

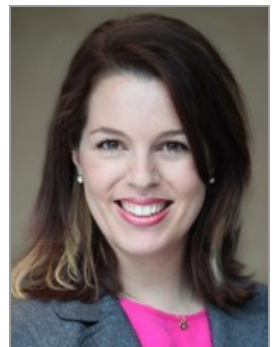
4 Cases That Could Affect Gov't Contracts For Tech

By **Kristen Ittig, Kristen Riemenschneider and Nathaniel Castellano** (August 15, 2017, 12:50 PM EDT)

The intersection of federal procurement and intellectual property law is a strange place, occupied by far more questions than answers. It is rare that the past few months have brought so many decisions relevant to this area of law. First, the U.S. Supreme Court granted certiorari in a case that could carry constitutional implications for proceedings brought under 28 U.S.C. § 1498, presently the only avenue for patentees to sue the federal government (and its contractors) for patent and copyright infringement. Second, the Federal Circuit prepares to consider whether a federal agency can be enjoined from crafting solicitations without first exploring commercial and nondevelopmental options to the maximum extent practicable. Third, the Court of Federal Claims affirmed its jurisdiction over disputes arising under "other transactions authority" agreements. And fourth, the Government Accountability Office held that the debriefing exception for protest timeliness does not apply to protests of contracts awarded under the Small Business Innovation Research program. While each of these decisions is very different from the others, they can all be appreciated by those interested in how the federal government purchases and uses private sector technologies.



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1. Oil States

On June 12, 2017, the U.S. Supreme Court granted certiorari in *Oil States Energy Services LLC v. Greene's Energy Group LLC*, 16-712.[1] While the specific issue on appeal is the constitutionality of the U.S. Patent and Trademark Office's inter partes review proceedings under the 2013 America Invents Act, the court's decision may also impact patent infringement cases brought against the United States pursuant to 28 U.S.C. § 1498.

The AIA introduced sweeping changes to U.S. patent law; among other things, it revamped prior administrative proceedings through which private parties may challenge the validity of already-issued patents at the PTO's Patent Trial and Appeal Board.[2] The Federal Circuit has heard several challenges to the constitutionality of IPR proceedings, with challengers arguing that these proceedings impermissibly allow a non-Article III tribunal, the PTAB, to extinguish a private property right. To date, the Federal Circuit has upheld the constitutionality of these proceedings, and a majority of the court recently denied a petition to reconsider the issue en banc. However, the opinions dissenting from denial of en banc reconsideration reveal a deep divide among the Federal Circuit judges on the issue.[3]

Oil States turns on whether a patent is a private property right, as opposed to a public property right. If patents are held to be private property rights, then only an Article III court may invalidate

them.[4] Thus, because the PTAB is not an Article III court, IPR proceedings at issue in *Oil States* would be unconstitutional. However, a finding that patents are private property rights and therefore can only be invalidated by Article III courts would have implications for proceedings other than IPRs as well. If patents are deemed private property rights, that holding may have implications for any regime whereby a non-Article III court invalidates patents.

One such regime is created by 28 U.S.C. § 1498. Through § 1498, Congress waived sovereign immunity for patent and copyright infringement claims, giving patent and copyright holders a private cause of action against the United States for infringing activities by or on its behalf, including claims against contractors who engage in infringing activity during performance of a federal contract. Under the statute, such claims may only be brought in the U.S. Court of Federal Claims.[5] The Court of Federal Claims is, at present, an Article I court.[6]

Section 1498 proceedings do not necessarily entail invalidation of a patent, but invalidity is a common defense. When a patent holder files an infringement claim against the United States, the government may respond with a host of affirmative defenses, including that the patent at issue is invalid and therefore unenforceable. Once the defense of invalidity is raised, the Court of Federal Claims will consider whether the asserted patent satisfies the relevant statutory requirements of the Patent Act. If the court finds that the patent is invalid it will dismiss the case.[7]

If the Supreme Court reverses the Federal Circuit in *Oil States*, then the Court of Federal Claims' ability to invalidate patents while considering the government's affirmative defense of invalidity may be constitutionally suspect. It is difficult to predict the practical implications of such a decision before the Supreme Court issues its decision and the Court of Federal Claims and Federal Circuit attempt to implement it. The decision in *Oil States* may also impact other Article I tribunals that are presently tasked with assessing the validity of patents, such as the U.S. International Trade Commission when it oversees proceedings brought under 19 U.S.C. § 1337.[8] In any event, regardless of the ultimate result, *Oil States* is one case worth watching for anyone working at the intersection of government contracts and intellectual property law.

