

“LIKE TODDLERS IN BIG SURF”: CAN THE GOVERNMENT CONTROL THE EFFECTS OF FEDERAL TRADEMARK LIABILITY?

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*\*With apologies to P.J. O’Rourke.*

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## I. INTRODUCTION

Generally, the Federal Government operates as any other large manufacturing operation. The Government fields fleets of products, such as ships, aircraft, automobiles, and spacecraft. It also operates other unique projects, in such diverse fields as pharmaceutical development, radioactive waste disposal, and continued development and exploration of space. In each of these products and operations, the Government must obtain the expertise of outside contractors, who work on behalf of and provide services to it. In this sense, the Federal Government operates in the same manner as a business conglomerate, with specific core operations performed by government employees and the remaining ones performed via service contracts or the functional equivalent of OEM agreements. But the Government has an important advantage over private conglomerates: It controls how and whether it may be sued.

For instance, unlike in the private sector, the Federal Tort Claims Act limits the types and forms of tort damages to which the Government may be exposed.<sup>1</sup> Further, unlike a private sector company, the Federal Government has capped the damages available under most intellectual property laws and

1. See Federal Tort Claims Act, ch. 753, tit. IV, 60 Stat. 842 (1946), codified in scattered sections of 28 U.S.C.S. (Law. Co-Op. 1990 & Supp. 2003).

has generally removed the possibility of injunctive relief for any type of lawsuit arising under the Patent and Copyright Acts.<sup>2</sup> This has provided a tremendous advantage; without either the threat of treble damages for willful infringement or the possibility of injunctive relief, patent and copyright holders are comparatively powerless to prevent the Federal Government from infringing their intellectual property.

This rather significant limitation has generated a host of creative thought in the private bar as to how to enforce intellectual property rights against the Government.<sup>3</sup> Specifically, the private bar has long sought ways to protect client intellectual property while ensuring that the Government engages in long-term projects with the intellectual property owner. To this end, lawyers largely have been restricted to using trade secret protection.<sup>4</sup> Reverse-FOIA lawsuits can prevent the Government from making unauthorized disclosure or use of trade secrets.<sup>5</sup> More importantly, trade secrets can be used to prevent competitive sourcing using the protected material.<sup>6</sup>

But trade secrets have inherent limitations and disadvantages in the field of public contracting. First, in order to control the trade secret, a cumbersome system of markings has been developed and is necessary for the preservation of the intellectual property.<sup>7</sup> Further, in order to maintain these markings, contractors need to comply with government-specific accounting rules so as to determine whether the Government or the contractor paid for the technology embodied in the trade secret. Because trade secrets can be enforced for indeterminate amounts of time, evidence of creation and facts showing that trade secret protection is warranted must be retained for decades. Lastly, in order to enforce a trade secret, there is the problem of burden of proof. This generally requires the trade secret owner to prove a negative—that the information in question is not generally known. Reliance on trade secrets, therefore, is an inefficient and expensive mechanism for protecting intellectual property.

In 1999, the Federal Government waived its sovereign immunity for another type of intellectual property: trademarks. This type of intellectual prop-

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2. 28 U.S.C.S. § 1498 (Law. Co-op. 1989 & Supp. 2003).

3. See, e.g., Paula Samuelson, *Information as Property: Do Ruckelshaus and Carpenter Signal a Changing Direction in Intellectual Property Law?* 38 CATH. U. L. REV. 365 (1989); Mitchell N. Berman, R. Anthony Reese, & Ernest A. Young, *State Accountability for Violations of Intellectual Property Rights: How to “Fix” Florida Prepaid (and How Not To)*, 79 TEX. L. REV. 1037 (2001); David S. Bloch & James G. McEwen, “Other Transactions” with Uncle Sam: A Solution to the High-Tech Government Contracting Crisis, 10 TEX. INTELL. PROP. L.J. 195 (2002).

4. See, e.g., 5 U.S.C.A. § 552(b) (West 1996); 18 U.S.C.A. § 1905 (West Supp. 2003).

5. Gregory H. McClure, *The Treatment of Contract Prices under the Trade Secrets Act and Freedom of Information Act Exemption 4: Are Contract Prices Really Trade Secrets?* 31 PUB. CONT. L.J. 185 (2002); Ronald Backes, Comment, *Freedom, Information, Security*, 10 SETON HALL CONST. L.J. 927, 973–83 (2000).

6. See *Chrysler Corp. v. Brown*, 441 U.S. 281, 291–92 (1979); see generally David F. Dowd & Lisanne E. S. Cottingham, *Do You Know Where Your Prices Are?* 36 PROCUREMENT LAW. 10 (2001).

7. FAR 52.227–14 & Alternates II or III (June 1987) (marking on data delivered under FAR Data Rights Clause with limited or restricted rights); FAR 52.227–19(c)(4) (marking on delivered commercial software); DFARS 252.227–7013(f) (markings on delivered noncommercial technical data); DFARS 252.227–7014(f) (markings on delivered noncommercial software).

erty is well known in the private sector and probably is one of the most commonly enforced forms of intellectual property. And because trademarks registered by the U.S. Patent and Trademark Office carry presumptions of enforceability, a trademark enforcement action is more easily proven and therefore less expensive than trade secret litigation.

More importantly, this type of intellectual property provides for injunctive relief in any U.S. district court. This is a novel (and appealing) concept for those in the private bar who have either been forced to work in the U.S. Court of Federal Claims or through Article I or Article II tribunals, e.g., the General Accounting Office or the various boards of contract appeals. Government contractors and their counselors typically focus on patents and data rights clauses in connection with the protection of private intellectual property. But there is reason to believe that trademarks also can be an effective tool. Aggressive use of trademark rights can protect goods sold to the Government from being transformed in a way that harms the trademark rights, however, of an owner. We submit that Lanham Act<sup>8</sup> enforcement actions provide a unique mechanism by which a contractor's intellectual property rights can be protected in a manner familiar to the private sector.

In Section II of this Article, we examine historical attempts to use federal trademark rights against the Federal Government, the subsequent waiver of federal sovereign immunity with respect to trademark rights, and the types of relief available where the Federal Government has used a mark in violation of the Lanham Act. In Section III, we outline the general factors used to determine trademark infringement and comment on the likelihood of the applicability of each factor to the Federal Government's uses of marks. In addition, we provide hypothetical scenarios under which the Federal Government might be charged with violating the Lanham Act. Section IV summarizes the significance of the Government's waiver of sovereign immunity to trademark infringement actions, as well as the strategic uses of federally protected trademarks in public contracts.

## II. BACKGROUND AND HISTORY OF GOVERNMENT USE OF TRADEMARKS

### A. *The Federal Government Was Immune from Trademark Infringement Suits Prior to Passage of the Trademark Amendments Act of 1999*

The Federal Government, as sovereign, may not be sued unless it consents to liability by waiving sovereign immunity.<sup>9</sup>

The concept of sovereign immunity permeates all international relations.

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8. Title 15, Chapter 22, of the U.S. Code, commonly referred to as the Lanham Act, allows an applicant to register marks for goods or services used in interstate commerce. For marks registered under the Lanham Act, enforcement mechanisms include, among other remedies, injunctions and damages as set forth in 15 U.S.C §§ 1116 and 1117 (2000).

9. *United States v. Mitchell*, 463 U.S. 206, 212 (1983).

Sovereign immunity prevents suits against foreign powers; immunity must be expressly waived in order for suits against an independent nation to proceed.<sup>10</sup> In this country, sovereign immunity dates back to English common law, where it meant the king could do no wrong.<sup>11</sup> As applied to the United States, the concept prevents suits against the U.S. Government by the citizenry unless there has been an explicit waiver of sovereign immunity.<sup>12</sup> Therefore, no suit against any Federal or state Government may proceed unless the Government has decided to allow liability on that claim.<sup>13</sup> Immunity is an implied attribute of sovereignty. “As the United States are not suable of common right, the party who institutes such suit must bring his case within the authority of some act of congress, or the court cannot exercise jurisdiction over it.”<sup>14</sup>

Trademark infringement is a tort, albeit a tort implemented using a federal statutory scheme.<sup>15</sup> Thus, the Federal Government must consent to be sued for trademark infringement.<sup>16</sup> Prior to the passage of the Trademark Amendments Act of 1999,<sup>17</sup> plaintiffs seeking redress for trademark infringement against the Federal Government needed to find a waiver of sovereign immunity that permitted redress for the trademark injury. Plaintiffs looked to the Federal Tort Claims Act, the enabling statute of the Court of Federal Claims, and the Administrative Procedure Act. But none of these efforts met with consistent success.

### 1. The Federal Tort Claims Act

Under the Federal Tort Claims Act (the FTCA), the Federal Government may be held liable “for money damages . . . for injury or loss of property, or personal injury or death caused by the negligent or wrongful act or omission of any employee of the Government while acting within the scope of his office or employment, under circumstances where the United States, if a private

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10. *See, e.g., Iran–United States: Settlement of Hostage Crisis*, 20 I.L.M. 224 (1981) (waiver of sovereign immunity to allow suits against the Government of Iran).

11. *Pennhurst State Sch. & Hosp. v. Halderman*, 465 U.S. 89, 142–44 (1984).

12. *See, e.g., Federal Tort Claims Act*, 28 U.S.C. §§ 2671–80 (allowing suits in tort against the Federal Government); U.S. CONST., amend. XI.

13. *United States v. Sherman*, 312 U.S. 584, 586 (1941).

14. *United States v. Clarke*, 33 U.S. 436, 444 (1834) (mem.); *accord, United States v. Thompson*, 98 U.S. 486, 489 (1878) (mem.) (“The United States possess other attributes of sovereignty resting also upon the basis of universal consent and recognition. They cannot be sued without their consent.”).

