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ALERT

Intellectual Property Lessons from the Government Contracting Industry May Take Center Stage During the COVID-19 Emergency

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When it comes to building products for the federal government, Intellectual Property (IP) enforcement is different than it is in the commercial world. With the right terms and assurances in place, a government contractor can even willfully infringe another's IP while still avoiding injunctions, treble damages, and sometimes even lawsuits altogether. These protections might be useful for those companies on the receiving end of a call from the President asking for their help to build ventilators, masks, or anything else that could incorporate another's IP.

These protections come from 28 U.S.C. § 1498, which establishes an IP owner's exclusive remedy for patent and copyright infringement by or at the behest of the federal government. And although we typically think of Section 1498 immunity as a tool for government contractors, the immunity that the statute provides – particularly in the patent context – is much broader.

This alert highlights the increasing relevance of Section 1498 to industry in their support of the federal government's response to the coronavirus (COVID-19) emergency.

Most notably, being a government contractor or having a contract with the United States is not a prerequisite to Section 1498. Rather, Section 1498(a) covers "use[] or manufacture" of patented inventions "for the Government and with the authorization and consent of the government." Section 1498(b) likewise covers copyright infringement "by . . . any person, firm, or corporation acting for the Government and with the authorization or consent of the Government." Thus,

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whether the accusation is one of patent infringement or one of copyright infringement, the key questions are whether the accused infringing conduct is "for the Government and with the authorization and consent of the Government."

For the Government: A use is "for the Government" if the use (1) is "in furtherance and fulfillment of a stated Government policy," (2) "serves the Government's interest," and (3) is "for the Government's benefit." *Madey v. Duke Univ.*, 413 F. Supp. 2d 601, 607 (M.D.N.C. 2006). Although courts generally assume that a use or manufacture is "for the Government" if the accused infringer is performing a Government contract, *see, e.g.*, *Sevenson Envtl. Servs., Inc. v. Shaw Envtl., Inc.*, 477 F.3d 1361, 1366 (Fed. Cir. 2007), the scope is broader. Indeed, conduct leading up to the award of a government contract is also "for the Government." *Trojan, Inc. v. Shat-R-Shield, Inc.*, 885 F.2d 854, 856-57 (Fed. Cir. 1989). Where there is a contract, the government need not even be the sole beneficiary. *Advanced Software Design Corp. v. Fed. Reserve Bank of St. Louis*, 583 F.3d 1371, 1378 (Fed. Cir. 2009). And, even conduct between private parties, outside of any contract and not involving the government at all, has been found to be "for the Government" and thus covered by Section 1498. *IRIS Corp. v. Japan Airlines Corp.*, 769 F.3d 1359, 1362 (Fed. Cir. 2014).

Authorization and Consent: Both Sections 1498(a) and (b) also require that the company act "with the authorization or consent of the Government." Although the simplest, most reliable way to satisfy this test is to negotiate a contract with an "Authorization and Consent" clause such as FAR 52.227-1, that is far from the only way to establish the government's authorization or consent to your accused infringement. For example, in *Advanced Software Design*, the Federal Circuit found "implied" authorization and consent, because the Treasury department participated in the testing for the allegedly infringing software. 583 F.3d at 1378. The government can even grant authorization or consent after the infringement is complete and the IP owner has brought suit. *See, e.g.*, *Hughes Aircraft v. United States*, 534 F.2d 889 (Ct. Cl. 1976).

The question of authorization and consent often turns on whether the accused infringer faced the choice either to infringe, on the one hand, or to violate a law or regulation or breach its contract, on the other hand. This may be so even if the accused infringer's contract includes an express Authorization and Consent clause. Regardless, if the accused infringement results from such a choice, courts will typically find authorization and consent. *See Sevenson Envtl. Servs., Inc.*., 477 F.3d at 1366-67.

Reasonable and Entire Compensation: If the accused infringer can satisfy the statutory requirements, then Section 1498 becomes the exclusive means through which the patent or copyright owner can recover.

First, the patent or copyright owner is entitled to only reasonable compensatory damages (including costs and fees in some circumstances). *FastShip, LLC v. United States*, 131 Fed. Cl. 592, 622 (2017), aff'd as modified, 892 F.3d 1298 (Fed. Cir. 2018); *Hitkansut LLC v. United States*, 130 Fed. Cl. 353, 391 (2017), aff'd, 721 F. App'x 992 (Fed. Cir. 2018). This remedy is like eminent domain compensation and excludes punitive damages – even in the event of willful infringement – and injunctive relief.

Second, the patent or copyright owner's entire remedy is action against the government in the Court of Federal Claims. It cannot maintain a separate action against any other party in district court.

Accused infringers should take note, however, that Section 1498 is an affirmative defense in district court. Thus, an accused infringer that finds itself in district court, but believes its conduct is covered by Section 1498, must plead and prove that its conduct was "for the Government and with the authorization or consent of the Government" by a preponderance of the evidence.

Moreover, although the accused infringer may effectively be immune from suit in district court, the agreement between the government and the accused infringer, if any, could allow the government to seek indemnification from the accused infringer. Companies doing business with the government should be alert to indemnification clauses, such as FAR 52.212-4(h) or FAR 52.227-3, in any government contracts.

For more information on Section 1498, you can view either of our previous Boot Camp Webinars (Patent Litigation for Government Contractors & Copyright Litigation for Government Contractors) or feel free to contact us.

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