Should You Take on the U.S. Government[1]?

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INTRODUCTION

The United States annual budget is approximately two (2) trillion dollars. The Department of Defense alone spent $375.7 billion in 2004 and its estimated spending budget for 2005 and 2006 are $400.1 billion and $419.3 billion, respectively[3]. The U.S. Government invariably will spend some of that money to purchase and use a slue of manufactured articles from contractors and subcontractors, domestic and foreign, in order to carry out its programs. What if you own a patent or copyright on such article? Can U.S. Government be held liable for infringement?[4] Should you take on the U.S. Government for infringing your patent or copyright?

This article addresses the applicable laws and procedures that a patent owner[5] may have to traverse to obtain compensation from U.S. Government for infringement. Of particular interest is that a patent owner can not seek injunctive relief, contrary to when the infringer is a private entity. The legislative provisions and administrative procedures, pertaining to patent and copyright infringement by the U.S. Government, will be discussed. A likely scenario in practice will be examined and recommendations as to possible course of actions will be presented.

APPLICABLE LAWS

A. Federal Statutes

The U.S. Constitution[6] confers upon the U.S. Government the power of eminent domain, through the "taking clause" of the Fifth Amendment, to take private property for public use. The Fifth Amendment provides in pertinent part: "nor shall private property be taken for public use, without just compensation."[7] Although it permits the U.S. Government to take private property for public use, it "bar[s it] from forcing some people alone to bear public burdens which, in all fairness and justice, should be borne by the public as a whole."[8] Claims against the U.S.

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[3] *See e.g.* http://www.gpoaccess.gov/usbudget/fy06/browse.html
[4] *See* Dana H. Shultz, *Patents, Copyrights, Government*, California Bar Journal, April 2005, at 14.
[5] A copyright owner faces similar hurdles when seeking relief for infringement by the U.S. Government. Any differences between the two will be cited.
[6] U.S. Constitution, Amendment V.
[7] *See Id.*
[8] *Armstrong v. United States,* 364 U.S. 40, 49 (1960).

Government for Patent and copyright infringements, a taking of private intellectual property, are governed by the Tucker Act of 1887, as codified in 28 U.S.C. §1491[9], *et seq.*, as amended. It provides in pertinent part: "The United States Claims Court[10] shall have jurisdiction to render judgment upon any claim against the United States founded either upon the Constitution, or any Act of Congress or any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in tort."[11]

A patent owner's claim for infringement is a claim "not sounding in tort." The federal law governing patent infringement claims against the U.S. Government is 28 U.S.C. §1498[12], *et seq.* It states in pertinent part: "Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture."[13]

A significant limitation of this law is that the patent owner is barred from seeking injunctive relief. Ordinarily, when faced with an infringer, the patent owner initially tenders a cease and decease letter to the infringer, apprising the infringer of a looming litigation. If pre-litigation negotiation fails, the patent owner most likely will file a temporary restraining order to prevent the infringer from further infringement. This bargaining position is lacking, however, when the infringer is the U.S. Government. The patent owner, assuming he has the time, money, and incentive to wage a protracted legal battle[14], will have to prosecute its claim while the Government continues its infringing activities. Furthermore, the patent owner may recover

[9] 28 U.S.C. §1491. Claims against United States generally; actions involving Tennessee Valley Authority
(a)(1) The United States Court of Federal Claims shall have jurisdiction to render judgment upon any claim against the United States founded either upon the Constitution, or any Act of Congress or any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in tort. For the purpose of this paragraph, an express or implied contract with the Army and Air Force Exchange Service, Navy Exchanges, Marine Corps Exchanges, Coast Guard Exchanges, or Exchange Councils of the National Aeronautics and Space Administration shall be considered an express or implied contract with the United States.

[10] *See* http://www.uscfc.uscourts.gov

[11] *See supra* note 8.

