Demystifying IP/Data Rights in Government Contracts

Virtual Class Series 2024

Session 6: Infringement Remedies

Ralph C. Nash
Scott A. Felder

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Public Contracting Institute

Roadmap

- Patent “Infringement” Remedies
- Copyright Infringement Remedies
- Other Remedies

Today's Goal

- Understand the remedies available to IP owners for misuse of their IP by the Government its contractors
  - The Government practices a third-party's patent
  - A Government contractor or sub-contractor practices a third-party's patent during contract performance
  - The Government uses commercial computer software beyond the terms of its license (remember *CiyaSoft* and *Bitmanagement*?)

PATENT "INFRINGEMENT"
28 U.S.C. § 1498(a)

Patent "Infringement" – 28 U.S.C. § 1498(a)

Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

Operation of § 1498(a) in General

- As to actions against the Government
  - Waiver of sovereign immunity
  - Jurisdictional prerequisite at the Court of Federal Claims
- As to actions against a Government Contractor
  - Broad immunity against such actions
  - Affirmative defense in United States District Court

Unpacking § 1498(a)

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"Described in and covered by a patent"

- Requires that the invention be **claimed**
- The claims are the portion of the patent that defines the boundaries of the patentee's right to exclude others

Claims (U.S. Pat. No. 5,443,036)

What is claimed is:

1. A method of inducing aerobic exercise in an unrestrained cat comprising the steps of:

(a) directing an intense coherent beam of invisible light produced by a hand-held laser apparatus to produce a bright highly-focused pattern of light at the intersection of the beam and an opaque surface, said pattern being of visual interest to a cat; and

(b) selectively redirecting said beam out of the cat's immediate reach to induce said cat to run and chase said beam and pattern of light around an exercise area.

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"Used or manufactured"

- Not technical terms
- Each limitation of the claims must be present in the accused product or process

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"Without license . . . or lawful right"

- "Without license" = the patent owner has not granted the Government a license to use the invention
- "Lawful right" = the right to use or manufacture the invention without a license when other unlicensed parties can do so without directly infringing the patent

- Any use or manufacture of an invention that, if done by a private party, would constitute direct infringement
  - Includes acts in 35 U.S.C. §§ 271(a) and (g) [*Zoltek Corp. v. United States*, 672 F.3d 1309 (Fed. Cir. 2012)]
  - Likely excludes indirect infringement under 35 U.S.C. §§ 271(b) and (c) [*Decca Ltd. v. United States*, 640 F.2d 1156 (Ct. Cl. 1980)]

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"By or for the United States"

- ***By*** the United States
  - Self explanatory
  - What if the contractor induces or contributes to direct infringement by the United States? *See Astornet Techs. Inc. v. BAE Sys., Inc.*, 802 F.3d 1271 (Fed. Cir. 2015)

"By or for the United States" (cont'd)

- ***For*** the United States

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

-- 28 U.S.C. § 1498(a)

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"For the Government" Test

- In furtherance of a stated Government policy
- Serves the Government's interests
- For the Government's benefit

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

"For the Government" Examples

- Performing a U.S. Government contract (*e.g., Sevenson Envtl. Servs., Inc. v. Shaw Envtl., Inc.*, 477 F.3d 1361, 1366 (Fed. Cir. 2007))
- Activities during/leading up to a competitive selection process (*e.g., Trojan, Inc. v. Shat-R-Shield, Inc.*, 885 F.2d 854, 856-57 (Fed. Cir. 1989))
- Activities under a contract that benefits the U.S. Government (*e.g., Advanced Software Design Corp. v. Fed. Reserve Bank of St. Louis*, 583 F.3d 1371, 1378 (Fed. Cir. 2009))
- Performing a quasi-Governmental function (*e.g., IRIS Corp. v. Japan Airlines Corp.*, 769 F.3d 1359, 1362 (Fed. Cir. 2014))

- *What about other agreement types (e.g., grants, cooperative agreements, CRADAs, and OTAs)?*

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"Authorization or consent . . ."

