LAW360

Portfolio Media. Inc. | 111 West 19th Street, 5th Floor | New York, NY 10011 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Record Award Shows Claims Court's Rising Role In IP Matters

By **Ranganath Sudarshan and Adam Mitchell** (November 22, 2021, 12:50 PM EST)

Ranganath Sudarshan

Adam Mitchell

On Oct. 22, in SecurityPoint Holdings Inc. v. U.S, the U.S. Court of Federal Claims unsealed an order awarding its highest-ever damages award against the government for patent infringement.[1]

The court awarded $103,685,510 in damages to SecurityPoint Holdings for the Transportation Security Administration's infringement of U.S. Patent No. 6,888,460, titled "Advertising trays for security screening."[2] Accounting for interest and continued infringement, the ultimate damage award, which is subject to appeal, will likely exceed $130 million.[3]

The court that oversaw this case traces its origins to 1855, when Congress established the U.S. Court of Claims, the COFC's predecessor.[4] Although the nuances of the court's jurisdiction and its name have changed over the years, its basic mission — to hear certain monetary claims against the government — has not.[5]

One such claim is patent infringement. Under Title 28 of the U.S. Code, Section 1498(a), the COFC has exclusive jurisdiction over claims for the use or manufacture of a patented invention by or for the U.S.

The COFC is becoming an increasingly important forum for high-stakes patent litigation.

In the past three years, the court not only handed down its largest patent award in SecurityPoint but also awarded the first fees and costs to patent holders under Section 1498(a). In FastShip LLC v. U.S. this year and in Hitkansut LLC v. U.S. in 2019,[6], the court awarded $7,786,601 and $4,387,889, respectively, in fees and costs alone.[7]

These developments, together with the federal government's ever-increasing procurement activity, suggest that the COFC will continue to attract more high-stakes patent litigations in the coming years.

The Section 1498(a) Cause of Action

SecurityPoint's cause of action was Title 28 of the U.S. Code, Section 1498(a), a provision whose principal purpose is to help facilitate government procurement.[8] Enacted and amended chiefly in the

years surrounding the World Wars,[9] Section 1498(a) waives sovereign immunity for patent infringement by or for the U.S.[10]

Section 1498(a) also provides immunity — from a direct infringement action — to a private party who infringes a patent while performing pursuant to a government contract.[11] To invoke Section 1498(a)'s affirmative defense, a private party must show that its acts were (1) for the government and (2) with the authorization or consent of the government.[12]

The scope of this immunity is broad. For example, in 2015, the U.S. Court of Appeals for the Federal Circuit held in Astornet Technologies Inc. v. BAE Systems Inc. that a private party acting for the U.S. with the authorization of the U.S. cannot, as a matter of law, be liable on a theory of indirect infringement.[13]

SecurityPoint's Nine-Figure Damage Award

The SecurityPoint award arose from TSA's use of movable carts to recycle security trays at airport passenger screening checkpoints. SecurityPoint's '460 patent is directed to "a cost effective way of providing security trays for a security checkpoint while at the same time generating revenue from the advertising that is contained thereon."[14]

The government stipulated to TSA's infringement of the '460 patent at 10 U.S. airports beginning on Jan. 1, 2008.[15] The government, however, disputed the extent of TSA's infringement and asserted several defenses, including obviousness.[16] The COFC held a trial in 2015, following which it upheld the validity of the '460 patent.[17]

The COFC then held a trial in October 2020 on the extent of infringement and damages[18] and found that SecurityPoint "carried its burden of proving that ... its patent was universally used as the default method for all lanes at all Cat X and Cat I airports."[19]

The court then turned to calculating SecurityPoint's "reasonable and entire compensation" owed.[20] The court first determined that a running royalty[21] was more appropriate than the lump sum payment of $12,637,499 suggested by the government. Due to the length of the remaining patent term in 2008, when the hypothetical SecurityPoint–TSA negotiation would have taken place, "the TSA would have been motivated not to lock itself into a lump sum."[22]

The COFC also rejected SecurityPoint's suggestion for a rate of 8 cents per passenger because that "figure failed to meaningfully account for the government's non-patent contributions and for the relatively long life that this agreement would have had."[23] The court then applied analysis derived from the 1970 U.S. District Court for the Southern District of New York case Georgia-Pacific Corp. v. U.S. Plywood Corp. to 10 relevant factors in this case.[24]

