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Protecting and Enforcing IP Rights in Government Contracts: What You Don't Know Will Hurt You

Part One: Understanding IP Rights in Government Contracts – Introduction to IP

Presented on behalf of
Strafford Publications

Strafford

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What is Intellectual Property?

- Intellectual property law is grounded in two separate clauses of the U.S. Constitution: the Intellectual Property Clause and the Commerce Clause.
  - The Intellectual Property Clause: "The Congress shall have the power . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." U.S. Const., Article I, § 8, cl. 8.
  - The Commerce Clause: "The Congress shall have the power . . . To regulate commerce with foreign nations, and among the several states, and with the Indian tribes." U.S. Const., Article I, § 8, cl. 3.
- IP law also has strong common-law roots—especially in trade secrets and trademarks.
- The sources of IP law are highly relevant to what rights are enforceable against the Government.

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What is Intellectual Property?

- For our purposes, we'll focus on the four most common forms of intellectual property in business-government transactions:
  - Utility patents.
  - Copyrights in computer software or technical data.
  - Technical trade secrets.
  - Trademarks.

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Patents

- "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." 35 U.S.C. § 101.
- To obtain a patent, an invention must be:
- Directed to statutory subject matter.
- Useful. This is a really low bar.
- Novel. If it hasn't been invented before, it's novel.
- Non-obvious.
- Adequately described in a disclosure to the PTO.

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Patents

- Patents are of limited duration.
  - The 20-year patent terms is relatively short compared to other forms of IP and considering the substantial up-front R&D and government-approval costs, plus the 30+ months to issuance:
    - Copyrights last for the life of the author plus 70 years (thanks to Walt Disney) or up to 120 years from creation (for corporate works).
    - Trademarks are of indefinite duration—they survive until abandoned or rendered generic.
    - Similarly, trade secrets last until they are revealed.

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Patents

- But patent rights are relatively stronger than other IP rights:
  - Patents broadly protect an underlying new idea; copyrights narrowly protect a particular expression, while trademarks protect the goodwill associated with a particular brand.
  - Patents are presumed valid; the owner must prove the existence of a valid trade secret.
  - Patents can be infringed literally or via the doctrine of equivalents.
  - Historically, patents have offered the strongest remedies and the narrowest fair-use limitations.

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Patents

- The Government—state or federal—cannot be enjoined from patent infringement.
  - Under Federal law, a patentee is entitled to receive “reasonable and entire compensation” for infringement, but that does not include injunctive relief (meaning the patentee can’t stop the government from continuing to infringe) or treble/punitive damages (even if the government intentionally infringed the patentee’s rights).
  - And it’s not entirely clear that a patentee has any statutory remedy against an infringing state government.
- This has obvious licensing implications for companies doing business with the government. Patent rights are less valuable in government than in private negotiations.

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Copyrights

- "Copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated," 17 U.S.C. § 102.
- A copyright is conceived as a "bundle" of related rights, which can be subdivided by the owner.
- Copyrights are automatic: they exist the moment a work is created.
  - But you need to "deposit" a copy with the Library of Congress—a purely ministerial act—before filing suit.
- In the Government context, copyrights protect "computer software" and "technical data" – both defined by the FAR.
- Just as with patents, the Government—state or federal—cannot be enjoined from copyright infringement.

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Trade Secrets

- A trade secret is a piece of information that confers a competitive advantage on people who know it in part because it is not commonly known.
- The owner of a trade secret must take reasonable steps to protect the secrecy of the information in question.
- Anything that satisfies these criteria can be protected as a trade secret.
- Trade secrets exist until they are disclosed or cease to have economic value. This means that trade secrets can last forever.

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Trade Secrets

- All 50 states have some form of trade secret protection.
- The Economic Espionage Act, 18 U.S.C. § 1831 et seq., criminalizes trade secret theft at the federal level. But it does not create a private right of action.
- But reverse-engineering is permissible.
- Trade secrets are historically the strongest form of IP for government contractors, because injunctions are available.
- When the government is in possession of a company's trade secret, the Freedom of Information Act (and state equivalents) comes into play.

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Trademarks

- Trademarks protect the association of a word with its source—the beneficiary of trademark protection is the consumer, not (except indirectly) the trademark owner
- Trademarks are protected under both state and federal law, and both registered and unregistered marks are protected.
- Under the Lanham Act, you do not need a registered mark; you can sue for "false designation of origin." 15 U.S.C. § 1125 (a).
- Nature of illegal use: either (A) "likely to cause confusion" or (B) "misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities."