15. *See, e.g., Union Nat’l Bank of Texas, Laredo v. Union Nat’l Bank of Texas, Austin*, 909 F.2d 839, 843 n.10 (5th Cir. 1990) (trademark infringement is an intentional tort); *Global Mail Ltd. v. U.S. Postal Serv.*, 46 U.S.P.Q.2d 1602, 1604 (4th Cir. 1998) (“The Lanham Act creates in essence a federal statutory tort, derived from the common law tort of unfair competition.”); *U.S. Gold & Silver Invs., Inc. v. United States ex rel. Director, U.S. Mint*, 12 U.S.P.Q.2d 1237 (9th Cir. 1989) (Lanham Act is not a state-based cause of action under which an action may be brought under the FTCA).

16. *See, e.g., Porter v. United States*, 473 F.2d 1329, 1337 (5th Cir. 1973) (Federal Government must consent to be sued for intellectual property infringement).

17. Trademark Amendments Act, Pub. L. No. 106–43, § 4, 113 Stat. 218 (1999) (amending 15 U.S.C. §§ 1114, 1122, & 1127 (2000)).

person, would be liable to the claimant in accordance with the law of the place where the act or omission occurred.”<sup>18</sup> Because trademark infringement and unfair competition under the Lanham Act are often referred to as actions sounding in tort, the FTCA would appear to grant relief for trademark infringement.

Nevertheless, because the FTCA requires that the injury be “in accordance with the law of the place where the act or omission occurred,” the FTCA has been held to be limited to state-law causes of action.<sup>19</sup> Actions under the Lanham Act are federally based, and thus are not fairly construed as state suits. Therefore, the FTCA does not provide an avenue for relief for federal trademark infringement.<sup>20</sup>

## 2. The Court of Federal Claims

The United States may be sued in the U.S. Court of Federal Claims for actions based “upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases *not sounding in tort*.”<sup>21</sup> At least one attempt has been made to use this waiver under the theory of pendent jurisdiction.<sup>22</sup> In *Lockridge v. United States*,<sup>23</sup> the plaintiff sued the Federal Government under 28 U.S.C. § 1491 for trademark infringement related to the Government’s alleged misuse of plaintiff’s patents and copyrights. In rejecting the claim of jurisdiction under section 1491, the Court of Federal Claims noted that trademark actions sound in tort, and tort suits are explicitly barred by the court’s enabling legislation. The Court of Federal Claims also rejected the use of pendent jurisdiction where actions have properly been brought for patent and copyright claims under 28 U.S.C. § 1498. Although trademark infringement facts may be closely related to patent and copyright claims, Congress by implication did not waive sovereign immunity under section 1498 for trademark actions.<sup>24</sup> Thus, the trademark action was dismissed.

*Lockridge v. United States* was decided prior to the Federal Government’s waiver of sovereign immunity for trademark suits under the Trademark

18. 28 U.S.C. § 1346(b)(1) (2000).

19. *FDIC v. Meyer*, 510 U.S. 471 (1994).

20. *U.S. Gold & Silver, Inc. v. United States ex rel. Director, U.S. Mint*, 12 U.S.P.Q.2d 1237 (9th Cir. 1989); *see also* *Global Mail Ltd. v. U.S. Postal Serv.*, 46 U.S.P.Q.2d 1602, 1604 (4th Cir. 1998) (“It is undisputed that the FTCA does not provide a waiver of sovereign immunity for torts created under federal law.”); *Federal Express Corp. v. U.S. Postal Serv.*, 43 U.S.P.Q.2d 1254, 1258–60 (W.D. Tenn. 1997) (discussing case law on attempts to use FTCA in federal trademark actions), *aff’d*, 47 U.S.P.Q.2d 1641 (6th Cir. 1998).

21. 28 U.S.C. § 1491(a)(1) (2000) (emphasis added).

22. “Pendent jurisdiction” allows federal courts to hear causes of action that do not fall within any specific constitutional jurisdictional grant. Under pendent jurisdiction, a federal court can hear a nonfederal cause of action over which it has no original jurisdiction so long as the facts are highly related to a cause of action over which the federal court has original jurisdiction. *Lockridge v. United States*, 200 U.S.P.Q. 271, 273 (1978); *BLACK’S LAW DICTIONARY* (5th ed. 1979).

23. *Lockridge v. United States*, 200 U.S.P.Q. 271 (1978).

24. *Id.* at 273.

Amendments Act of 1999.<sup>25</sup> A large part of the court's analysis stemmed from congressional failure to waive immunity for trademark infringement, in contrast with the explicit congressional waivers of immunity for patent and copyright infringement. Now, however, a theory of pendent jurisdiction might allow trademark claims to be brought in the U.S. Court of Federal Claims in conjunction with patent or copyright claims brought under 28 U.S.C. § 1498.

### 3. The Administrative Procedure Act

Under the Administrative Procedure Act (the APA), "a person suffering legal wrong because of agency action, or adversely affected or aggrieved by agency action within the meaning of a relevant statute, is entitled to judicial review thereof."<sup>26</sup> This review of the agency action may not be for money damages, but the plaintiff may seek injunctive relief. The APA is an explicit waiver of sovereign immunity entitling a plaintiff to seek judicial review for harm caused by agency action.

There are a few hurdles to surmount for any plaintiff taking the APA route: there must be a final agency action, the plaintiff must have exhausted the procedure provided by the agency, and there must be no other solution at law.<sup>27</sup> A final agency action is defined in the APA as a "final disposition."<sup>28</sup> A final disposition, in turn, is defined as the instant the agency action begins to affect the rights of individuals.<sup>29</sup> Often, an action is not final until it has passed through the entire agency appellate process. In addition, the plaintiff must have used all other mandatory agency proceedings before appealing to the court under the APA.<sup>30</sup> Thus, a plaintiff wishing to invoke the APA needs to provoke some sort of agency action in order to obtain an appealable final action before the courts will intervene. This usually is accomplished by submitting a written claim to the agency.

Even once there is a final action, the courts have limited powers to act. Courts are empowered to grant injunctions prohibiting agency actions that are arbitrary and capricious, or contrary to the law.<sup>31</sup> Where the action in question was discretionary in nature, however, courts are reluctant to challenge the agency's expertise. Thus, reviewing courts accord substantial deference to agency interpretations of both vague laws<sup>32</sup> and findings of fact<sup>33</sup> that are within the agency's enforcement authority and expertise. Courts feel

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25. 15 U.S.C. § 1122 (2000).

26. 5 U.S.C. § 702 (2000).

27. *Id.* § 704.

28. *Id.* § 551.

29. *See* *International Tel. & Tel. Corp., Communications Equip. & Sys. Div. v. Local 134, Int'l Bhd. of Elec. Workers*, 419 U.S. 428 (1975) (final disposition must have determinate consequences for the party to the proceeding).

30. 5 U.S.C. § 704 (2000).

31. *Id.* § 706.

32. *Chevron U.S.A., Inc. v. Nat'l Res. Def. Council*, 467 U.S. 837 (1984).

33. *Universal Camera Corp. v. NLRB*, 340 U.S. 474 (1951).

no similar restraint with respect to laws outside of the scope of the agency's expertise.<sup>34</sup> For example, courts will not defer to agency interpretations of general law or the Constitution.<sup>35</sup>

Initially, it appeared that the APA provided relief for trademark infringement. Specifically, in *Preferred Risk Mutual Insurance Co. v. United States*,<sup>36</sup> the District Court for the Southern District of Iowa granted summary judgment for injunction against Federal Emergency Management Agency (FEMA) for trademark infringement without deferring to the agency's determination of noninfringement. The district court held that FEMA's continued use of "Preferred Risk" violated the plaintiff's federal trademark, and that FEMA's continued use of the mark was arbitrary and capricious. As such, the court enjoined FEMA's continued use under the provisions of the APA.

On appeal, the U.S. Court of Appeals for the Eighth Circuit held that the provisions of the APA could not be used to enjoin the Federal Government. Specifically, the Eighth Circuit held that there was no relevant statute being violated so as to form the basis for an APA action. Because the Lanham Act itself does not prohibit the Federal Government from using federally registered trademarks, FEMA's continued use was not in violation of the Lanham Act. Without a legal wrong to be redressed, the APA is inapplicable.<sup>37</sup>

As a result of *Preferred Risk*, Congress passed the Trademark Amendments Act of 1999 in order to waive sovereign immunity and subject the Federal Government to the full remedies allowed by the Lanham Act.

#### B. *The Trademark Amendments Act of 1999 Explicitly Waived the Government's Sovereign Immunity*

The Trademark Amendments Act of 1999 was passed by the Congress to modify 15 U.S.C. § 1122. Because section 1122 has had a checkered (and somewhat obscure) history, it is helpful to walk through some prior enactments before speaking directly to the 1999 trademark amendments.

In 1992, the Congress enacted the Trademark Remedy Clarification Act. This Act was enacted in response to the Supreme Court's ruling in *Atascadero State Hospital v. Scanlon*, which held that any waiver of a state's sovereign immunity must be explicitly and unambiguously in a statute's text.<sup>38</sup> *Chew v. California* extended this ruling to patent infringement actions, holding that the Patent Act<sup>39</sup> was insufficiently clear to satisfy *Atascadero*,<sup>40</sup> and *Woelffer v.*

34. *McPherson v. Employment Div.*, 591 P.2d 1381 (Or. 1979).

35. *See, e.g., Mathews v. Eldridge*, 424 U.S. 319 (1976) (finding that the procedure deemed adequate by the state agency was inadequate for purposes of due process).

36. *Preferred Risk Mut. Ins. Co. v. United States*, No. 4-93-CV-10393 (S.D. Iowa filed July 14, 1995).

37. *Preferred Risk Mut. Ins. Co. v. United States*, 86 F.3d 789, 39 U.S.P.Q.2d 1131 (8th Cir. 1996), *cert. denied*, 520 U.S. 1116 (1997).

38. *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234 (1985).

39. *See generally* Title 35, United States Code.

40. *Chew v. California*, 893 F.2d 331 (Fed. Cir. 1990).