[12] 28 U.S.C. §1498 states in pertinent part: Patent and copyright cases:
(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. Reasonable and entire compensation shall include the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action if the owner is an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees at any time during the 5-year period preceding the use or manufacture of the patented invention by or for the United States. Notwithstanding the preceding sentences, unless the action has been pending for more than 10 years from the time of filing to the time that the owner applies for such costs and fees, reasonable and entire compensation shall not include such costs and fees if the court finds that the position of the United States was substantially justified or that special circumstances make an award unjust.

[13] *See Id.*

[14] In a successful suit, the patent owner may recover "reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action if the owner is an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees. . ." 28 U.S.C. §1498(a).

damages for infringement up to the time of suit only. There is no provision for recovery of damages for unauthorized use in the future.

B. Federal Regulations-Administrative Procedures

The policy governing patent litigation against U.S. Government presses for administrative adjudication prior to filing suit.[15,16] In fact, this is preferable by most businesses as an alternative to costly litigation. Different Departments of the U.S. Government have different administrative procedures. The Department of Defense, for instance, requires that the patent owner meet 17 requirements for filing a patent infringement claim.[17] Upon filing the claim and receiving a

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[15] 48 CFR §227.7001 Policy.
Whenever a claim of infringement of privately owned rights in patented inventions or copyrighted works is asserted against any Department or Agency of the Department of Defense, all necessary steps shall be taken to investigate, and to settle administratively, deny, or otherwise dispose of such claim prior to suit against the United States. This subpart 227.70 does not apply to licenses or assignments acquired by the Department of Defense under the Patent Rights clauses.
[16] 48 CFR §227.7002 Statutes pertaining to administrative claims of infringement.
Statutes pertaining to administrative claims of infringement in the Department of Defense include the following:

A. The Foreign Assistance Act of 1961, 22 U.S.C. 2356 (formerly the Mutual Security Acts of 1951 and 1954);
B. The Invention Secrecy Act, 35 U.S.C. 181–188; 10 U.S.C. 2386; 28 U.S.C. 1498; and 35 U.S.C. 286.

[17] 48 CFR §227.7004 Requirements for filing an administrative claim for patent infringement.
(a) A patent infringement claim for compensation, asserted against the United States under any of the applicable statutes cited in 227.7002, must be actually communicated to and received by a Department, agency, organization, office, or field establishment within the Department of Defense. Claims must be in writing and should include the following:
(1) An allegation of infringement;
(2) A request for compensation, either expressed or implied;
(3) A citation of the patent or patents alleged to be infringed;
(4) A sufficient designation of the alleged infringing item or process to permit identification, giving the military or commercial designation, if known, to the claimant;
(5) A designation of at least one claim of each patent alleged to be infringed; or
(6) As an alternative to (a) (4) and (5) of this section, a declaration that the claimant has made a bona fide attempt to determine the item or process which is alleged to infringe, but was unable to do so, giving reasons, and stating a reasonable basis for his belief that his patent or patents are being infringed.
(b) In addition to the information listed in (a) of this section, the following material and information is generally necessary in the course of processing a claim of patent infringement. Claimants are encouraged to furnish this information at the time of filing a claim to permit the most expeditious processing and settlement of the claim.
(1) A copy of the asserted patent(s) and identification of all claims of the patent alleged to be infringed.
(2) Identification of all procurements known to claimant which involve the alleged infringing item or process, including the identity of the vendor or contractor and the Government procuring activity.
(3) A detailed identification of the accused article or process, particularly where the article or process relates to a component or subcomponent of the item procured, an element by element comparison of the representative claims with the accused article or
process. If available, this identification should include documentation and drawings to illustrate the accused article or process in suitable detail to enable verification of the infringement comparison.
(4) Names and addresses of all past and present licenses under the patent(s), and copies of all license agreements and releases involving the patent(s).
(5) A brief description of all litigation in which the patent(s) has been or is now involved, and the present status thereof.

favorable outcome, the Department will commence with a determination of the appropriate damages with guidance from court decisions applicable to the claim at hand. According to precedence, "[t]he [appropriate] measure of [damages] is what the owner has lost, not what the taker has gained."[18]

