



Another Reason to Review Government Vendor Agreements: Government Agencies can be held Liable for Patent Infringement Claims

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Two recent court decisions serve as reminders of government liability for patent infringement claims: *IRIS Corp. v. Japan Airlines Corp.*, Case No. 10-1051 (Fed. Cir., Oct. 21, 2014) (Prost, J.) and *SecurityPoint Holdings, Inc. v. TSA*, Case No. 13-1068 (D.C. Cir., Oct. 28, 2014) (Williams, J.)

In the first case, IRIS Corp. sued Japan Airlines for scanning electronic passports. While such activity initially seems benign, IRIS alleged that the airline infringed IRIS's patent because *some* of the scanned passports contained an electronic chip that infringed IRIS's rights to its own, patented chip technology.

The airline responded that it was legally required by the U.S. government to examine passports (as are all airlines that fly passengers into the United States). Thus, it argued, it was exempt from IRIS's claims because the United States had assumed all infringement liability under section 28 U.S.C. § 1498(a). Section 1498 provides that any owner of a U.S.-patented invention "used or manufactured by or for the United States without license of the owner" must sue the government for any alleged liability relating to any unlicensed use in the specially-created Court of Federal Claims. "Use" — such as examining the allegedly infringing chips contained within certain passports — is considered to be "for the government" if such use is made with the government's authorization or consent, and for its benefit.

Because Japan Airlines was required to examine passports in order to assist the United States with detecting fraudulent passports and monitoring the flow of people in and out of the country, the district court dismissed the suit. The U.S. Court of Appeals for the Federal Circuit affirmed.

Interestingly, Japan Airlines might have (according to IRIS) used non-infringing ways to screen passports. The Court of Appeals' decision, instead, allowed Japan Airlines to use the (allegedly) infringing method and passed liability directly to the U.S. government.

The second case involves the TSA security checkpoints we all must endure when traveling through an airport. At those checkpoints, passengers are required to place personal items in plastic bins for screening. TSA offsets the costs of those bins through a so-called "Bin Advertising Program." That program allows private contractors to assume the costs of providing and maintaining the bins and carts in exchange for the right to sell and display advertisements inside the bins. All airports must execute a Memorandum of Understanding (MOU) with TSA for its screening service, then the airports contract separately with private companies, like SecurityPoint, to obtain the necessary equipment.

Though SecurityPoint maintained contracts with various airports around the country, there were some airports where it did not have a contract. At those airports, TSA was using equipment and methods in a "Bin Advertising Program" similar to SecurityPoint's patented equipment and methods used in the contracted airports. As a result, SecurityPoint sued TSA for patent infringement.

After being sued, TSA began modifying its MOUs to require the airports themselves to indemnify TSA for any and all patent infringement claims. Airports without prior contracts would not agree to the indemnification terms and airports with already-existing contracts would not renew under those terms. SecurityPoint demanded that TSA stop making the modifications because it was "killing the golden goose" that provided TSA with cost-free equipment for its checkpoints (and also hurting SecurityPoint's business). But, in a brief letter, TSA refused. A second lawsuit was filed in which SecurityPoint argued that the contract modifications were made in retaliation for the patent infringement suit.

The D.C. Circuit vacated TSA's "order" on the grounds that the letter did not contain sufficient information. That is, the agency can't just say no, it must say why it's saying no.

In a digital environment, intellectual property and related indemnification and license clauses are routine now in most federal, state, and local governments (as well as quasi-governmental entity) vendor contracts. These cases remind us that the nature of the services, licenses and the hoped-for indemnification are a moving target and the vendor contracts require constant review.