

IN SEARCH OF “REASONABLE COMPENSATION”:  
PATENT INFRINGEMENT BY DEFENSE CONTRACTORS WITH  
THE AUTHORIZATION AND CONSENT OF THE U.S. GOVERNMENT

I. INTRODUCTION

A 2008 commentary in *National Defense* magazine advised contractors for the U.S. Department of Defense that “there is a right way and a wrong way to use someone else’s patent. Knowing and adhering to the rules in advance avoids misuse of the property of others, and liability that could easily have been averted.”<sup>1</sup> By negotiating with the government to include or exclude specific Federal Acquisition Regulation (“FAR”) clauses, a defense contractor can avoid liability for infringement that it commits in performance of the contract. In particular, the commentator wrote, contractors should request that the government insert the standard FAR Clause ¶ 52.227-1, “Authorization and Consent,”<sup>2</sup> which absolves the contractor of liability for all patents that it infringes at the direction of the government. When that clause is included, the patent owner can seek a royalty from the government in the U.S. Court of Federal Claims but cannot pursue compensation from the contractor. Contractors should be wary of government attempts to insert FAR Clause ¶ 52.227-3, “Patent Indemnity,”<sup>3</sup> the commentator wrote, because that can transfer the government’s liability to compensate the patent owner back to the contractor. The government may insist on including the patent indemnity clause to protect itself against infringing activities of which it is unaware. In that case, the contractor still may be able negotiate the inclusion of FAR Clause ¶ 52.227-5, “Waiver of Indemnity,”<sup>4</sup> to absolve itself of liability for infringing specific patents that it believes are implicated by the contract

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<sup>1</sup> Jerry Stouck, *Right and Wrong Ways to Use Others’ Patents*, NAT’L DEF., Jul. 2008, at 50.

<sup>2</sup> 48 C.F.R. § 52.227-1 (2007).

<sup>3</sup> 48 C.F.R. § 52.227-3 (1984).

<sup>4</sup> 48 C.F.R. § 52.227-5 (1984).

specifications. By obtaining either authorization and consent or a waiver of indemnity from the government, defense contractors can intentionally infringe patents in the context of government contract work without incurring any liability. The commentator wrote that “special rules governing patent use by contractors” are appropriate “to facilitate military and other governmental missions.”<sup>5</sup>

The *National Defense* commentary generated a response from the President of Tenebraex Corporation, Peter Jones, who argued that the recommended approach imposes a disadvantage on contractors who invest in research and development (“R&D”) to provide innovative solutions to the government:

[A]n infringer will always win a competitive bid because the poor sap who invented the technology has to include the often substantial cost of his R&D in his bid price, while the infringer does not. And even if the patent holder after great expense and effort secures a royalty from the Federal Government, that royalty . . . does not pay for employees, ongoing operations or more R&D.<sup>6</sup>

Tenebraex had experienced firsthand the downside of government authorization and consent. It owned the patent on an anti-reflection device (“ARD”) that eliminated the glare from rifle scopes and also prevented the scope lenses from reflecting light that would be visible by the enemy.<sup>7</sup> The Army found ARDs to be so beneficial that it solicited bids for machine-gun sights with specifications matching Tenebraex’s patent.<sup>8</sup> Because it held the ARD patent, Tenebraex expected to receive a subcontract from whichever prime contractor was selected by the government to manufacture the sights. Tenebraex provided prototype ARDs to sight manufacturer Elcan Optical Technologies, a subsidiary of Raytheon Systems that was bidding on

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<sup>5</sup> Stouck, *supra* note 1.

<sup>6</sup> Letter from Peter J. Jones, President, Tenebraex Corporation, to *National Defense* magazine (Aug. 29, 2008) (on file with author), available at <http://www.tinyurl.com/PeterJones>.

<sup>7</sup> Madeline B. Gaughran, *Whose Idea Was This Anyway? When the Pentagon is the Buyer, Your Invention Belongs to Everyone*, WALL ST. J., Mar. 19, 2001, at 16.

<sup>8</sup> *Id.*

the contract, to assist it in preparing its bid.<sup>9</sup> However, the prime contract (which was awarded to Elcan) included FAR Clause ¶ 52.227-1.<sup>10</sup> Elcan manufactured the ARDs itself, apparently infringing Tenebraex's patent. Raytheon patent counsel William Schubert informed Tenebraex that it had "no need to examine either the coverage of the referenced patent or its validity" due to the authorization and consent clause.<sup>11</sup>

Tenebraex then pursued its remedy from the government. Negotiations with the Army for license royalties were unfruitful, and after spending over \$100,000 in legal fees pursuing a license agreement, Tenebraex filed suit in the Court of Federal Claims.<sup>12</sup> "Over a year and several hundreds of thousands of dollars in legal fees later, we came to a modest resolution in the matter, but only because of the threat of a royalty the Federal Government would have had to pay us without a settlement," wrote Jones.<sup>13</sup> From the patent owner's perspective, Jones said the "authorization and consent" clause discourages contractors from "trying to figure out ways of keeping our soldiers safer or help[ing] them do a better job of killing our enemies."<sup>14</sup>

This paper examines the statutory protection for defense contractors who infringe the patents of their competitors, differences in statutory interpretation by the Court of Federal Claims and the U.S. Court of Appeals for the Federal Circuit, and remedies available to patent owners in the Court of Federal Claims. Part II describes the history, evolution, and rationale of statutory immunity for patent infringement by government contractors, specifically the "authorization and consent" clause that transfers contractor liability to the government. Part III examines how

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<sup>9</sup> Colin Clark, *U.S. Rule Strips Inventors of Patent Security*, DEF. NEWS, Mar. 22, 1999, at 4.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> Gopal Ratnam, *U.S. Defense Patents Lack Protection / Small Firms Reluctant to Share New Ideas with Pentagon*, DEF. NEWS, Oct. 14, 2002, Marketplace, at 12.

<sup>13</sup> Jones, *supra* note 6.

<sup>14</sup> *Id.*

application of the “authorization and consent” clause in recent years by the Federal Circuit has significantly limited the patent owner’s protection against infringement by government contractors. Part IV summarizes recent recommendations to modify the statute to protect patent owners while still encouraging competition and innovation among contractors. Part V illustrates how the Court of Federal Claims, since 2008, has reacted to the Federal Circuit’s strict application of immunity by discovering creative approaches for protecting patent owners.