RECOVERY FOR DAMAGES

In order to assess what the patent or copyright owner has lost, the Department will look into existing licensing agreements between the owner and other parties. Absent such agreements, the Department will likely "chose to apply the 'willing buyer-willing seller' rule in determining a reasonable royalty."[19] If it is impractical to apply such rule, the Department's position is that "savings to the government may be considered in determining reasonable compensation."[20] If such options are unavailable, the policy of the U.S. Government is to negotiate with the patent or copyright owner a reasonable solution to the dispute.[21]

Of particular interest to patent and copyright owners who may be planning to sue the U.S. Government for infringement, is the preclusion of injunctive relief as a means for recovery.[22] Accordingly, the U.S. Government is in a unique position to continue infringing the owner's intellectual property rights indefinitely. Knowing that most owners lack the money[23], time, and incentive to wage a protracted legal battle, the Government is, in effect, saying: "if you don't like this offer, sue us!" Since the owner is barred from obtaining injunction against the Government, and that there is no recovery for projected unauthorized use in the future, and considering further the applicable statutes of limitations[24,25], the U.S. Government is, in effect, free to continue infringement of the owner's rights and the latter is forced to go back to court repeatedly for the duration of the patent (20 years) or copyright (at least 70 years). Consequently, it is highly recommended to negotiate with the Government rather than litigate.

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(6) A list of all persons to whom notices of infringement have been sent, including all departments and agencies of the Government, and a statement of the ultimate disposition of each.
(7) A description of Government employment or military service, if any, by the inventor and/or patent owner.
(8) A list of all Government contracts under which the inventor, patent owner, or anyone in privity with him performed work relating to the patented subject matter.
(9) Evidence of title to the patent(s) alleged to be infringed or other right to make the claim.
(10) A copy of the Patent Office file of each patent if available to claimant.
(11) Pertinent prior art known to claimant, not contained in the Patent Office file, particularly publications and foreign art. In addition in the foregoing, if claimant can provide a statement that the investigation may be limited to the specifically identified accused articles or processes, or to a specific procurement, it may materially expedite determination of the claim.

[18] *Leesona Corp. v. United States,* 599 F.2d. 958, 969 (Ct. Cl. 1979).

[19] *Georgia-Pacific Corp. v. United State Plywood Corp.,* 318 F.Supp. 1116, 1120 (S.D.N.Y. 1970), *modified* 446 F.2d. 295 (2d Cir. 1971).

[20] *Leesona,* 599 F.2d. at 971.

[21] *See supra* note 14.

[22] *See supra* note 11.

[23] "Reasonable and entire compensation shall include the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action if the owner is an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees at any time during the 5-year period preceding the use or manufacture of the patented invention by or for the United States." 28 U.S.C. §1498(a). *See supra* note 14.

[24] A copyright claim must be filed within three (3) years from the time the claim accrues. 28 U.S.C. §2501(a).

[25] A patent claim must be filed within six (6) years from the time the claim accrues. 28 U.S.C. §1498(b).

INFRINGEMENT BY ENTITIES ACTING ON BEHALF OF THE U.S. GOVERNMENT

As stated above, the U.S. Government invariably will purchase a variety of manufactured articles from contractors and subcontractors, domestic and foreign, in order to carry out its programs. The unauthorized use or manufacture of patented or copyrighted articles by such contractors or subcontractors (referred to as "agents"), on behalf of the U.S. Government, is similarly prohibited as "use or manufacture for the United States."[26]

With respect to patents: "use or manufacture of an invention . . . by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States."[27]

With respect to copyrights: "whenever the copyright in any work protected under the copyright laws of the United States shall be infringed by the United States, by a corporation owned or controlled by the United States, or by a contractor, subcontractor, or any person, firm, or corporation acting for the Government and with the authorization or consent of the Government, the exclusive action which may be brought for such infringement shall be an action by the copyright owner against the United States."[28]