Ultimately, the COFC determined the royalty rate to be 2 cents per passenger.[25] The court began with the $0.063 royalty rate derived from SecurityPoint's 2007 settlement agreement with Adason, a private entity that won a government contract to provide carts and trays to TSA at five airports.[26] Adason paid a lump sum payment of $650,000 to SecurityPoint.[27] Noting that the Adason agreement was "not perfectly analogous," the court derived from Adason's payment an equivalent royalty rate of $0.063 per passenger.[28]

To arrive at the 2 cents per passenger rate, the court began with the Adason effective rate of $0.063 per

passenger but reduced it to account for, among other things, "the differences in the positions of TSA and Adason, TSA's non-patent-attributable contributions, the fact of the long duration [of the hypothetical license] and large [passenger] base involved."[29]

The 2 cents per passenger royalty rate will likely be a central issue in any appeal that the government takes. The Federal Circuit reviews for abuse of discretion the COFC's "methodology for calculating rates and amounts"[30] and for clear error the court's findings of fact, weighing of the evidence,[31] the "general type of damages to be awarded (e.g., lost profits), their appropriateness (e.g., foreseeability), and rates used to calculate them (e.g., discount rate, reasonable royalty)."[32]

The government may argue on appeal that the royalty rate of 2 cents per passenger was arbitrary and lacked an evidentiary basis. For example, it may argue that, because a noninfringing alternative — the "moveable pallet cart" method — existed, damages should have been awarded as a lump sum and not as a running royalty. The U.S. unsuccessfully argued this point before the COFC, which found that a lump sum payment was not appropriate because the government's proposed alternative was not actually available.[33]

Additionally, the government may challenge the COFC's rejection in substantial part of the study prepared by the government's expert, Amon Tarakemeh. Tarakemeh visited 36 airports during eight months to determine "the frequency with which checkpoint operations infringed" SecurityPoint's patent.[34] He concluded that the TSA used SecurityPoint's patented method only sporadically.

The COFC, however, concluded that Tarakemeh's study was "fundamentally flawed and [its] overall conclusions . . . irrelevant," reasoning that Tarakemeh improperly assumed that TSA infringed only in some instances when, according to the court, infringement was "universal and continuous."[35]

The government may also challenge the court's derivation of a 2 cents running royalty rate from the lump sum Adason license. Although the court explained that the royalty rate should be reduced from the Adason rate, it did not explain why the rate of 2 cents per passenger was appropriate to accomplish this reduction as compared to, for example, a rate of 1 or 3 cents per passenger.

Further, the court noted that the Adason rate — derived from a lump sum payment under a settlement agreement—was not perfectly analogous to the TSA's infringement.[36] Federal Circuit precedent suggests that running royalty rates may not be derived from lump-sum payments without fact-specific evidence explaining why one is applicable to the other.[37] The parties will likely dispute on appeal the extent to which the COFC had sufficient evidence to derive its 2 cents rate from the Adason lump sum.

Recent First Awards of Costs and Fees

The COFC also awarded the first fees and costs in a patent infringement action against the government in the 2019 Hitkansut v. U.S. decision.[38] Under Section 1498(a), the patent owner's recovery of "reasonable and entire compensation" includes reasonable costs and fees if (1) the patent owner is "an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees" and (2) the government's litigation position was not "substantially justified."[39]

In the past three years, the COFC has elucidated this standard and awarded fees and costs in two separate cases. The approximately $4.4 million award of fees and costs in Hitkansut arose from Oak Ridge National Laboratory's materials processing method using thermomagnetic methods. The court found that Oak Ridge infringed Hitkansut's patent, U.S. Patent No. 7,175,722, and awarded damages of

$200,000 plus interest.[40]

The COFC granted Hitkansut's motion for fees and costs, finding that the government's litigation position was not substantially justified.[41] First, the government researchers "did not merely develop thermomagnetic processing only to discover it infringed upon Hitkansut's patent."[42] Instead, Hitkansut disclosed to Oak Ridge under a nondisclosure agreement its patent-pending process, but promptly after the disclosure, Oak Ridge shifted its metal-treating research to a process that infringed Hitkansut's patent.[43]