*Happy States of America* extended it to trademark claims.<sup>41</sup> The Trademark Remedy Clarification Act of 1992 was enacted “to specifically meet all of the requirements of the *Atascadero* holding” and eliminate the “limited and inconsistent substitutes” to trademark infringement claims available at the state level.<sup>42</sup>

In 1999, in *College Savings Bank v. Florida Prepaid*, the Supreme Court struck down those portions of the Trademark Remedy Clarification Act<sup>43</sup> purporting to waive a state’s Eleventh Amendment immunity from suit.<sup>44</sup> The Supreme Court explained that the Federal Government lacks the power to waive a state’s sovereign immunity except under the Fourteenth Amendment, which is not implicated by the Lanham Act.<sup>45</sup> Consequently, “the sovereign immunity of the State of Florida was neither validly abrogated by the Trademark Remedy Clarification Act, nor voluntarily waived by the State’s activities in interstate commerce,” and “the federal courts are without jurisdiction to entertain this suit against an arm of the State of Florida.”<sup>46</sup> Congressional action may not abrogate the Eleventh Amendment.<sup>47</sup>

The Supreme Court’s decision in *Florida Prepaid* effectively invalidated 15 U.S.C. § 1122(b), which provided that “[a]ny State, instrumentality of a State or any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity for any violation under this chapter.” But *Florida Prepaid* did not address section 1122(a), which waives sovereign immunity for trademark claims against the Federal Government. It states:

The United States, all agencies and instrumentalities thereof, and all individuals, firms, corporations, other persons acting for the United States and with the authorization and consent of the United States, shall not be immune from suit in Federal or State court by any person, including any governmental or nongovernmental entity, for any violation under this chapter.<sup>48</sup>

The reason that the Supreme Court did not invalidate section 1122(a) is clear. Although the U.S. Congress may not waive the sovereign immunity guaranteed to the states under the Eleventh Amendment, it may waive the

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41. *Woelffer v. Happy States of Am.*, 626 F. Supp. 499 (N.D. Ill. 1985).

42. S. REP. NO. 102-280, at 7-8 (1992).

43. Pub. L. No. 102-542, 106 Stat. 3567 (1992).

44. *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666 (1999).

45. *Id.* at 676-77; see Peter S. Menell, *Economic Implications of State Sovereign Immunity from Infringement of Federal Intellectual Property Rights*, 23 *LOY. L.A. L. REV.* 1399, 1401 (2000).

46. *Florida Prepaid*, 527 U.S. at 691.

47. U.S. CONST., amend. XI (“The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.”).

48. 15 U.S.C. § 1122(a) (2000).

Federal Government's own immunity from suit.<sup>49</sup> Manifestly, the Congress decided in 1999 to waive its immunity—it enacted the Trademark Amendments Act of 1999 only two months after the Court announced *Florida Prepaid*.<sup>50</sup> “The Trademark Amendments Act of 1999 . . . provides a private cause of action against the federal government for the entire range of Lanham Act actions: trademark infringement, dilution, trade dress infringement and false advertising.”<sup>51</sup>

The reasons for Congress's decision to waive its own sovereign immunity so close to the Supreme Court's decision in *Florida Prepaid* are not entirely clear. The published legislative history of the Trademark Amendments Act is entirely silent with respect to the legislative reasoning.<sup>52</sup> Ironically, it appears that this section was enacted so that state governments could not criticize the Federal Government for imposing on the states something it would not itself accept. As the Senate Report accompanying Public Law No. 102–542 explains:

To promote innovation, the Patent code and the Trademark Act must be applied uniformly. Just as there is no distinction between a State versus a private school, there is no distinction between the Federal Government and a State government, especially to the patent or trademark holder who must sacrifice the results of his/her investments at the hands of an immune governmental body. This legislation will rectify the situation and provide uniform protection throughout the patent and trademark systems.<sup>53</sup>

As noted, some argued that the Federal Tort Claims Act acted as an implicit waiver of federal sovereign immunity with respect to trademark infringement.<sup>54</sup> But in *Preferred Risk Mutual Insurance v. United States*, the Eighth Circuit rejected that view.<sup>55</sup> After *Florida Prepaid* and *Preferred Risk Mutual Insurance*, perhaps the Congress wanted to make the waiver explicit.

Alternatively, the congressional momentum toward passage of the Trade-

49. *United States v. King*, 395 U.S. 1, 4 (1969).

50. The decision in *Florida Prepaid* was announced on June 23, 1999. The Trademark Amendments Act of 1999, Pub. L. No. 106–43, 113 Stat. 218, was enacted August 5, 1999.

51. JEROME GILSON, 3 TRADEMARK PROTECTION & PRACTICE § 8.16[2][f] (1999).

52. See 113 Stat. 218–20 (1999).

53. S. REP. NO. 102–280, at 9 (1992). The International Trademark Association takes the position that, “[g]iven this clear history, there can be no doubt that Congress intended the States and the federal government to be treated similarly.” Stephen R. Baird, Anne S. Jordan, & Jeffrey M. Samuels, *Brief Amicus Curiae of International Trademark Association in Support of Petition in Preferred Risk Mutual Insurance Company v. United States of America*, 87 TRADEMARK REP. 230, 238 (1997).

54. Menell, *supra* note 45, at 1440 n.46 (“The federal government formally waived its immunity from Lanham Act infringement in 1999 . . . although courts have previously held that the Federal Tort Claims Act waived such immunity for trademark infringement.”); *but see Other Recent Developments in Intellectual Property Law*, 4(2) INTELL. PROP. L. BULL. 29 (1999) (“The 1999 Amendment . . . eliminated federal government immunity from trademark infringement actions, allowing both private citizens and corporate entities to sue the federal government and its contractors for trademark infringement.”).

55. *Preferred Risk Mut. Ins. Co. v. United States*, 86 F.3d 789 (8th Cir. 1996), *cert. denied*, 520 U.S. 1116 (1997); see Jeffrey M. Samuels & Linda B. Samuels, *Recent Developments in Trademark Law and Practice*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 181, 185 (1997) (“The court held that the federal government cannot be sued for [trademark] infringement absent an express waiver of sovereign immunity.”).

mark Amendments Act may have been too great to divert, even after *Florida Prepaid*. It is fair to speculate that the Federal Government might not have waived its immunity from trademark suit had it known that the Supreme Court would abrogate its waiver of state immunity; the Federal Government now finds itself in the unexpected position of accepting liability for trademark infringement despite the fact that states enjoy sovereign immunity.

In either case, it appears that 15 U.S.C. § 1122(a) is a severable provision and remains enforceable against the United States as a federal entity. Although we are aware of no case law affirmatively holding that 15 U.S.C. § 1122(a) remains enforceable following *Florida Prepaid*, the logic of the law suggests that the provision was added separately from 15 U.S.C. § 1122(b), is not dependent on the existence of section 1122(b), and was enacted with a different constitutional basis. These factors indicate that the waiver of federal sovereign immunity remains intact.<sup>56</sup> Additionally, the legislative history makes it abundantly clear that the congressional intent in waiving sovereign immunity was to “level the playing field by amending the Lanham Act to allow for private citizens and corporate entities to sue the Federal Government for trademark infringement”<sup>57</sup>—a motivation similar to the one that has persuaded several courts to permit Lanham Act suits against the U.S. Postal Service.<sup>58</sup> Section 1122(a) appears to have survived *Florida Prepaid*.<sup>59</sup> Thus, a contractor easily may obtain injunctive relief in cases of trademark infringement or misuse against the United States.

Pursuant to 15 U.S.C. § 1122(a), the Government is bound to recognize and respect contractor trademarks. A contractor or third party may utilize section 1122(a) in a manner consistent with commercial practices without the record-keeping and other burdens associated with maintaining a trade secret under federal acquisition laws.<sup>60</sup>

C. *The Waiver of Trademark Immunity Allows Contractors to Obtain Injunctive Relief, Rather Than Limiting Recovery to a Reasonable Royalty (as Under Patent and Copyright Law)*

Injunctive relief is the *sine qua non* of intellectual property infringement remedies. Although monetary damages are sometimes adequate to compensate for a plaintiff's losses, the fundamental function of an intellectual property

56. For a discussion on severability, see generally John C. Nagle, *Severability*, 72 N.C. L. REV. 203 (1993); Israel E. Friedman, *Inseverability Clauses in Statutes*, 64 U. CHI. L. REV. 903 (1997).

57. H.R. REP. NO. 106-250, at 10 (1999).

58. *Global Mail Ltd. v. U.S. Postal Serv.*, 46 U.S.P.Q.2d 1602 (4th Cir. 1998); *Federal Express Corp. v. U.S. Postal Serv.*, 43 U.S.P.Q.2d 1254 (W.D. Tenn. 1997), *aff'd*, 47 U.S.P.Q.2d 1641 (6th Cir. 1998).

59. *Global Mail*, 46 U.S.P.Q.2d at 1603.

60. Detailing these burdens is beyond the scope of this Article. Note, however, that defense contractors are required to maintain records for use in responding to validation proceedings under DFARS 252.227-7037 and 10 U.S.C. § 2321 (2000). Section 1122(a) neither expands nor eliminates this obligation. No explicit validation right is conferred for non-defense contractors, but the same evidence typically is used in reverse-FOIA actions to prevent disclosure of trade secrets under the Administrative Procedures Act, 5 U.S.C. § 552 (West 1996), as discussed *infra* Part II.C.2.b.

right is to exclude others from using the invention, literary work, trademark, or trade secret in question without the express permission of the rightful owner.

But injunctive relief is not available in suits against the Government for patent or copyright infringement, leaving contractors vulnerable. Although the law allows injunctions to prevent disclosure of trade secrets, the procedures for enforcing trade secret rights are clumsy. Trademarks, by contrast, are easily enforced via injunction—against the Government as well as private infringers.