Government "authorization or consent" can be expressed or implied. Express authorization or consent may come in many forms, including "by contracting officer instructions, by specifications or drawings which impliedly sanction and necessitate infringement, [or] by post hoc intervention of the Government in pending infringement litigation against individual contractors."[29] An express authorization or consent will be found where the government requires the private contractor to use or manufacture the allegedly infringing device, even if the government does not know that the device infringes a patent.[30] In addition, authorization or consent can be implied.[31] "In proper circumstances, Government authorization can be implied . . . by the specific requirement that . . . [the contractor] demonstrate, under the guidelines of the bidding procedure, the allegedly infringing [device]."[32]

Government employees are barred from suing the U.S. Government for infringement if (1) the patented or copyrighted work was invented or prepared "while in the employment or service of the United States, or (2) they were in a position to "order, influence, or induce" use of the patented or copyrighted work.[33,34]

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[26] 28 U.S.C. §1498.
[27] 28 U.S.C. §1498(a).
[28] 28 U.S.C. §1498(b) states in pertinent part:
(b) Hereafter, whenever the copyright in any work protected under the copyright laws of the United States shall be infringed by the United States, by a corporation owned or controlled by the United States, or by a contractor, subcontractor, or any person, firm, or corporation acting for the Government and with the authorization or consent of the Government, the exclusive action which may be brought for such infringement shall be an action by the copyright owner against the United States in the Court of Federal Claims for the recovery of his reasonable and entire compensation as damages for such infringement, including the minimum statutory damages as set forth in section 504(c) of title 17, United States Code
[29] *Hughes Aircraft Co. v. United States,* 209 Ct. Cl. 446, 465, 534 F.2d 889, 901 (1976).
[30] *TVI Energy Corp. v. Blane and Blane Enterprises, Inc.,* 806 F.2d 1057, 1060 (Fed. Cir. 1986).
[31] *Ibid.*
[32] *Ibid.*
[33] 28 U.S.C. §1498(a) states in pertinent part:

Finally, Government liabilities, at least with respect to the provisions of §1498, are limited to activities within the territorial limits of the United States.[35] Accordingly, patent or copyright owners can not sue the Government for "acts in foreign countries that would be infringements at home."[36]

A LIKELY SCENARIO IN PRACTICE AND RECCOMENDATIONS

You are an attorney representing a client who provides articles of manufacture to the U.S. Government. The client contacts you and says that one of its patented/copyrighted articles is being "outsourced" by the U.S. Government abroad. That the Government has an agreement, with a foreign company in a foreign country, to use infringing articles, which are manufactured abroad by the foreign company, here in the United States. The following are some suggestions that might be instrumental in negotiations with the Government and/or reasonable compensation for your client:

1. Determine if the client owns similar patent/copyright in the foreign country and if so whether enforcing these rights in that foreign country is practical.
2. Determine which governmental Department(s) is/are procuring the infringing article and research the procedure establishing the requirements for filing a claim.
3. Compose a detailed documentation of infringing activities since the Departmental procedures require you to provide explicit allegation of infringement.
4. Determine a reasonable royalty fees for the client.
5. Negotiate with the Government before filing the claim.
6. If negotiation fails, file suit before the applicable statute of limitation run.

(a) A Government employee shall have the right to bring suit against the Government under this section except where he was in a position to order, influence, or induce use of the invention by the Government. This section shall not confer a right of action on any patentee or any assignee of such patentee with respect to any invention discovered or invented by a person while in the employment or service of the United States, where the invention was related to the official functions of the employee, in cases in which such functions included research and development, or in the making of which Government time, materials or facilities were used.

[34] 28 U.S.C. §1498(b) states in pertinent part:

(b) [A] Government employee shall have a right of action against the Government under this subsection except where he was in a position to order, influence, or induce use of the copyrighted work by the Government: Provided, however, That this subsection shall not confer a right of action on any copyright owner or any assignee of such owner with respect to any copyrighted work prepared by a person while in the employment or service of the United States, where the copyrighted work was prepared as a part of the official functions of the employee, or in the preparation of which Government time, material, or facilities were used.

[35] 28 U.S.C. §1498(c) states in pertinent part:

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

[36] *Decca Limited v. United States,* 210 Ct. Cl. 546, 550, 544 F.2d 1070, 1072 (1976), *cert. denied,* 454 U.S. 819 (1981).