The court found that: "Oak Ridge researchers took sole credit for this process, publishing papers and submitting patent applications, while deciding not to provide additional contracts or funding to Hitkansut."[44] The court further reasoned that the government "advanced arguments inconsistent with the court's claim construction" and that its invalidity and ineligibility arguments were unsupported by facts.[45]

The approximately $7.8 million award of fees and costs in the 2021 FastShip LLC v. U.S. decision arose from the U.S. Navy's construction of USS Freedom, a littoral combat ship. The Navy's construction infringed two FastShip patents directed to "'monohull fast sealift ... or semi-planing monohull ... ship ... whose hull design in combination with a waterjet propulsion system permits ... transoceanic transit speeds of up to 40 to 50 knots in high or adverse sea states' for large ships."[46]

The COFC determined that the government's litigation position was not substantially justified for three reasons. First, the government consistently asserted that USS Freedom did not have a "hooked" stern, despite the court previously finding that the totality of the evidence showed that the ship in fact included a hooked stern.[47] For trial, the government even built a scale model of the ship that included a "rocker" stern, not a hooked stern.[48]

Second, the government provided a "misleading graph" of shaft horsepower versus ship speed in an attempt to show that Freedom was not as efficient as contemplated by FastShip's patents.[49] The government's graph, "prepared by counsel, us[ed] imperial units, instead of the metric units reflected in [the patent's figure]."[50] The government "continued to use imperial units, throughout the trial and post-trial briefing, despite being told of the error on the first day of trial."[51]

Third, the government's principal expert made and relied on "serious mistakes in both his computational drag analysis related to flow dynamics," causing FastShip's expert to opine, "[I]f he or 'a graduate student or a colleague had been faced with this result from our computation, [they] would have said stop right here until we understand this.'"[52]

FastShip and Hitkansut provide guidance to litigants as to the types of situations in which fees may become available under the "not substantially justified" standard. For example, the government's advancement of factually unsupported positions or a government agency's bad-faith actions relating to infringement may be particularly relevant.

Importantly, though, and as Hitkansut made clear, the government may be found liable and still advance a substantially justified position such that fees are not available to the plaintiff.[53]

Rising Procurement Budgets and Future Outlook

Apart from the recent damages and fee awards discussed above, the consistent increase in spending by

the federal government on procurement contracts suggests a commensurately increasing role for the COFC in patent disputes. The more the government spends on procurement, the more likely the U.S. will be sued for patent infringement, particularly where so many contracts involve the use or manufacture of technology.[54]

In fiscal year 2020, 11.5% of the federal budget was spent on contractual procurement, totaling $1.1 trillion.[55] This amount was a 31.7% increase from fiscal year 2017.[56] Procurement spending continues to increase each year. Government agencies "spent more on procurement in fiscal [year] 2019 than in any of the previous 10 years."[57]

Very recently, the government has spent significant amounts in light of the COVID-19 pandemic as it recruited private parties to meet supply demands by making, for example, ventilators and personal protective equipment.[58]

All of these developments suggest that the COFC is a tribunal that will continue to draw more complex, high-value patent disputes in the years to come.[59]

Ranganath Sudarshan is a partner and Adam W. Mitchell is an associate at Covington & Burling LLP.

[1] See Ellen Bardash, Award of More Than $100 Million in Patent Case Could Be Largest-Ever Against Federal Government, Law.com: Nat'l L.J. (Oct. 25, 2021, 5:43 PM), https://www.law.com/nationallawjournal/2021/10/25/award-of-more-than-100-million-in-patent-case-could-be-largest-ever-against-federal-government (reporting that the 1994 case Hughes Aircraft v. United States previously held the record for the largest patent-related damages award in the Court of Federal Claims at $114 million).

[2] See SecurityPoint Holdings, Inc. v. United States (SecurityPoint II), No. 11-268C, 2021 WL 4933100, at *43–45 (Fed. Cl. Aug. 31, 2021).

[3] See id.; Andrew Karpan, TSA Owes $134M in 10-Year Patent Saga with Fla. Biz, Law360 (Oct. 25, 2021, 4:24 PM), https://www.law360.com/articles/1434140/tsa-owes-134m-in-10-year-patent-saga-with-fla-biz (reporting that a document signed by both SecurityPoint and the United States "tallied up the amount [of damages] at just under $133.8 million").