### 1. The Government May Not Be Enjoined from Infringing a Patent or Copyright

Where the Government utilizes a privately owned patent or copyright, the exclusive remedy available to the owner is set forth in 28 U.S.C. § 1498. For patents, the pertinent provision is section 1498(a), under which relief is limited to “recovery of his reasonable and entire compensation for such use and manufacture.” Similarly, recovery for unauthorized uses of copyrights is governed by a “reasonable and entire compensation” standard under 28 U.S.C. § 1498(c), as is recovery for unauthorized uses of plants protected by a certificate of plant variety protection under section 1498(d) and registered mask works under subsection (e). Because 28 U.S.C. § 1498 provides an exclusive remedy where the unauthorized use is “manufactured by or for the United States,” virtually all public contracts are governed by this provision.<sup>61</sup> In suits against a contractor or anyone using the patent as authorized by the Government, the defendant may raise section 1498 as an affirmative defense.<sup>62</sup> And because the remedy is exclusive where claims fall under section 1498, the remedy may not include injunctive relief or a trebling of damages—despite the fact that these avenues of relief would be available to private litigants under Titles 17 and 35 of the U.S. Code.

Indeed, under the Competition in Contracting Act,<sup>63</sup> the Government is not even allowed to limit bidding competitions based upon a potential infringement of a third-party patent: given that section 1498 authorizes infringing use, a low bidder may build patent infringement royalties into a winning bid.<sup>64</sup> Because the remedies afforded a patent or copyright owner against the

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61. This exclusive remedy against contractors has been interpreted broadly. For instance, in *Madey v. Duke Univ.*, 64 U.S.P.Q.2d 173 (Fed. Cir. 2002), the Federal Circuit noted that a recipient of a federal grant could be found to be using a patent on behalf of the Government such that recovery was limited by the provisions of 28 U.S.C.S. § 1498(a) (Law. Co-Op. 1989 & Supp. 2003). For additional information on suits under 28 U.S.C. § 1498, see RALPH C. NASH & LEONARD RAWICZ, *INTELLECTUAL PROPERTY IN GOVERNMENT CONTRACTS, VOL. 3: COMPUTER SOFTWARE, INFORMATION, AND CONTRACT REMEDIES* 239–74 (5th ed. 2001).

62. *Crater Corp. v. Lucent Technologies, Inc.*, 59 U.S.P.Q.2d 1044 (Fed. Cir. 2001).

63. 10 U.S.C. §§ 2301–2306 (2000).

64. Government policies are explicit in noting that full and open competition requirements of the Competition in Contracting Act may not be limited due to potential patent infringement. See FAR 6.302–1(b)(2) (“the mere existence of such rights or circumstances does not in and of itself justify the use of these authorities [to authorize other than full and open competition, see FAR 27]”); FAR 27.104(b) (“Generally, the Government will not refuse to award a

Federal Government are so attenuated, these intellectual property rights have little strategic value in public contracting, as compared to their value in the commercial marketplace.<sup>65</sup>

## 2. The Government May Be Enjoined from Trade Secret Misuse

In contrast, there are significant benefits where a contractor can demonstrate proprietary interests in data. Unlike patents and copyrights, a contractor may utilize trade secrecy to enjoin the Government from disclosing proprietary data to third parties. Further, the inability to obtain the necessary data to provide a product or service is explicit grounds for awarding sole-source contracts.<sup>66</sup> Therefore, trade secrets have become the standard method of preventing competitors from copying designs and preventing awards to competitors to work on infringing technologies.

### *a. Procedural Requirements for Trade Secret Enforcement*

Although the use of trade secrets as a primary means of protection is possible, it is difficult. Trade secrets are protected under the general rubric of “Data Rights.” In order to protect intellectual property delivered to the Federal Government under the Federal Acquisition Regulations (FAR) or an applicable agency-specific supplement, special contractual provisions need to be negotiated.<sup>67</sup> For example, when a trade secret is delivered to the Department of Defense, it is protected under the DFARS, which is the Department of Defense’s supplement to the FAR.<sup>68</sup> Under the DFARS, the quantum of trade secret protection depends on the timing of development and the contract under which delivery is made.<sup>69</sup> The determination of whether data are pro-

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contract on the grounds that the prospective contractor may infringe a patent”); Virginia Panel Corp., Comp. Gen. B-247825, June 12, 1992, 91-2 CPD ¶ 515.

65. Although this is beyond the scope of this Article, the lack of strategic value explains the relative lack of patents obtained by traditional government contractors as compared to their commercial counterparts.

66. See FAR 6.302-1(b)(2).

67. 48 C.F.R. § 252.227-7013(c)-(e) (2001); see *Secure Serv. Tech., Inc. v. Time & Space Processing, Inc.*, 722 F. Supp. 1354, 1359-62 (E.D. Va. 1989); Lionel M. Lavenue, *Technical Data Rights in Government Procurement: Intellectual Property Rights in Computer Software and the Indicia of Information Systems and Information Technology*, 32 U.S.F. L. REV. 1 (1997).

68. Although this is beyond the scope of this Article, it is noted that other contractual vehicles may be used instead of the DFARS and FAR data clauses. For a discussion of other types of contractual vehicles, see generally Bloch & McEwen, *supra* note 3, at 195-219; UNDER SEC’Y OF DEFENSE FOR ACQUISITION, TECHNOLOGY AND LOGISTICS, NAVIGATING THROUGH COMMERCIAL WATERS, Version 1.1 (2001).

69. Although this is beyond the scope of this Article, the timing of the delivery governs the year of the DFARS clause utilized. Because these clauses change regularly, the year of the clause can significantly affect what information is protectable. Nevertheless, traditionally, information developed at private expense (i.e., outside of a government contract) is protectable, whereas other information receives less protection in relation to the extent of government support. See generally RALPH C. NASH & LEONARD RAWICZ, *INTELLECTUAL PROPERTY IN GOVERNMENT CONTRACTS, VOL. 2: TECHNICAL DATA RIGHTS* (5th ed. 2001) (discussing the requirements of different clauses used at different periods and their requirements for protecting information delivered under government contract).

tectable is governed by separate DFARS provisions.<sup>70</sup> Further, the trade secret is protected differently if it can be characterized as computer software.<sup>71</sup> The DFARS requirements (like any commercial trade secret license) include rules regarding the proper marking of the data to indicate the data's status.<sup>72</sup> Also, each clause has a unique dispute-resolution provision, which also changes periodically.<sup>73</sup> Lastly, if the contract included unique license rights, the contractor is well advised to keep a copy of the unique clause under which the license rights are given in order to ensure that the clause is enforced.<sup>74</sup>

Whichever method is relied upon to establish the existence of proprietary data, trade secret litigation is complex and proving a trade secret is difficult.<sup>75</sup> The burden always remains on the trade secret owner to show all elements of trade secret misappropriation—a task that goes well beyond merely showing that information was properly marked.<sup>76</sup> The contractor must prove continued trade secret status under contractually required methodologies, which

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70. Each data clause has unique requirements. An example of how to classify delivered technical data is discussed at length in *Bell Helicopter Textron*, ASBCA No. 21192, 85-3 BCA ¶ 18,415 (Sept. 23, 1985); Lavenue, *supra* note 67, at 1; and NASH & RAWICZ, *supra* note 69.

71. For instance, where the data are to be delivered and are preexisting, the data are classifiable as limited rights data or restricted rights data under DFARS 252.227-7013 or 252.227-7014.

72. *E.g.*, FAR 52.227-14 & Alternates II or III (June 1987) (marking on data delivered under FAR Data Rights Clause with limited or restricted rights); FAR 52.227-19(c)(4) (marking on delivered commercial software); DFARS 252.227-7013(f) (markings on delivered noncommercial technical data); DFARS 252.227-7014(f) (markings on delivered noncommercial software). These clauses are also enforceable to have the contractor apply the correct markings. *See Appeal of Teledyne Continental Motors*, ASBCA No. 16516, 75-2 BCA ¶ 11,553 (contractor required to remove patent notices on delivered unlimited rights technical data).

73. From 1959 to present, there have been roughly seven different validation procedures, some of which are required under 10 U.S.C. § 2321 (2001), and some of which are based upon earlier versions of Defense Acquisition Regulations. As such, for long-term procurements, defending the status of data delivered in batches with updates over multiple decades could prove difficult.

74. These clauses and special license rights are enforceable. Nevertheless, enforcement often occurs decades after the contract is written. *See, e.g.*, *Appeal of Ship Analytics Int'l, Inc.*, ASBCA No. 50914, 01-1 BCA ¶ 31,253, *reconsideration denied* as untimely filed in a decision of May 21, 2001 (contractor's use of local clause in addition to DFARS 252.227-7013 delivered under 1986 contract is enforced in ASBCA decision of January 11, 2001). A more extreme case, which is by no means unusual, occurred in *FN Manufacturing v. United States*, No. 98-447 C, 42 CCF 77,395 (Fed. Cl. Oct. 28, 1998), where the enforced clause was a license signed in 1967.

75. In California and other jurisdictions adopting versions of the Uniform Trade Secrets Act, for example, the law requires a trade secret plaintiff, "before commencing discovery relating to the trade secret, . . . [to] identify the trade secret with reasonable particularity." CAL. CIV. PROC. CODE § 2019(d) (West 1998); *IDX Sys. Corp. v. EPIC Sys. Corp.*, 165 F. Supp. 2d 812 (W.D. Wisc. 2001) (mere comparison of functionality of competing products with allegation that must utilize plaintiff's trade secret is insufficient to particularly show trade secret).

76. For instance, this burden of proof generally exists even where defendant is in the best position to disprove allegations. *See, e.g.*, *Penalty Kick Mgmt. Ltd. v. Coca Cola Co.*, 65 U.S.P.Q.2d 1563 (11th Cir. 2003) (failure to prove defendant did not independently develop proprietary technology allows for summary judgment against plaintiff); *Moore v. Kulicke & Soffea Indus., Inc.*, No. 02-1466 (3d Cir. filed Feb. 3, 2003) (plaintiff retains burden of proof to show that defendant did not independently develop technology because plaintiff's burden is to prove unauthorized use of trade secret). Additionally, the trade secret owner must show that the information has value and is not readily ascertainable publicly, from third parties, or through legitimate reverse-engineering.

vary from contract to contract. So, although trade secret protection is available, obtaining injunctive relief remains a difficult and expensive process, the outcome of which is by no means assured by the mere marking of the delivered data.