- Method
  - Express (contract clause)
  - Implied (by Government conduct) – *TVI Energy Corp. v. Blane*, 806 F.2d 1057 (Fed. Cir. 1986)
- Timing
  - Before the infringing activity
  - *Post hoc – Hughes Aircraft v. U.S.*, 534 F.2d 889 (Ct. Cl. 1976)
- Scope
  - Broad
  - Narrowly tailored

- Analysis will often consider whether the accused infringer faced a binary choice to infringe, on the one hand, or to violate a law/regulation or breach its contract, on the other hand (*see, e.g., Sevenson Envtl.*, 477 F.3d at 1366-67)

Authorization and Consent Clause

The Government authorizes and consents to all use and manufacture, in performing this contract or any subcontract at any tier, of any invention described in and covered by a United States patent –

(1) Embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract; or

(2) Used in machinery, tools, or methods whose use necessarily results from compliance by the Contractor or a subcontractor with (i) specifications or written provisions forming a part of this contract or (ii) specific written instructions given by the Contracting Officer directing the manner of performance

-- FAR 52.227-1(a)

Authorization and Consent Clause (cont'd)

The Government authorizes and consents to all use and manufacture of any invention described in and covered by a United States patent in the performance of this contract or any subcontract at any tier.

-- FAR 52.227-1 Alt I

Unpacking § 1498(a)

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"Reasonable and Entire Compensation"

- Three approaches to computing actual damages (*see Decca, Ltd. v. United States*, 225 Ct. Cl. 326, 336 (1980))
  - Cost savings to Government (disfavored)
  - Lost profits (frequently rejected – difficult to prove that you would have made the profits but for the infringement)
  - Reasonable royalty (preferred – follows familiar *Georgia-Pacific* analysis)
- Delay compensation (*e.g.*, pre-judgment interest)
- Reasonable costs and fees (sometimes)
- No limitation on recovery for patentee's failure to mark
  - Think eminent domain / compulsory license
- The remedy is exclusive (*e.g., Astornet Techs., Inc. v. BAE Systems, Inc.*, 802 F.3d 1271, 1277 (Fed. Cir. 2015))
  - No treble / enhanced damages (even if infringement is willful)
  - No injunction
  - No ancillary action against the contractor (*e.g.,* for inducement or contributory infringement)

Reasonable Costs and Fees

- Only certain classes of plaintiffs are eligible
  - Independent inventors
  - Nonprofit organizations
  - Small business with ≤ 500 employees for the five years preceding the infringement
- Award is still the exception – but it doesn't take an "exceptional case[ ]" as in 35 U.S.C. § 285
  - Case pending > 10 years from filing to application for fees / costs
  - Otherwise, no fees if the position of the United States was substantially justified or special circumstances make a fee award unjust

"Substantially Justified"

- Section 1498(a) uses the Equal Access to Justice Act (EAJA) standard for "substantially justified"
  - Justified to a degree that could satisfy a reasonable person
  - Reasonable basis in both law and fact
- Burden is on the Government

See, e.g., Hitkansut LLC v. United States, 142 Fed. Cl. 341, 356, aff'd, 958 F.3d 1162 (Fed. Cir. 2019)

Hitkansut and *FastShip*

- The COFC has only awarded fees under § 1498(a) twice:
  - *Hitkansut LLC v. United States*, 142 Fed. Cl. 341 (2019)
  - *FastShip, LLC v. United States*, 143 Fed. Cl. 700 (2019)

Hitkansut

- COFC awarded fees to an eligible claimant, concluding that the Government's pre-litigation and litigation positions were not "substantially justified"
- On appeal, the Federal Circuit considered the proper scope of "position of the United States" in the context of:
  - Its prior interpretation of "position of the United States" under EAJA;
  - Amendments to EAJA and § 1498(a); and
  - The legislative history of § 1498(a)

Hitkansut (cont'd)

- *Broad Ave. Laundry & Tailoring v. United States* (Fed. Cir. 1982): Under EAJA, "position of the United States" means Government litigation positions
  - Other circuits considering the issue in the early 1980s tend to agree
- 1985: Congress amends EAJA, expressly defining "position of the United States" to include pre-litigation positions
- 1996: Congress amends § 1498(a) to include cost- and fee-shifting, but does not expressly include pre-litigation positions
  - Congress did so over DoJ's assertion that the same fee-shifting rules should apply as between EAJA and § 1498(a)
- Thus, "position of the United States" under § 1498(a) is limited to Government litigation position