[4] See Act of Feb. 24, 1885, ch. 122, 10 Stat. 612.

[5] The Federal Courts Improvement Act of 1982, Pub. L. No 97-164, 96 Stat. 25, created the modern COFC. The appellate division of its predecessor, the Court of Claims, was combined with the U.S. Court of Customs and Patent Appeals to create the U.S. Court of Appeals for the Federal Circuit. U.S. CT. FED. CLAIMS, UNITED STATES COURT OF FEDERAL CLAIMS: THE PEOPLE'S COURT 10 (2021), https://www.uscfc.uscourts.gov/sites/default/files/uscfc_court_history_brochure_20210325.pdf. The trial division of the Court of Claims became the U.S. Claims Court, which was renamed in 1992 to the U.S. Court of Federal Claims. See also Margaret M. Sweeney, Chief Judge Margaret M. Sweeney, U.S.

Ct. Fed. Claims, https://www.usCOFC.uscourts.gov/node/3055 (last visited Oct. 29, 2021) (reproducing the inscription, a quote from President Abraham Lincoln, in the lobby of the seat of the U.S. Court of Federal Claims: "It is as much the duty of government to render prompt justice against itself, in favor of citizens, as it is to administer the same, between private individuals.").

[6] See FastShip, LLC v. United States, 153 Fed. Cl. 215 (2021); Hitkansut LLC v. United States, 142 Fed. Cl. 341 (2019), aff'd, 958 F.3d 1162 (2020).

[7] FastShip, 153 Fed. Cl. at 223–27, 233–24; Hitkansut, 142 Fed. Cl. at 358–60, 368.

[8] See Richmond Screw Anchor Co. v. United States, 275 U.S. 331, 345 (1928); TVI Energy Corp. v. Blane, 806 F.2d 1057, 1060 (Fed. Cir. 1986).

[9] See Act of June 25, 1910, Pub. L. No. 61-306, 36 Stat. 851, 851–52; Act of July 1, 1918, Pub. L. No. 65-182, 40 Stat. 704, 705; Act of Oct. 31, 1942, Pub. L. No. 77-768, §6, 56 Stat. 1013, 1014.

[10] See 28 U.S.C. § 1498(a). Critically, the claim must not arise—that is, the infringement must not occur—in a foreign country. Id. § 1984(c).

[11] See Sevenson Env't Servs., Inc. v. Shaw Env't, Inc., 477 F.3d 1361, 1365 (Fed. Cir. 2007).

[12] 28 U.S.C. § 1498(a); see Sevenson Env't Servs., 477 F.3d at 1365.

[13] See 802 F.3d 1271, 1277–78 (Fed. Cir. 2015); see also Scott A. Felder, Federal Circuit Reinforces Broad Reach of 28 U.S.C. § 1498, Wiley (Sept. 21, 2015), https://www.wiley.law/alert-3780. This holding means that patent plaintiffs will not be able to avoid the Court of Federal Claims by alleging indirect infringement claims against government contractors in federal district court.

[14] SecurityPoint II, No. 11-268C, 2021 WL 4933100, at *1 (Fed. Cl. Aug. 31, 2021) (quoting U.S. Patent No. 6,888,460 col. 6 ll. 10–13).

[15] See id. at *3.

[16] Id. at *3–4.

[17] SecurityPoint Holdings, Inc. v. United States (SecurityPoint I), 129 Fed. Cl. 25, 28, 48 (2016), appeal dismissed, No. 2017-1421 (Fed. Cir. Mar. 9, 2017).

[18] SecurityPoint II, 2021 WL 4933100, at *4.

[19] Id. at *16.

[20] 28 U.S.C. § 1498(a).

[21] Although the royalty was calculated at a rate per passenger, the court made clear that the TSA—not the passenger—infringed the '460 patent. See, e.g., SecurityPoint II, 2021 WL 4933100, at *21 ("It is not the passenger that violates the patent; it is TSA that infringes by positioning carts at both ends of the scanning devices and using them to recycle trays.").

[22] Id. at *27.

[23] See id. at *41.