*b. Means of Enforcement*

Contractors have used a wide variety of creative solutions to obtain injunctive relief for trade secret misuse. These include direct litigation, protests to the Comptroller General, and suits under the Trade Secrets Act, the Freedom of Information Act, and the Administrative Procedures Act.

Generally, federal law provides no direct cause of action to enjoin the disclosure of trade secrets. Thus, a contractor may not bring a general tort action for improper disclosure of proprietary data against the United States, but may do so in the context of a breach of contract action in the Court of Federal Claims<sup>77</sup> or the appropriate Board of Contract Appeals.<sup>78</sup> Thus, *direct litigation* is one method of enforcing trade secret rights.

As an alternative, contractors have obtained relief before the Comptroller General. The Comptroller General will recommend cancellation of a contract solicitation where it improperly incorporates proprietary data. Therefore, if a competitor learns that an award is to be made based on a solicitation that uses the competitor's trade secrets provided to the Government with restrictions, the competitor can successfully protest the award.<sup>79</sup> But in order to prevail, the protester must present clear and convincing evidence that the procurement will violate its proprietary rights.<sup>80</sup> This is a difficult standard to meet. In addition, given that the Comptroller General both has narrow jurisdiction for hearing trade secret disputes (only in the context of a protest) and lacks an enforcement mechanism with teeth (beyond reporting a procurement violation to Congress), this option is of limited value to the contractor.

As such, contractors have looked to other statutes to provide injunctive

77. *Aktiebolaget Bofors v. United States*, 194 F.2d 145 (D.C. Cir. 1951).

78. Examples of such suits include *Bell Helicopter Textron*, ASBCA No. 21192, 85-3 BCA ¶ 18,415 (Sept. 23, 1985), and, more recently, *Appeal of Ship Analytics Int'l*, 01-1 BCA ¶ 31,253.

79. *Data Gen. Corp.*, 55 Comp. Gen. 1040, 76-1 CPD ¶ 287; *To the Lockheed Propulsion Company*, B-174866, 52 Comp. Gen. 312, 1972 CPD ¶ 106; *To the Secretary of the Air Force*, B-165542, 49 Comp. Gen. 28, 1969 CPD ¶ 97; *To the Director, Defense Supply Agency*, B-150369, 43 Comp. Gen. 193, 1963 CPD ¶ 59; *To the Secretary of the Air Force*, B-149295, 42 Comp. Gen. 346, 351, 1963 CPD ¶ 1; *To the Secretary of the Air Force*, B-136916, 41 Comp. Gen. 148, 1961 CPD ¶ 52; *To F. Towbridge van Baur*, B-152684, 44 Comp. Gen. 451, 456, 1963 CPD ¶ 9.

80. *Chromalloy Division Oklahoma of Chromalloy of American Corp.*, 56 Comp. Gen. 537, 77-1 CPD ¶ 262; *To McGown, Godfrey, Decker, McMackin, Shipman & McClane*, B-176764, 52 Comp. Gen. 773, 777 (1973); *T.K. Int'l Inc.*, B-177436, Mar. 12, 1974, 74-1 CPD ¶ 126, *aff'g To Sellers, Conner and Cuneo*, B-177436, 53 Comp. Gen. 161, 1973 CPD ¶ 95. The term "proprietary" is not dependent on the existence of an actual contract or markings on the delivered data so long as the data were delivered in confidence. *To the Director, Defense Supply Agency*, 43 Comp. Gen. 193, 1963 CPD ¶ 59.

relief, e.g., the Trade Secrets Act (the TSA), the Freedom of Information Act (the FOIA), and the APA.

The Trade Secrets Act<sup>81</sup> prevents disclosure of proprietary information by a government officer or employee, but it does not provide a private cause of action.<sup>82</sup> Therefore, in *Chrysler*, the Supreme Court found that Chrysler could not prevent disclosure of sensitive employment information under either the FOIA<sup>83</sup> or the TSA.<sup>84</sup> Instead, the Supreme Court held out two potential causes of action: first, if the release is pursuant to an FOIA request, the owner may sue under a modified reverse FOIA claim; second, the owner may claim that the release was arbitrary and capricious under the APA. Both of these statutes allow for injunctive relief.

In a pure reverse-FOIA claim, the owner of proprietary information sues under the authority of the FOIA claiming that the agency may not release information.<sup>85</sup> FOIA exemption 4 holds that “trade secrets and commercial or financial information” are exempt from disclosure.<sup>86</sup> Government failure to honor this exemption may lead to reverse-FOIA lawsuits, under which injunctive relief is available.<sup>87</sup>

Similarly, under FOIA exemption 3, the Government may not release materials “specifically exempted from disclosure by statute.”<sup>88</sup> It has been argued that the TSA provides such a statutory exemption. “Therefore, a corporation may seek to protect proprietary business information from disclosure to competitors by bringing an action to enjoin government disclosure as a violation of the Trade Secrets Act, or other non-discretionary law.”<sup>89</sup> But in *Chrysler*, the Supreme Court held that the FOIA contains no such private cause of action to prevent disclosure. Therefore, in order to utilize the FOIA exemptions, the trade secret owner must *file an action under the APA*.<sup>90</sup> Under the

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81. 18 U.S.C. § 1905 (1988) (the TSA). Although there is no case on point, a similar theory could be applied using the Economics Espionage Act, 18 U.S.C. § 1832 (2000), which similarly makes it illegal to distribute proprietary information without authorization from the owner.

82. *Chrysler Corp. v. Brown*, 441 U.S. 281, 294–316 (1979).

83. 5 U.S.C. § 552 (1988).

84. FOIA is exclusively a disclosure statute; it does not contemplate allowing the owner of proprietary information to enjoin the release of data. The TSA is exclusively a criminal statute, which except in rare situations does not carry an inherent grant of a civil cause of action. *Chrysler*, 441 U.S. at 281.

85. *Freedom of Information Act*, 37 AM. JUR. 2D §§ 175–77 (1994).

86. 5 U.S.C. § 552(b)(4).

87. David F. Dowd & Lisanne E. S. Cottingham, *Do You Know Where Your Prices Are?* 36 PROCUREMENT LAW. 10 (2001); see Tom Arnold & Jeff Garrett, *Trial Tactics in Trade Secret Cases*, 340 PLL/PAT. 249, 277–78 (1992); see also *Honeywell Info. Sys., Inc. v. NASA*, 644 FED. CONT. REP. A-12 (D.C. Cir. 1976).

88. 5 U.S.C. § 552(b)(3).

89. Backes, *supra* note 5, at 976.

90. In *Chrysler*, the Supreme Court held that the FOIA is a disclosure statute and does not contain a cause of action by which a party can prevent disclosures. Under the APA, however, the party can request review of a decision to release information to determine whether the review was adequate and ensure that release will not violate existing law. Since the TSA is a criminal statute, it does not confer a civil cause of action to prevent such disclosure. See *supra* note 84.

APA, the agency must first decide to release the information pursuant to an FOIA request.<sup>91</sup> The owner is then free to sue in district court, claiming that the agency decision was either contrary to law or arbitrary and capricious.<sup>92</sup>

The difference between “contrary to law” and “arbitrary and capricious” governs the standard of review. In general, FOIA will not allow an agency to release trade secrets.<sup>93</sup> This exception has been found to be at least co-extensive with the TSA.<sup>94</sup> Thus, if the information is a trade secret under the TSA, an agency decision to release the information is contrary to law. Because agencies cannot violate the law (lawbreaking is not within the agency’s expertise), the courts have substantially more freedom to grant an injunction.<sup>95</sup> If the information in question does not qualify under the TSA, the courts will review the agency action under the “arbitrary and capricious” standard, which is more deferential to the agency.

In the past, the courts have denied jurisdiction under the APA to certain cases if they are largely based on contracts.<sup>96</sup> The theory was that courts will not use the APA or other statutes to circumvent the Tucker Act,<sup>97</sup> which Congress designed to provide the exclusive remedy for contract disputes. Thus, if the claim is essentially one of contract interpretation, the courts may not hear it under the APA and must deny jurisdiction. Later decisions have severely limited this rule, allowing for injunctive relief if the Government’s conduct injures contractor rights that predate the contract in question.<sup>98</sup>

In summary, trade secret protection is a major mechanism by which intellectual property is used by federal contractors to prevent competitors from copying designs, and to block competitors from working on infringing technologies. Misappropriation of trade secrets has long been considered a taking,

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91. *E.g.*, 10 C.F.R. § 1004.11 (1995) (providing an informal hearing to decide on FOIA requests for proprietary information).

92. 5 U.S.C. § 706 (2000); *Megapulse, Inc. v. Lewis*, 672 F.2d 959 (D.C. Cir. 1982).

93. 5 U.S.C. § 552(b)(4).

94. *General Motors Corp. v. Marshall*, 654 F.2d 294, 296–97 (4th Cir. 1981), *cited by* *Anderson v. Department of Health and Human Servs.*, 907 F.2d 936 (10th Cir. 1990).

95. Courts will generally defer to agency decisions on issues of facts or laws that fall within the expertise of the agency. For all other issues of law, the courts may disregard the agency interpretation of law altogether.

96. *Int’l Eng’g Co. v. Richardson*, 512 F.2d 573 (D.C. Cir. 1975).

97. 28 U.S.C. §§ 1346, 1449 (2000). 28 U.S.C. § 1346 is often referred to as the Little Tucker Act. It provides for jurisdiction for any district court for contract disputes not exceeding \$10,000. 28 U.S.C. § 1491 is called the Big Tucker Act and provides exclusive jurisdiction in the Court of Federal Claims for contract disputes in excess of \$10,000. Neither allows for injunctive relief.