Hitkansut and *FastShip* – Takeaways

- Pre-litigation conduct of Government actors does not factor into the "substantially justified" analysis – only litigation positions
- Fees must be reasonable (*e.g.*, attorneys fees are computed as a reasonable number of hours times a reasonable hourly rate), but can encompass all phases of the litigation, including appeal
- A plaintiff need not have actually incurred legal fees in order to be eligible for an award under § 1498(a)
- A plaintiff does not lose standing to seek a fee award by virtue of entering into a litigation financing arrangement
- The fee award can exceed the damages award (that is, it is not *per se* unreasonable for fees >> damages)
- The pendency of an administrative claims for patent infringement does not count towards the ten-year trigger

Hitkansut and *FastShip* – Takeaways (cont'd)

- Whether or not the Government's position was substantially justified will be a case-by-case analysis
- Conduct that the COFC (permissibly) relied upon in *Hitkansut*
  - Advancing arguments inconsistent with claim construction
  - Failure to factually support invalidity arguments
  - Taking invalidity positions inconsistent with its own patent filings
- Conduct that the COFC (permissibly) relied upon in *FastShip*
  - Presenting a seriously flawed expert analysis (*e.g.*, use of incorrect units)
  - Advancing invalidity arguments with no reasonable basis in law (*e.g.*, arguing that disclosing a single embodiment in the specification is *per se* non-enabling)

An Analytical Approach to Fee-Shifting

- Is the patentee an eligible party?
- Has the action been pending for less than 10 years? If so:
  - Identify the Government's position from the totality of its conduct during the litigation (and *only* the litigation)
  - Examine whether the Government's position was reasonable as a matter of law and fact (pre-litigation facts can be considered if they share a nexus with the litigation position)
- Are the patentee's costs and fees (1) reasonable and (2) just?

COPYRIGHT INFRINGEMENT
28 U.S.C. § 1498(b)

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Operation of § 1498(b) in General

- As to actions against the Government
  - Waiver of sovereign immunity
  - Jurisdictional prerequisite at the Court of Federal Claims
- As to actions against a Government Contractor
  - Immunity against such actions
  - Affirmative defense, **and potential jurisdictional issue**, in United States District Court

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"Infringed"

- Elements
  - (1) ownership of a valid copyright
    - Must register copyright – 17 U.S.C. § 411(a)
  - (2) copying of the constituent elements of the work that are original
- No secondary (*i.e.*, contributory or vicarious) infringement liability – *Cohen v. United* States, 98 Fed. Cl. 156 (2011)
- Note the different "trigger" language vis-à-vis § 1498(a)

"Infringed" – Defenses

- Authorization
  - Express (written license)
  - Implied (remember *Bitmanagement*)
- Fair Use – 17 U.S.C § 107 (*Gaylord v. United States*, 595 F.3d 1364 (Fed. Cir. 2010))
  - Examples: criticism, comment, news reporting, teaching, scholarship, or research
  - Factors: purpose, nature, amount of duplication, and effect
- First Sale – 17 U.S.C. § 109
  - Resale
  - Display lawfully owned copy
  - Exceptions for sound recordings and computer software

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"For the Government" and "Authorization or Consent"

- "For the Government" applies the same basic test as 1498(a) (*4DD Holdings, LLC v. United States*, 143 Fed. Cl. 118 (2019))
- "Authorization or consent" requires "explicit acts or extrinsic evidence" (*Auerbach v. Sverdrup*, 829 F.2d 175 (D.C. Cir. 1987))
  - No standard FAR clause grants authorization and consent
  - The FAR and DFARS both have language prohibiting the incorporation of copyrighted material absent a suitable license – *Does this impact the scope of authorization and consent?*

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"Exclusive Action"

