Patent infringement in federal government procurement contracts.

The unauthorized use of patents by the federal government is generally connected with procurement. The government solicits goods and services from federal contractors, the government wants the best product and service right way, and, therefore, "the government will not refuse to award a contract on the grounds that the prospective contractor may infringe a patent."48 C.F.R. 27.102(b), Motorola, Inc. V. U.S.A. 729 F.2d 768, 771 (Fed. Cir. 1984). Whenever an invention covered by a patent is used or manufactured by or for the United States without a license, the owner's remedy is to file an action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation. 28 U.S.C. § 1498(a).

The federal contractor is immune from suit. TVI Energy Corp. V. Blane,, 806 F.2d 1077, 1059-60 (Fed. Cir. 1986), and the patentee cannot obtain injunction against a government contractor for infringement. Pitcairn v. U.S., 547 F.2d 1106, FN 13 (Ct. Cl. 1976). The contractor is not even named as a party to the litigation; however, the government does give notice to the contractor under 41 U.S.C. 114(b)

and RCFC 14(b) and the contractor may file a petition to join in the litigation, when the government procurement contract contains an indemnification clause. 48 C.F.R. 27.102(c). see Honeywell International, Inc. V. U.S.A. 66 Fed. Cl. 400 (Cl. Ct. 2005), and TV1 Energy Corp v. Milton C. Blane Enterprises, 806 F.2d 1061 FN5 (Fed. Cir. 1986). The immunity of a government contractor does not extend to private sales. Defensheild v. First Choice Armor & Equipment 2012 U.S. Dist Lexis 44276 at 15.

The government can be sued for direct patent infringement, and not for inducing infringement by another or for contributory infringement. Decca Ltd. v. U.S., 640 F.2d 1156, 1169-1170 (Cl. Ct. 1980). The government will defend, not as an ordinary infringer, but rather as a compulsory, nonexclusive licensee. Motorola, Inc., at 768. As such, the limitation of damages found in 35 U.S.C. 287, for unmarked products, is not available to the government. Motorola, Inc. V. U.S.A. 729 F.2d 765,768 (1984); however, the government may repair items it purchases. Calhoun v. U.S., 453 F.2d 1385, 1391, 197 Ct.Cl. 41, 172 U.S.P.O. 438, (Ct.Cl. 1972). Punitive damages are not available.

Bendix Corp. v. U.S., 676 F.2d 606, 608 (Cl. Ct. 1982). A jury trial is not available. Norman H. Cohen, Ed. D., v. U.S., 100 Fed. Cl. 461, 476 n 10 (Cl. Ct. 2011).

The suit must be filed in the Court of Federal Claims. TVI Energy Corp. at 1060 fn 5. Once filed, the Court of Federal Claims guides discovery by encouraging the parties to agree on the scope of e-discovery, and by directing the parties to file an initial identification of the accused products and the claims of the patent that they infringe. A claims construction hearing is then scheduled at the close of discovery. American Innotek v. United States No. 11-223C (Fed.Cl. May 24, 2013). At time schedule is then set for the filing of expert reports, expert witness depositions, and trial. The trial itself can be heard anywhere in the nation as the Federal Court of Claims is a court of national jurisdiction.

Patent infringement in federal government procurement contracts.

When the federal government uses a patent without consent of the

owner, patent infringement damages are “out” and condemnation damages are “in.” This is so because the United States government is not an ordinary infringer. When the government issues patents, it reserves for itself the right to use the patents it issues. The government’s use of a patented invention without an express license from the patentee is not patent infringement. It is a taking of property under the Fifth Amendment to the Constitution through the government's exercise of its power of eminent domain. Standard Manufacturing Co. and DBP, Inc. v. U.S., 42 Fed. Cl. 748, 756 (1999). The Fifth Amendment provides that private property shall not be taken for public use without "just compensation," and “just compensation” means the full monetary equivalent of the property taken. The patent owner is to be put in the same position monetarily as he would have occupied if his property had not been taken." Tektronix, Inc. V. U.S., 552 F.2d 343, 347 (Cl. Ct. 1977). Just compensation is "what the owner has lost, not what the taker has gained”; however, the cost savings of the infringer is a factor that may be considered in the finding of fair compensation. Standard Manufacturing Inc., at 756, Powell v. Home Depot U.S.A., Inc., 663

F.3rd 1240 (Fed. Cir. 2011).

The computation of damages involves two steps: (1) determination of a reasonable compensation base, i.e., the total value of the infringing items on which the plaintiffs are entitled to receive compensation, and (2) determination of a reasonable compensation rate to apply to that compensation base. Standard Manufacturing Co at 759. Additionally, pre-judgment interest and attorney fees can be awarded.

The reasonable compensation base is generally the amount the government paid for the patented product; however, the entire market value rule permits a patentee to seek both the value of patented components and the additional value of unpatented components sold with the patented components. Bendix Corp. V. United States, 676 F.2d 256 (Cl. Ct. 1982). This rule is applied where the patented feature creates the basis for consumer demand or substantially creates the value of the component parts. Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292, 1318 (Fed. Cir. 2011).

Several approaches have been taken toward the calculation of reasonable compensation rate, including established royalty, lost profits,

and reasonable royalty. The best approach depends on the facts of the case. Gargoyles, Inc. v. U.S., 113 F.3d 1572,1576 (Fed. Cir. 1997).