98. *Megapulse, Inc. v. Lewis*, 672 F.2d 959 (D.C. Cir. 1982) (finding that claims that merely involve a government contract may be brought under the APA); *Conax Florida Corp. v. United States*, 824 F.2d 1124 (D.C. Cir. 1986) (allowing claim for injunction but requiring that the standard be set by the contractual standard); *Williams Int’l Corp. v. Lehman*, No. 84–1122, 1984 U.S. LEXIS 2218, (D.D.C. filed Nov. 6, 1984) (reviewing summary judgment to enjoin the Government using solely the APA despite the existence of a contractual standard). *See generally* NASH & RAWICZ, *supra* note 61, at 314–24 (discussing the historical use of injunctions to prevent unauthorized disclosure of proprietary data).

actionable under the Tucker Act.<sup>99</sup> And, unlike the patent and copyright contexts, injunctions *are* available for trade secret misuse.<sup>100</sup> “The entrepreneur whose trade secret is stolen is entitled to monetary damages and an injunction framed to preserve the commercial advantage created by the trade secret.”<sup>101</sup>

### 3. The Government May Be Enjoined from Trademark Infringement

Trade secrets, then, are a viable means of enjoining the Government. But a contractor must use unusual procedural mechanisms (reverse-FOIA declaratory relief actions and the like) to obtain redress, and must comply with cumbersome FAR marking procedures in order to maintain protection. By contrast, trademark law treats the U.S. Government as any other trademark user. Trademark litigation offers the contractor the same remedies against the Government that it would have against a private infringer:

In a suit described in subsection (a) or (b) of this section for a violation described therein [that is, a trademark infringement suit], remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any person other than the United States or any agency or instrumentality thereof, or any individual, firm, corporation, or other person acting for the United States and with authorization and consent of the United States, or a State, instrumentality of a State, or officer or employee of a State or instrumentality of a State acting in his or her official capacity. Such remedies include injunctive relief under [15 U.S.C. § 1116], actual damages, profits, costs and attorney’s fees under [15 U.S.C. § 1117], destruction of infringing articles under [15 U.S.C. § 1118], the remedies provided for under [15 U.S.C. §§ 1114, 1119, 1120, 1124, and 1125], and for any other remedies provided under this chapter.<sup>102</sup>

Thus, a contractor may easily obtain injunctive relief in cases of trademark infringement or misuse.

Courts have been relatively dismissive of the dangers of government trademark infringement. The International Trademark Association, arguing against the *Preferred Risk* decision, writes that “[t]he Eighth Circuit did not believe that the potential for infringement of trademarks by the federal government would be a real problem.”<sup>103</sup> But the facts of *Preferred Risk* show that the Government has, on occasion, willfully infringed private trademarks. In *Preferred Risk*, the plaintiff had used the registered trademark Preferred Risk™ since 1947 in the provision of insurance services; some years later, the

99. See, e.g., *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003–04 (1984). The Tucker Act may be found at 28 U.S.C. § 1491 (2000). But see Shubha Ghosh, *Toward a Theory of Regulatory Takings for Intellectual Property: The Path Left Open After College Savings v. Florida Prepaid*, 37 SAN DIEGO L. REV. 637, 698–99 (2000) (criticizing the Supreme Court’s reasoning in *Ruckelshaus*).

100. See, e.g., *Chrysler Corp. v. Brown*, 441 U.S. 281, 317 (1979).

101. D. Kirk Jamieson, *Just Desserts: A Model to Harmonize Trade Secret Injunctions*, 72 NEB. L. REV. 515, 516 (1993) (the Westlaw version of this article bears the title “Just Deserts,” which is almost certainly a transcription error on the part of Westlaw rather than the author).

102. 15 U.S.C. § 1122(c) (2000).

103. Baird, Jordan, & Samuels, *supra* note 53, at 236 (1997).

Government adopted the same term, despite repeated requests to cease and desist.<sup>104</sup>

*Preferred Risk*, of course, dealt with a private litigant, not a government contractor. But, as discussed in the next section, trademarks are a potent arrow in the public contractor's quiver as well.

### III. USE OF TRADEMARKS TO OBTAIN INJUNCTIVE RELIEF AGAINST THE FEDERAL GOVERNMENT

Federal trademark law "provides national protection of trademarks in order to secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers."<sup>105</sup> Thus, trademarks serve two related purposes: (1) protecting consumers and (2) preserving the company's reputation and good will.<sup>106</sup> To serve these purposes, the Lanham Act prohibits the use of another's trademark in a manner that is likely to confuse consumers.<sup>107</sup> (False designation of origin law employs the same rules.<sup>108</sup>) Each state has a parallel set of trademark protection laws. Thus, given proper personal jurisdiction, a trademark lawsuit may be filed in any U.S. state or federal court.

Because trademarks are used to identify origin, injunctions are a standard trademark remedy.<sup>109</sup> "The remedy of injunction is traditional in unfair competition and trademark infringement litigation."<sup>110</sup> Damages or a reasonable royalty, without injunctive relief, would largely vitiate both purposes. Consumers would continue to be confused, and the company's goodwill would remain at the mercy of the infringer, because the owner would not be able to prevent an infringer from continuing to use (and thereby systematically reduce the value of) the mark.

A contractor must establish two elements to prove a trademark infringement claim. First, the contractor must show that it owns protectable trademarks. Second, it must show a likelihood of consumer confusion as to the source, sponsorship, or origin of the goods in question.<sup>111</sup> Likelihood of confusion, in turn, decomposes into four elements:

- Use in commerce;
- Of a reproduction or colorable imitation of the plaintiff's mark;

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104. *Preferred Risk Mut. Ins. Co. v. United States*, 86 F.3d 789, 790–91 (8th Cir. 1996), *cert. denied*, 520 U.S. 1116 (1997).

105. *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 198 (1985).

106. *Intel Corp. v. Terabyte Int'l, Inc.*, 6 F.3d 614, 619 (9th Cir. 1993); *Walter v. Mattel, Inc.*, 210 F.3d 1108, 1110 (9th Cir. 2000).

107. See 15 U.S.C. § 1114(a) (2000); *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995).

108. *Brookfield Communications, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1046 n.6 (9th Cir. 1999).

109. 15 U.S.C. § 1116 (2000).

110. David Rees Davies, *Litigating Trademark Cases*, 264 PLI/LIT. 61, 98 (1984).

111. *Ocean Garden, Inc. v. Marktrade Co.*, 953 F.2d 500, 506 (9th Cir. 1991).

In connection with the distribution of goods or services;  
Where such use is likely to confuse the public.<sup>112</sup>

“The United States, all agencies and instrumentalities thereof, and all individuals, firms, corporations, or other persons acting for the United States and with the authorization and consent of the United States . . . shall be subject to the provisions of [the Lanham Act] in the same manner and to the same extent as any nongovernmental entity.”<sup>113</sup> Prior to the enactment of 15 U.S.C. § 1122(a), the Government was immune from such suits—and case law confirmed that immunity. Now, however, contractors may use their trademarks to protect private opportunities and possibly prevent second-sourcing of key parts and products.

#### A. Elements of a Trademark Infringement Claim Against the Government

##### 1. Existence of a Valid Trademark

As a threshold matter, a contractor seeking to assert its trademark rights must establish that it has the exclusive right to use the mark in question. Federal trademark registrations create the presumption that the registrant has the exclusive right to use the marks throughout the United States.<sup>114</sup> The contractor also must confirm that it has not inadvertently licensed the mark to the Government.

##### 2. Use in Commerce

Infringement also requires a finding that the Government, without the contractor’s consent, used the contractor’s trademark *in commerce*.<sup>115</sup> At first blush, it would appear that the Government is immune from infringement suits because it rarely finds itself in the business of selling contractor-supplied materials. “In commerce,” however, is broader than simple sale or advertising.<sup>116</sup> “The United States Supreme Court has held that courts must construe the phrase ‘in commerce’ liberally, because the Lanham Act ‘confers broad jurisdictional powers upon the courts of the United States.’”<sup>117</sup> As a consequence of this expanded definition, the “in commerce” requirement is almost never a bar to litigation. “It is difficult to conceive of an act of infringement which [sic] is not ‘in commerce’ in the sense of modern decisions.”<sup>118</sup> Nearly

112. 15 U.S.C. § 1114(1)(a).

113. 15 U.S.C. § 1114(1).

114. See *Vuitton et Fils, S.A. v. J. Young Enters., Inc.*, 644 F.2d 769, 775 (9th Cir. 1981).

115. *Dynamet Tech., Inc. v. Dynamet, Inc.*, 593 F.2d 1007, 1011 (C.C.P.A. 1979); *Invisible, Inc. v. Nat’l Broad. Co.*, 212 U.S.P.Q. 576, 578 (C.D. Cal. 1980); *Gordon Bennet & Assocs., Inc. v. Volkswagen of America, Inc.*, 186 U.S.P.Q. 271, 272–73 (N.D. Cal. 1975).

116. *Steele v. Bulova Watch Co.*, 344 U.S. 280, 283 (1952).

117. *Kraft Food Holdings, Inc. v. Helm*, 205 F. Supp. 2d 942, 947 (N.D. Ill. 2002) (quoting *Steele*, 344 U.S. at 283).

118. 4J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:57 (4th ed. 2001).

any sale, distribution, or other use constitutes a “use in commerce” for purposes of the Lanham Act.<sup>119</sup>

### 3. Use of a Reproduction, Counterfeit, Copy, or Colorable Imitation

The Lanham Act broadly applies to reproductions, counterfeits, copies, or colorable imitations of a registered mark.<sup>120</sup> This requirement protects a contractor from uses of similar but not identical marks.

### 4. Use in Connection with Distribution or Sale

As with “use in commerce,” the contractor’s burden of proving that the Government is using the contractor’s mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services seems nearly insurmountable. But case law interprets “distribution” and “sale” liberally to encompass a wide variety of marketplace activity. For example, mere advertising—without any evidence of consummated sales—is sufficient to support a claim under the Lanham Act.<sup>121</sup> Indeed, the Lanham Act prohibits any deceptive statements.<sup>122</sup> Presumably, then, other forms of publicity that do not lead directly to sales (press releases, etc.) could also trigger liability.