[24] See id. at *31–41. See generally Ga.-Pac. Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970) (proving a "list of evidentiary facts relevant, in general, to the determination of the amount of a reasonable royalty . . . drawn from a conspectus of the leading cases").

[25] SecurityPoint II, 2021 WL 4933100, at *41.

[26] See id. at *32–33, 42.

[27] Id. at *10.

[28] See id. at *32, 42 (accepting as a starting point the equivalent royalty rate calculation of $0.063 per passenger from SecurityPoint's expert).

[29] Id. at *42.

[30] See Shell Oil Co. v. United States, 896 F.3d 1299, 1307 (Fed. Cir. 2018) (citing Home Sav. of Am. v. United States, 399 F.3d 1341, 1346–47 (Fed. Cir. 2005)).

[31] Commonwealth Sci. & Indus. Rsch. Org. v. Cisco Sys., Inc., 809 F.3d 1295, 1300–01, 1306 (Fed. Cir. 2015).

[32] Home Savings, 399 F.3d at 1347. "A court abuses its discretion when," among other things, its decision is arbitrary or "the record contains no evidence upon which the [trial] court could have rationally based its decision." Id. (alteration in original) (quoting Hi-Shear Tech. Corp. v. United States, 356 F.3d 1372, 1377–78 (Fed. Cir. 2004)).

[33] See SecurityPoint II, 2021 WL 4933100, at *22–23.

[34] Id. at *7.

[35] Id. at *7, 19.

[36] See id. at *32.

[37] See Whitserve, LLC v. Comput. Packages, Inc., 694 F.3d 10, 30 (Fed. Cir. 2012); see also MLC Intell. Prop., LLC v. Micron Tech., Inc., 10 F.4th 1358, 1366–67, 1369 (Fed. Cir. 2021).

[38] See Lionel M. Lavenue & Benjamin Cassady, Hitkansut v. United States: Recovering Attorneys' Fees when the Government Infringes Your Patent, Finnegan (July 22, 2019), https://www.mondaq.com/unitedstates/patent/827842/hitkansut-v-united-states-recovering-attorneys39-fees-when-the-government-infringes-your-patent.

[39] 28 U.S.C. § 1498(a).

[40] See Hitkansut LLC v. United States, 142 Fed. Cl. 341, 346 (2019), aff'd, 958 F.3d 1162 (2020).

[41] See id. at 345, 368.

[42] Id. at 358–59.

[43] Id. at 359.

[44] Id.

[45] See id. at 359–60.

[46] FastShip, LLC v. United States, 153 Fed. Cl. 215, 220–21 (2021) (citations to the patent omitted).

[47] See id. at 224–25.

[48] Id.

[49] Id. at 225–26.

[50] Id. at 225.

[51] Id.

[52] Id. at 226 (citations to the record omitted).

[53] Hitkansut LLC v. United States, 142 Fed. Cl. 341, 358 (2019), aff'd, 958 F.3d 1162 (2020).

[54] See Jason Miller, Federal Procurement Spending Up $120B Since 2015, Fed. News Network (June 2, 2020, 12:49 PM), https://federalnewsnetwork.com/reporters-notebook-jason-miller/2020/06/federal-procurement-spending-up-120b-since-2015 ("The top market[s] for [government contract] spending in 2019 [was] IT.").

[55] See Spending Explorer, USASpending, https://www.usaspending.gov/explorer/object_class (last visited Nov. 4, 2021).

[56] See id.

[57] Miller, supra note 54.

[58] See, e.g., Christopher Morten & Charles Duan, Who's Afraid of Section 1498? A Case for Government Patent Use in Pandemics and Other National Crises, 23 Yale J.L. & Tech. 1 (2020); Patent Infringement for the Public Good, MCGUIRE WOODS (May 5, 2020), https://www.mcguirewoods.com/client-resources/Alerts/2020/5/patent-infringement-for-the-public-good.

[59] For example, the COFC recently adopted patent-specific local rules, mirroring the practice of other patent-heavy jurisdictions. See Return Mail, Inc. v. United States, 152 Fed. Cl. 455, 458 n.1 (2021) ("The court's Patent Rules were adopted on July 2, 2018 and were last amended on August 3, 2020 . . . .").