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Trademarks

- The scope of trademark law is extremely broad.
  - All commerce that can be regulated by Congress is potentially affected:
    - Interstate sales or transportation across state borders.
    - Intrastate, if the use affects interstate commerce; see Wickard v. Filburn, 317 U.S. 111 (1942).
  - Federal facilities would seem to fall into the category of "commerce regulated by Congress."
    - Thus, Federal Government uses are regulated.
  - Services between agencies/programs in agency likely are uses in commerce:
    - 15 U.S.C. § 1122(a) allows Lanham Act suit between Government entities.
    - Congress can regulate at the entity level.

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Is Intellectual Property "Property"?

- Under the Fifth Amendment's Takings Clause, the U.S. Government cannot appropriate private property without compensating the owner.
  - Following an 1897 Supreme Court decision, the Takings Clause also applies to the States.
    - Chicago, *Burlington & Quincey Railroad Co. v. City of Chicago*, 166 U.S. 226 (1897).
  - In *Ruckelhaus v. Monsanto* (1984), the Supreme Court indicated that trade secrets are "property" for Fifth Amendment Takings purposes.
  - But in *Zoltek v. United States* (2006), the Federal Circuit concluded that patents are not Fifth Amendment "property."
  - So maybe IP isn't "property" at all, at least from the Constitutional perspective.

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Is Intellectual Property "Property"?

- *Zoltek Corp. v. United States*
  - Case has been ongoing, in some form, since 1996.
  - Zoltek developed and patented a method of manufacturing Tyranno carbon-fiber sheeting.
  - As part of the F-22 Raptor program, Lockheed Martin caused infringing sheeting to be made in Japan and then imported into the U.S.
  - Zoltek sued, but Lockheed Martin successfully asserted a Government-authorization defense. "The provisions of [28 U.S.C. § 1498] shall not apply to any claim arising in a foreign country." *Zoltek v. U.S.*, 51 Fed. Cl. 829, 62 U.S.P.Q.2d 1366 (Fed. Cl. 2002).
  - In consequence, Zoltek could recover only if the Government could be held liable for patent infringement.

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Is Intellectual Property "Property"?

- *Zoltek Corp. v. United States*
  - Zoltek prevailed in the Court of Federal Claims, which held that, despite a statutory immunity from suit, Zoltek could be compensated under the Takings Clause. 28 Fed. Cl. 688 (Fed. Cl. 2003).
  - But the Court of Appeals for the Federal Circuit disagreed, ruling that Zoltek has no remedy and that the Takings Clause does not apply to patents. 442 F.3d 1345 (Fed. Cir. 2006).
    - This presumably applies with equal force to copyright and trademark law.
  - But *Ruckelhaus v. Monsanto Co*., 467 U.S. 986 (1984), is still good law regarding trade secrets.

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Is Intellectual Property "Property"?

- *Zoltek Corp. v. United States*
  - According to the Court of Appeals, "patent rights are a creature of federal law," with no independent vitality.
  - And in the absence of a Constitutional obligation, the Government as sovereign can infringe private patents with impunity.
  - The Federal Circuit denied a petition for rehearing en banc, 464 F.3d 1335 (Fed. Cir. 2006), and the Supreme Court denied certiorari.
  - Nevertheless, some scholars argue that Zoltek is wrongly decided, and that patents are property for Fifth Amendment purposes.
    - See Adam Mossoff, "Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause," 87 Boston U. L. Rev. 689 (2007).

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Is Intellectual Property "Property"?

- *Zoltek Corp. v. United States*, Fed. Cl. No. 96-166 (Jan. 16, 2009).
  - But the Court of Federal Claims won't let the case die, concluding that 28 U.S.C. § 1498 (a) does not insulate Government contractors where there is no direct remedy against the Government: Judge Damich rejected the proposition "that contractors acting with the Government 'authorization and consent' cannot be found liable for patent infringement."
  - He concluded that § 1498 (c) operates to nullify § 1498 (a) when the contractor causes the infringement to take place overseas, because otherwise the patentee cannot receive "reasonable and entire compensation."
  - This means that Zoltek will be able to pursue a patent infringement claim under 35 U.S.C. § 271 (g) against Lockheed Martin . . . in the Northern District of Georgia, where the case was first filed.

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IP in Government Contracts

- All of these issues will be discussed in detail in our forthcoming book from O.U.P. (www.oup.com/us):

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About the Speaker

David S. Bloch,

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A biography and publication list are available online at www.winston.com/dbloch

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