2. Palantir

The Federal Circuit is preparing to hear the United States' appeal of the Court of Federal Claims' decision in *Palantir USG v. United States*, 129 Fed. Cl. 218 (2016). In *Palantir*, the Court of Federal Claims permanently enjoined the Army's solicitation of a development contract to design a fully integrated data management platform on the grounds that the Army failed to comply with the statutory and regulatory directives favoring commercial items.[9] The COFC held that 10 U.S.C. § 2377 required the Army to "fully investigate if Palantir, or any other potential offeror, could meet the requirements of the Army's procurement needs on a commercial basis, in part or in full." [10]

Among other things, Section 2377 requires that solicitation requirements and agency procurement policies be modified to accommodate, "to the maximum extent practicable," commercial item and nondevelopmental solutions. Critical to its holding, the Court of Federal Claims recognized that the clauses and compliance requirements standard to non-commercial government contracts can prevent commercial item vendors from meaningfully competing during a federal procurement.[11]

If affirmed, *Palantir* could be logically extended to other aspects of agency solicitations that do not comply with the emphatic directions at 10 U.S.C. § 2377. For example, vendors of commercial technology could conceivably prevent agencies from including in solicitations unique licensing terms and compliance requirements that are notorious in federal acquisition but unheard of in the commercial sector, particularly those associated with cost reimbursement contracting and pricing data.

3. Spectre

On June 30, 2017, the Court of Federal Claims in *Spectre Corp. v. United States*, [12] confirmed that it has jurisdiction over disputes arising under agreements entered into pursuant to agencies'

other transactions authority. Disputes arising under such OTAs are more likely to arise as Congress continues to authorize and expand agencies' authority to enter into these agreements, which are seen as means of tapping into innovative solutions without all of the inefficiencies associated with traditional procurement contracts.[13] Unfortunately, the Court of Federal Claims provided no analysis explaining why jurisdiction was appropriate, and its decision will not be binding in any other case before the Court of Federal Claims, unless and until the Federal Circuit affirms the issue.[14]

Treating OTAs as contracts comports with recent guidance from the Supreme Court that the term "contract" should be understood in the traditional sense as an "agreement between two or more parties creating obligations that are enforceable or otherwise recognizable at law"[15] In *Kingdomware*, the Supreme Court cited that definition of contract from *Black's Law Dictionary* to explain that task orders are contracts,[16] and the Federal Circuit has since held the same.[17] Although each case may vary, there should be no doubt that most agreements between the government and a contractor under an OTA will generally qualify as an agreement between the contractor and the government creating obligations that are enforceable or otherwise recognizable by law. Once it is established that the OTA at issue is a contract, the Court of Federal Claims should be able to properly exercise jurisdiction over these nonprocurement disputes pursuant to its general authority under Tucker Act §1491(a)(1) to "render judgment upon any claim against the United States founded either upon ... any express or implied contract with the United States." [18]

4. Global Aerospace

On July 3, 2017, the Government Accountability Office confirmed that the post-award debriefing exception to protest timeliness does not apply to Small Business Innovation Research awards in Global Aerospace Corp.[19] Therefore, if a protest ground is known at or before the time of award, the protest on that basis must be filed within 10 days, regardless of when or if the agency provides a post-award debriefing. This may require filing a supplemental protest for additional protest grounds learned during the debriefing.

As a general rule, the GAO's bid protest regulations require protests to be filed within 10 days after the protester knew or should have known of the basis for protest, which often means 10 days after the award decision is made.[20] One exception exists for a protest that challenges "a procurement conducted on the basis of competitive proposals under which a debriefing is requested and required.[21] When this debriefing exception applies, the protest must be filed within 10 days after the debriefing.[22]

In Global Aerospace, the protester raised two challenges, both filed more than 10 days after award, but less than 10 days after its debriefing. The first challenge was that the awardee should not have been eligible to receive the Phase II SBIR award at issue. The second challenge addressed errors in NASA's evaluation that Global became aware of during its debriefing. The GAO sustained the protest based on Global's challenge to the agency's evaluation, but dismissed Global's challenge to the awardee's eligibility as untimely.

According to the GAO, Global knew or should have known about the basis for its challenge to the awardee's eligibility by the time of award, at the latest. However, instead of raising this ground within ten days after learning of the contract award, Global waited until after its post-award debriefing. In an issue of first impression, the GAO held that the debriefing exception does not save Global's challenge to the awardee's eligibility, because the procurement "was not conducted on the basis of 'competitive proposals.'"[23]

The GAO based its determination on a comparison of the "competitive procedures" that are hallmarks of Federal Acquisition Regulation Part 15 procurement and the "other than competitive procedures" described at FAR 6.102(d). While FAR 6.201(d) does not specifically identify SBIR awards as an "other than competitive procedure," the GAO analogized NASA's SBIR awards to "other than competitive procedures:

Although not included in the list set forth in FAR §6.102(d), applicable statutory provisions demonstrate that a competitive SBIR procurement is an “other competitive procedure.” Specifically, NASA procurements are subject to Chapter 137 of Title 10 of the United States Code. 10 U.S.C. §2303(a)(6). Pursuant to 10 U.S.C. §2302(2), the term “competitive procedures” means procedures under which the head of an agency enters into a contract pursuant to full and open competition, but also includes the “other competitive procedures” set forth in FAR §6.102, as well as “a competitive selection of research proposals resulting from a general solicitation and peer review or scientific review (as appropriate) solicited pursuant to section 9 of the Small Business Act (15 U.S.C. 638) [the SBIR program].” Thus, applicable statutory provisions demonstrate that SBIR procurements are not conducted based on competitive proposals as contemplated by 4 C.F.R. §21.2(a)(2), but, rather, generally fall within the category of procurements utilizing “other competitive procedures.”[24]

In a footnote, the GAO further explained that treating SBIR awards as “other than competitive” is consistent with the general nature of SBIR procurements, as compared to Part 15 procurements:

This interpretation is also consistent with the nature of SBIR procurements. Similar to a broad agency announcement, proposals in response to an SBIR solicitation are not submitted in accordance with a common statement of work. Rather, offerors propose to conduct research or research and development across a broad array of potential topic areas. This is distinct from a FAR Part 15 procurement where the evaluation and selection process is premised on making meaningful comparisons between and among competing proposals submitted in response to a common set of requirements.[25]

While it may be possible that another agency’s SBIR procedures would cross the line into a competitive procurement commensurate with those described in FAR Part 15, the GAO’s decision in Global Aerospace suggests that any protest of a SBIR award should be filed in strict accordance with the standard 10-day rule, regardless of whether a debriefing is required or requested.

Conclusion

The varied nature of the discussion above — from separation of powers to filing deadlines — indicate the complexity of working at the intersection of federal procurement and intellectual property law. Whatever the ultimate effect of the decisions above, each adds even more nuance to an already nuanced environment, and each should be carefully considered when selling technology to the United States government or developing technology that the government is likely to use.

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[1] Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC, No. 16-712, 2017 WL 2507340, at *1 (U.S. June 12, 2017)

[2] See 35 U.S.C. § 314 (Effective September 16, 2012); Pub. L. No. 112–29, § 6, 125 Stat. 284, 299–305 (2011).

[3] See Cascades Projection LLC v. Epson America, Inc., Nos. 2017-1517, 2017-1518, 2017 WL 1946963 (Fed. Cir. May 11, 2017).

[4] See *id.* at *8 (Reyna, J. dissenting from denial of rehearing en banc)..

[5] 28 U.S.C. § 1498(a)

[6] Note that Court of Federal Claims Chief Judge Braden recently announced an initiative to have the Court of Federal Claims regain the Article III status that its predecessor once enjoyed. See <http://www.uscfc.uscourts.gov/node/2918>

[7] See, e.g., *Thales Visionix, Inc. v. United States*, 122 Fed. Cl. 245 (2015), rev'd and remanded, 850 F.3d 1343 (Fed. Cir. 2017).

[8] See *Cascades Projection LLC v. Epson America, Inc.*, Nos. 2017-1517, 2017-1518, 2017 WL 1946963 at *8 n. 4 (Fed. Cir. May 11, 2017) (Reyna, J. dissenting from denial of rehearing en banc) (noting potential issues relating to the ITC invalidating patents).

[9] *Palantir USG v. United States*, 129 Fed. Cl. 218, 222 (2016).

[10] *Id.* at 282.

[11] *Id.* at 284, 292.

[12] No. 16-932 C, 2017 WL 2838130 (Fed. Cl. June 30, 2017)

[13] See H. Rep. 114-270, Conference Report to Accompany H.R. 1735, National Defense Authorization Act (NDAA) for Fiscal Year 2016 (Sept. 29, 2015).

[14] *W. Coast Gen. Corp. v. Dalton*, 39 F.3d 312, 315 (Fed.Cir.1994) ("Court of Federal Claims decisions, while persuasive, do not set binding precedent for separate and distinct cases in that court.")

[15] *Kingdomware Techs., Inc. v. United States*, 136 S. Ct. 1969, 1978–79, 195 L. Ed. 2d 334 (2016) (citing *Black's Law Dictionary* 389 (10th ed. 2014)).

[16] *Id.*

[17] *Coast Prof'l, Inc. v. United States, Fin. Mgmt. Sys., Inc.*, 828 F.3d 1349, 1354 (Fed. Cir. 2016).

[18] 28 U.S.C. 1491(a)(1).

[19] *Global Aerospace Corp.*, B-414514, July 3, 2017, 2017 WL 2859927

[20] 4 C.F.R. § 21.2(a)(2).

[21] *Id.*

[22] *Id.*

[23] *Global Aerospace Corp.*, B-414514, July 3, 2017, 2017 WL 2859927

[24] *Id.* at ¶ 7.

[25] *Id.* at n.10.