### 5. Use Likely to Confuse the Public

Finally, the Government’s use of the contractor’s mark must be likely to confuse the public, to cause mistake, or to deceive.<sup>123</sup> The key phrase here is “to confuse the public,” because it emphasizes the extent to which trademark law is about the general population, not narrow categories of customer or end-user. “The relevant public for purposes of determining the broad question of likelihood of confusion is the cross-section of the populace that comes into contact with the mark . . . and the experience of the general public . . . is relevant in the analysis of such factors as strength of the mark, similarity of the marks and actual confusion.”<sup>124</sup> Thus, for purposes of government injunctions, “the public” consists of both government contracting agents, federal end-users, fellow contractors and competitors, and that subsection of the general population that may come into contact with the Government’s or the contractor’s products or services.

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119. *But see* Bell Helicopter Textron, Inc. v. H-S Tools and Parts, Inc., et al., No. C02-1295C (W.D. Wash. Aug. 15, 2003) (holding that repairs do not constitute a “use in commerce”).

120. 15 U.S.C. § 1114(1)(a) (2000).

121. Council of Better Bus. Bureaus, Inc. v. Bailey & Assocs., Inc., 197 F. Supp. 2d 1197, 1212 (E.D. Mo. 2002).

122. *Herbko Int’l, Inc. v. Gemmy Indus. Corp.*, 916 F. Supp. 322, 330 (S.D.N.Y. 1996); *Radio Today, Inc. v. Westwood One, Inc.*, 684 F. Supp. 68, 74 (S.D.N.Y. 1988).

123. 15 U.S.C. § 1114(1)(a) (2000).

124. *PostX Corp. v. The docSpace Co.*, 80 F. Supp. 2d 1056, 1063 (N.D. Cal. 1999).

## B. Determining Likelihood of Confusion

A likelihood of confusion exists when an ordinary viewer or consumer, upon seeing the mark, probably would assume that the product or service the mark represents is associated with the source of a different product or service identified by a similar mark.<sup>125</sup>

In *AMF v. Sleekcraft*, the Ninth Circuit articulated eight factors to consider in determining whether a likelihood of confusion exists: (1) the strength of the mark in question, as measured by arbitrariness or other conventional trademark doctrines; (2) the relatedness of the goods using the mark; (3) the similarity of sight, sound, and meaning between the parties' marks; (4) evidence of actual confusion; (5) similarity of marketing channels used by the parties; (6) the types of goods bearing the mark and the attentiveness of intended customers; (7) the infringer's intent; and (8) the likelihood of expansion into other markets.<sup>126</sup> Thus, in determining whether the contractor has demonstrated a likelihood of confusion, courts consider at least these eight factors.

### 1. The Strength of the Contractor's Mark

In the trademark context, "strength" refers to the distinctiveness of a mark—or, more precisely, the mark's tendency to identify the goods bearing it as emanating from a particular source.<sup>127</sup> Registration is a key consideration here. A registered trademark is "presumed to be distinctive and should be afforded the utmost protection."<sup>128</sup> Registration is "conclusive evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce."<sup>129</sup> If the trademark has achieved incontestable status<sup>130</sup> pursuant to 15 U.S.C. § 1115, "the holder of a registered mark may rely on incontestability to enjoin infringement and . . . such

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125. Lord Simon Cairns, et al., v. Franklin Mint Co., 24 F. Supp. 2d 1013, 1040 (9th Cir. 1998); Fuddrucker, Inc., v. Doc's B. R. Others, Inc., 826 F.2d 837, 845 (9th Cir. 1987); Lindy Pen Co. v. Bic Pen Corp., 725 F.2d 1240, 1243 (9th Cir. 1984).

126. *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348–49 (9th Cir. 1979).

127. *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961), *cert. denied*, 368 U.S. 820 (1961); see *M2 Software, Inc. v. Viacom, Inc.*, 119 F. Supp. 2d 1061, 1067 (9th Cir. 2000); *Nutri/System, Inc. v. Con-Stan Indus., Inc.*, 809 F.2d 601, 604 (9th Cir. 1987); *Park 'N Fly v. Dollar Park and Fly, Inc.*, 782 F.2d 1508, 1509 (9th Cir. 1986); *Alpha Industries, Inc. v. Alpha Steel Tube & Shapes, Inc.*, 616 F.2d 440, 444 (9th Cir. 1980); *Sleekcraft Boats*, 599 F.2d at 348–49; *E. & J. Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1290–91 (9th Cir. 1992).

128. *E. & J. Gallo Winery v. Consorzio Del Gallo Nero*, 782 F. Supp. 457, 462 (N.D. Cal. 1992); see 15 U.S.C. § 1115(a) (2000).

129. 15 U.S.C. § 1115(b).

130. A federal trademark that is not under court challenge will be declared "incontestable" by the Trademark Office when the owner submits an affidavit confirming that the mark has been listed on the principal register for five years. 15 U.S.C. § 1065 (2000). An incontestable mark has a stronger presumption of validity. Therefore, only limited defenses may be offered to show that the mark is not valid. 15 U.S.C. § 1115(b).

an action may not be defended on the grounds that the mark is merely descriptive.”<sup>131</sup>

## 2. The Similarity of the Products in Question

In the government contracting context, this inquiry is relevant primarily with respect to second-sourcing. When the Government seeks additional suppliers of trademarked goods and services, there is a significant risk that it will acquire parts or products that run afoul of the trademark owner’s rights. This is particularly true in the case of large, multicomponent programs the names of which have entered into the public lexicon—Jeep, Apache, Tomahawk, Hummer/HUMVEE, and the like.

## 3. The Similarity of the Marks in Use

This refers to the factual question of whether the overall impression created by the marks in question—the gestalt of the marks—is sufficiently similar to trigger consumer confusion.<sup>132</sup> Any mark the Government uses will inevitably remain the same regardless of second-sourcing, which implies that this prong will generally be resolved against the Government.

## 4. Evidence of Actual Confusion

Actual confusion is, of course, an important piece of evidence supporting an infringement verdict. Case law suggests that survey evidence “can provide the most persuasive evidence of secondary meaning.”<sup>133</sup> But it is well established that evidence of actual consumer confusion is unnecessary to a finding of trademark infringement.<sup>134</sup> “The failure to *prove* instances of actual confusion is *not* dispositive against a trademark plaintiff, because actual confusion is hard to prove; difficulties in gathering evidence of actual confusion make its absence generally unnoteworthy.”<sup>135</sup>

## 5. Marketing Channels

The Government is unlikely to market contractor-supplied materials, except perhaps to foreign governments—and even then, only rarely. Nevertheless, it is noted that in cases such as *Preferred Risk Mutual Insurance Co. v.*

131. *Park 'N Fly*, 469 U.S. at 205.

132. *Spectrum Vision Sys., Inc. v. Spectra, Inc.*, 35 F. Supp. 2d 797, 801 (D. Kan. 1998).

133. *Vision Sports, Inc. v. Melville Corp.*, 888 F.2d 609, 615 (9th Cir. 1989); *Committee for Idaho’s High Desert, Inc. v. Yost*, 92 F.3d 814, 822 (9th Cir. 1996).

134. *See, e.g., AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 352–53 (9th Cir. 1979) (“Proving actual confusion is difficult. . . . Because of the difficulty in garnering such evidence, the failure to prove instances of actual confusion is not dispositive.”).

135. *Brookfield Communications, Inc. v. West Coast Entm’t Corp.*, 174 F.3d 1036, 1050 (9th Cir. 1999).

*United States*,<sup>136</sup> there was evidence of actual confusion due to FEMA's offer of flood insurance through similar marketing channels (i.e., insurance sales).

#### 6. Types of Goods and Purchaser Care

Under this prong, courts look to a "typical buyer exercising ordinary caution"<sup>137</sup>—again, with the proviso that "buyer" is interpreted broadly to mean, in essence, any individual whose impressions could influence buying decisions by others at some point. In the government contracting context, this prong varies widely.

#### 7. The Government's Intent

As applied to the Government, "intent" refers less to willfulness than to use in the face of constructive or actual notice. "Registration of a mark on the principal register . . . shall be constructive notice of the registrant's claim of ownership thereof."<sup>138</sup> This is especially true when a contractor seeks to assert its rights against the Federal Government—the very sovereign body with which it registered the mark.

The effect of this constructive notice is that the use of a mark which is the same or confusingly similar to plaintiff's mark, as stated in its federal registration certificate, cannot be justified by a claim of innocence, good faith or lack of knowledge on the part of a junior user. . . . Once the registration is effected, national protection is afforded and no subsequent adoption and use of the same or a similar mark for the same or similar goods can be justified on a claim of good faith.<sup>139</sup>

The heightened notice standard created by federal trademark registration can present a serious problem for the Government, because confusion may be assumed when knowledge is inferred. "When the alleged infringer knowingly adopts a mark similar to another's, reviewing courts presume that the defendant can accomplish his purpose: that is, that the public will be deceived."<sup>140</sup> Thus, because the Government by definition has actual notice of all registered trademarks, courts will assume that the Government intends to deceive the public if it employs a similar mark.

#### 8. The Likelihood of Expansion into Competing Product Lines

Because the Government rarely sells trademarked goods, the likelihood of expansion into competing product lines is unlikely to be a key inquiry in the case of government infringement of contractor trademarks. Nevertheless, the Government does both obtain and utilize trademarks.

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136. No. 4-93-CV-10393 (S.D. Iowa filed July 14, 1995), *rev'd on jurisdictional grounds*, 39 U.S.P.Q.2d 1131 (8th Cir. 1996).

137. *M'Otto Enters., Inc. v. Redsand, Inc.*, 831 F. Supp. 1491, 1502 (W.D. Wash. 1993).

138. 15 U.S.C. § 1072 (2000).

