringement under

28 U.S.C. § 1498 and that AeroVironment’s manufacture and various non-governmental uses of Terry were *de minimis*. The district court also abused its discretion in denying the Arltons’ motion for leave to amend. It, however, properly declined to find this case “exceptional” under 35 U.S.C. § 285.

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**UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

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