- For contractors in U.S. District Court: Jurisdictional or Affirmative Defense?
  - D.C. Circuit refused to decide issue in 1992
    - *Herbert v. Nat'l Academy of Sciences*, 974 F.2d 192 (D.C. Cir. 1992) ("Today we decide this case, as it came to us, on the understanding that § 1498(b), when applicable, strips the District Court of subject matter jurisdiction over authorized copyright infringement.")
  - Still unresolved today
    - *Zaccari v. Apprio*, 390 F.Supp.3d 103, 111 n.8 (D.D.C. June 4, 2019)
- No separate takings claim
  - *University of Houston System v. Jim Olive Photography*, 580 S.W.3d 360 (Tex. Ct. App. June 11, 2019)

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"Reasonable and Entire Compensation"

- Compensatory damages only
  - Actual damages/lost profits (**not** infringer's profits) – *Cohen v. United States*, 100 Fed. Cl. 461 (2011)
  - Reasonable royalty/hypothetical negotiation – *Gaylord v. United States*, 678 F.3d 1339 (Fed. Cir. 2012)
  - Minimum statutory damages ($750) regardless of intent – *Cohen v. United States*, 105 Fed. Cl. 733 (2012)
- Government is exempt from costs provision in Copyright Act (17 U.S.C. § 505)
  - Unlike § 1498(a), no express reference to costs and fees in § 1498(b)
  - *Can you get costs and fees under EAJA?*
- No injunction – *Zaccari v. United States*, 142 Fed. Cl. 456 (2019)

Contractor's Liability – Indemnification

- Shifts Government's financial liability back to the contractor
- Standard clauses
  - FAR 52.227-3
    - Alternate I – explicit exclusions
    - Alternate II – explicit inclusions
  - FAR 52.227-4 – construction contracts
  - FAR 52.227-5 – specific patents
  - FAR 52.212-4(h) (includes both patent and copyright indemnity)
- Contractual question
- Not part of the § 1498 action

OTHER REMEDIES

Equitable Remedies

- Limited ability to get injunctive relief against the Government
  - There are injunctive-like remedies (*e.g.*, a protest decision that information is proprietary and should not be disclosed in a procurement; declarations of rights by a board of contract appeals)
  - *But see Megapulse, Inc. v. Lewis*, 672 F.2d 959 (D.C. Cir. 1982)
- Injunctive relief more readily available against the receiving party
  - You must meet the applicable legal standard for injunctive relief

Monetary Remedies

- Monetary relief from the Government is available under various theories
  - Breach of contract
    - Under the disputes clause/Contract Disputes Act
    - Under the Tucker Act (28 U.S.C. § 1491)
  - Tort (Federal Tort Claims Act)
    - For misappropriation of trade secret
    - Cannot be related to a contractual relationship
    - Requires administrative exhaustion before filing suit
  - Takings
    - Only available for destruction of trade secrets
  - Violations of other statutes and regulations that clearly provide a monetary remedy against the Government

Monetary Remedies (cont'd)

- Monetary relief may also be available from the receiving party
  - Trade secret misappropriation
  - Copyright infringement?
  - Contractual recovery?

Administrative Remedies

- 10 U.S.C. § 2386
  - Provides a basis for DoD agencies to settle "infringement" claims administratively
  - Implemented at DFARS Subpart 227.70
  - Avoids the cost (and time) of litigation
  - But only on an agency-by-agency basis
  - And the agencies pay out of pocket

Presenters

Scott A. Felder
Wiley Rein LLP
202.719.7029
sfelder@wiley.law

Scott helps clients identify, protect, manage, and enforce their intellectual property rights. His practice focuses on the complex intellectual property issues confronted by government contractors, including patent rights and rights in technical data and computer software, with emphasis on the aerospace, defense, and intelligence sectors.

Ralph C. Nash, Jr.
Professor Emeritus,
The George Washington University

Professor Ralph C. Nash, Jr. founded the academic discipline of government contacts law with the late John Cibinic. He was Professor Emeritus of Law of The George Washington University, Washington, D.C., and founded the Government Contracts Program. Professor Nash is currently a consultant for government agencies, private corporations, and law firms on government contract matters. He is active in the Public Contracts Section of the American Bar Association, is a member of the Procurement Round Table, and is a Fellow and serves on the Board of Advisors of the National Contract Management Association.