The Patent Holder's established royalty

Proof of an established royalty is appropriate when the patent holder has an established royalty for the product. Standard Manufacturing, A court may, for example, adopt a royalty rate if a substantial number of licensees in a relevant market have considered it reasonable. Rude v. Westcott, 130 U.S. 152, 165 (1889). Where an established royalty rate for the patented inventions is shown to exist, that rate will usually be adopted as the best measure of reasonable and entire compensation. Carley Life Float Co. v. United States, 74 Ct. Cl. 682, 690 (1932).

The Patent Holder's Lost profits

To recover lost profits damages, the patentee must show a reasonable probability that, `but for' the infringement, it would have made the sales that were made by the infringer." Rite-HiteCorp. v.

Kelley Co., Inc., 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc) In a two supplier case, the patentee must show that the relevant market contains only two suppliers, its own marketing and manufacturing capability to make the sales that were diverted to the infringer, and the amount of profit it would have made from the diverted sales. Causation need not be proven with certainty, but the patent holder is required to show a reasonable probability that the patent owner would have made the sales involving the infringing products. Water Technologies Corp, et al v. William Gartner 850 F.2d 660,673 (Fed. Cir. 1998). The standard formula for "lost profits" is that the profit equals the retail price minus cost of manufacturing. .Golden Blount, Inc. V. Robert H. Peterson Co., 438 F.3d 1354, 1370 (Fed. Cir. 2006).

Reasonable Royalty

Where a patentee can not prove lost profits, infringer's profits or an established royalty, the patentee can show the value of his loss by proving what would have been a reasonable royalty. Georgia Pacific

Corp. v. United States Plywood Corp., 318 F. Supp. 1116, 1121, mod. And aff., 446 F.2d 295 (2nd Cir. 1971), cert. Denied, 404 U.S. 870 (1971). The reasonable royalty is based on a hypothetical negotiation between willing licensor and licensee. Wang Labs., Inc. v. Toshiba Corp., 993 F.2d 858, 870 (Fed. Cir. 1993), The hypothetical negotiation is considered to have taken place on the date of the first infringement by the government. Standard Manufacturing at 762; however, "The hypothetical negotiation encompasses fantasy and flexibility; fantasy because it requires a court to imagine what warring parties would have agreed to as willing negotiators; flexibility because it speaks of negotiations as of the time of infringement began, yet permits and often requires a court to look to events and facts that occurred thereafter and that could not have been known to or predicted by the hypothesized negotiators." Standard Manufacturing at 762. In its simplest terms, the reasonable royalty rate is the amount that a person who desires to manufacture, use, or sell a patented article would be willing to pay as a

royalty and yet still be able to make a reasonable profit. Tectronix at 349, Honeywell International Inc v United States. 107 Fed. Cl. 659, 2012 U.S. Claims LEXIS 1539, *109 (2012). However, the hypothetical negotiation is never so simple. All relevant factors are to be considered and any factor is relevant if it would have tended to affect the price set by hypothetical negotiators. .Fed. R. Evid. 401; see ITT Corp. V. United States, 17 Cl. Ct. 199, 228 (1989). The reasonable royalty is generally determined under the approach set forth in Georgia Pacific Corp. V. United States Plywood Corp., 318 F.Supp 116, mod. And aff., 446 F.2d 295 (2nd Cir. 1971), cert denied, 404 U.S. 870 (1971), and its progeny. As a heuristic tool, one court has found it useful to establish a base line royalty rate and then add 1, 2 or 4 percentage points to a baseline royalty rate depending upon whether *Georgia-Pacific* factors somewhat favor, favor, or strongly favor a higher royalty. Standard Manufacturing at 764. The damage award is then computed by multiplying the royalty rate times the compensation base.

Delay damages

Pre-judgment interest is to be paid at a rate of 7 ½% (based on Moody's Corporate Bond index) without need of proof in the individual instance, unless and until it is affirmatively demonstrated that the rate should be different, Tectronix at 353, Decca Ltd. V. United States, 640 F.2d 1156, 1168 (Ct. Cl. 1980). The 52 week T-Bill rates have also been used. Honeywell International Inc v United States. 107 Fed. Cl. 659, 2012 U.S. Claims LEXIS 1539, *137 (2012) but the use of T-Bill rates has been criticized. Tulare Lake Basin Water Storage District v. U.S. 49 Fed. Cl. 313, 320 (2001) The interest rate is generally compounded, but this is up to the discretion of the trial court. Standard Manufacturing at 777.

Attorney fees

Attorney fees if the owner is an independent inventor, a nonprofit organization, or a small business. A fee petition will be denied if the court finds that the position of the United States was substantially justified or that special circumstances make an award unjust. 28 U.S.C.

1498(a). The fees may be awarded if either the governments pre-litigation conduct or its litigation position are not substantially justified. Wright v U.S.A. 56 Fed. Cl. 350, 352 (2003), Also see, Equal Access to Justice Act, 28 U.S.C. 2412(d), James Doty et al v. U.S.A. 71 F.3d 384, 386 (1995), Pierce v. Underwood, 487 U.S. 552, 565 (1988),CEMS, Inc. V. United States 65 Fed. Cl. 475 (2005), United Partition Systems, Inc., v. United States, 95 Fed. Cl. 42 (2010) 07-08, Chiu v. United States, 948 F.2d 711(Fed. Cl. 2005).

Conclusion

Filing a patent infringement claim against the federal government has it's own set of special rules; however, when calculating reasonable and entire compensation, equitable principles of fairness control; therefore, the government is not automatically entitled to infringe a patent at a cheaper rate than a private infringer. Bendix Corp. V. United States, 676 F.2d 606, 607-08 (Ct. Cl. 1982)