139. *Geoffrey, Inc. v. Toys R' Us (Nosotros Somos Los Juguetes), Inc.*, 756 F. Supp. 661, 665-66 (D. P.R. 1991) (citations and internal quotation marks omitted).

140. *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 354 (9th Cir. 1979).

These factors are nonexhaustive and must be analyzed with care. They “should not be rigidly weighed.”<sup>141</sup> Instead, they “are intended to guide the court in assessing the basic question of likelihood of confusion.”<sup>142</sup> Indeed, “[u]nless properly used, this long list of factors has the potential to befuddle the inquiry.”<sup>143</sup> In most cases, only a “subset of the *Sleekcraft* factors are needed to reach a conclusion as to whether there is a likelihood of confusion.”<sup>144</sup> Despite the fact that the Government almost certainly will not satisfy some prongs, an infringement holding is still a distinct possibility.

### C. Repair and Reconstruction

The Ninth Circuit’s 2002 decision in *Karl Storz Endoscopy v. Surgical Technologies* illustrates how government contractors may use the Government’s waiver of sovereign immunity for trademark infringement.<sup>145</sup> In *Karl Storz*, defendant Surgical Technologies refurbished (and in some cases completely rebuilt) Karl Storz endoscopes, leaving the Karl Storz trademark on the refurbished goods. The Ninth Circuit concluded that the mere transportation of the refurbished endoscopes was sufficient to qualify as a “use in commerce.”<sup>146</sup> And although repair and return to the original owner should not, without more, trigger liability under the Lanham Act,<sup>147</sup> *Karl Storz* also confirmed a series of earlier cases in the Ninth and Federal Circuits to the effect that “an action for trademark infringement can in fact be based upon confusion of non-purchasers.”<sup>148</sup>

This is an important issue for government contractors. Commonly, the Government repairs trademarked products, or hires others to perform repairs. To the extent that these repairs could tarnish the trademark owner’s reputation—in either the Government’s eyes, the eyes of the individual employees using the refurbished goods, or even those of the general public—there may be an argument that the products are unlawful under the Lanham Act. The key inquiry is whether the refurbisher has created “a different product.”

There is no brightline test for determining whether a company that repairs or reconstructs goods and retains the original manufacturer’s trademark on the goods is using the trademark in commerce. However, there are a number of factors to consider in determining whether the company has made a different product. Those

141. *Dreamwerks Prod. Group, Inc. v. SKG Studio*, 142 F.3d 1127, 1129 (9th Cir. 1998).

142. *E. & J. Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1290 (9th Cir. 1992).

143. *Thane Int’l, Inc. v. Trek Bicycle Corp.*, 305 F.3d 894, 901 (9th Cir. 2002).

144. *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1206 (9th Cir. 2000).

145. *Karl Storz Endoscopy-America, Inc. v. Surgical Techs., Inc.*, 285 F.3d 848, 62 U.S.P.Q.2d 1273 (9th Cir. 2002).

146. *Id.*

147. *Id.* at 855–56, 62 U.S.P.Q.2d at 1276–78; see *Bell Helicopter Textron, Inc. v. H-S Tools and Parts, Inc.*, et al., No. C02–1295C (W.D. Wash. Aug. 15, 2003). Gray Cary Ware & Freidenrich, LLP, was counsel to the defendants and prevailing parties in *Bell Helicopter*, but the authors were not involved in the case.

148. *Karl Storz*, 285 F.3d at 854, 62 U.S.P.Q.2d at 1276 (citing *Payless Shoesource, Inc. v. Reebok Int’l Ltd.*, 998 F.2d 985, 989 (Fed. Cir. 1993); *Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817, 822 (9th Cir. 1980)).

factors include the nature and extent of the alterations, the nature of the device and how it is designed (whether some components have a shorter useful life than the whole), whether a market has developed for service and spare parts . . . , and, most importantly, whether end users of the product are likely to be misled as to the party responsible for the composition of the product.<sup>149</sup>

The Government has addressed objections to second-source supply in the patent and copyright contexts. As a consequence of the Government's compulsory license rights, a contractor may not use a claim of patent or copyright infringement to prevent the Government from seeking second sources for components to technologies purchased by the Government.<sup>150</sup> But—perhaps unknowingly—the Government has expressly opened itself up to such objections by waiving sovereign immunity for trademark infringement. The impact of *Karl Storz* is that, if second-sourcing or repair tasks are not performed to adequate specifications by a government contractor, the original supplier under a government contract may have a Lanham Act claim.<sup>151</sup> After all, if the second-source contractor makes an inadequate repair, it is the prime contractor whose mark is harmed—in the eyes of government end users and private citizens who come into contact with substandard government goods. Although it has yet to be exploited, this tool may allow contractors to restrict second-sourcing and other forms of government cost reductions.

#### D. Existing Government Policies Regarding Trademarks

As a general matter, the Federal Government has provided scant guidance to its procurement community on how to deal with trademark issues. The FAR and DFARS do not provide any guidance on how to proceed when faced with a trademark infringement claim, or even how to plan for obtaining sufficient trademark rights to protect against Lanham Act violations. Indeed, only one attempt has been made to create a FAR clause to account for trademarks developed during the course of a government contract, and this proposal has been roundly criticized by groups like the International Trademark Association.<sup>152</sup>

Federal Acquisition Regulation, Trademarks for Government Products: FAR Case 1998–018 intended to implement a mechanism for ownership of marks. The proposed clause apportioned rights based upon the filing of trade-

149. *Karl Storz*, 285 F.3d at 856–57, 62 U.S.P.Q.2d at 1277–78 (citing *Bottom Line Mgmt., Inc. v. Pan Man, Inc.*, 228 F.3d 1352, 1355–56 (Fed. Cir. 2000); *Rolex Watch, U.S.A., Inc. v. Michel Co.*, 179 F.3d 704, 709–10 (9th Cir. 1999)).

150. See Bloch & McEwen, *supra* note 3, at 203 (“[T]he Government usually attempts to purchase sufficient rights in trade secrets, copyrights, and patents to ensure that it can give plans for spare parts to third party contractors. This allows it to obtain second sources for these parts.”).

151. In *Bell Helicopter Textron, Inc. v. H-S Tools and Parts, Inc., et al.*, No. C02–1295C (W.D. Wash. Aug. 15, 2003), the United States District Court for the Western District of Washington held that a company reconditioning Bell Helicopter parts in a fashion that satisfied Federal Aviation Administration regulations but not Bell Helicopter specifications did not violate Bell Helicopter trademarks.

152. See Letter from International Trademark Association to the General Service Administration FAR Secretariat (MVP) (Oct. 8, 2001), at [http://www.inta.org/policy/cmnt\\_gum.html](http://www.inta.org/policy/cmnt_gum.html).

mark applications, and thus appears to have been modeled on FAR patent rights clauses. Industry concerns focused on the possibility that the clause would affect preexisting marks, as well as a parochial concern over basic tenets of trademark law.<sup>153</sup> Although some of the criticism appears valid, the debate highlights the apparent misunderstanding by procurement professionals of the extent of trademark rights—and the Government’s vulnerability to suit under them.

The debate also reveals a misunderstanding regarding how the Government procures goods and services. For many departments, like NASA and the DoD, procurement follows a model analogous to that used in OEM agreements: contractors make products to order according to government-provided specifications and plans. Indeed, although the 2001 commercial-contracting manifesto published by the Under Secretary of Defense for Acquisition, Technology and Logistics defines trademarks, no guidance is available as to how to deal with potential trademark issues in the procurement context.<sup>154</sup> Other documents, such as the Department of Defense Guidance on Other Transactions Authority, merely state that the acquisition plan should account for trademarks in the same way that it accounts for potential infringement of mask works and vessel hulls.<sup>155</sup> This position is irrational, because—as discussed above—a contractor’s remedies for infringement of mask works and vessel hulls are limited by statute and consequently are far less threatening to the Government than trademark infringement suits.

In sum, there is little guidance on trademark issues for the average FAR procurement. This uncertainty could provide fertile ground for trademark infringement on government products and services, as we discuss in detail below.

Additionally, a little-noticed provision of the FAR could have drastic effects on commercial contractors utilizing FAR part 12 instead of regular, noncommercial procurement channels. Specifically, under the contractual indemnity provisions of FAR 52.227–3, a contractor is only liable for patent infringement. In contrast, the indemnity clause in FAR 52.212–4(h) is far broader and explicitly includes trademarks as a basis for indemnity.<sup>156</sup> Because this provision is required in all commercial contracts pursuant to FAR 12.301(b)(3), a commercial contractor actually could face indemnity liability consisting of damages due to the entire Federal Government being enjoined for trademark infringement. Such bills could be enormous. For instance, the Federal Government is a large purchaser of computers and computer soft-

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153. *Id.*

154. UNDER SEC’Y OF DEFENSE, *supra* note 68.

155. UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY AND LOGISTICS, “OTHER TRANSACTIONS” (OT) GUIDE FOR PROTOTYPE PROJECTS, Sections C.2.3.1.1 through 2.3.1.4 (2001).

156. “The Contractor shall indemnify the Government and its officers, employees and agents against liability, including costs, for actual or alleged direct or contributory infringement of, or inducement to infringe, any United States or foreign patent, trademark or copyright, arising out of the performance of this contract, provided the Contractor is reasonably notified of such claims and proceedings.”

ware. If an item of software is delivered under a name later found to be infringing a valid trademark, the Federal Government could be enjoined from using that software, and the software provider would be liable for all subsequent damages.

#### E. Hypothetical Situations

We have tried to establish that the Government's waiver of sovereign immunity for trademark infringement creates serious unintended consequences for the Government and unexpected opportunities for the private sector. To date, we are not aware of any trademark suits brought under section 1122. Nevertheless, it is easy to generate hypothetical situations in which the Government's waiver of sovereign immunity becomes a powerful tool in the hands of a government contractor or private trademark owner.

##### 1. Hypothetical #1: *Preferred Risk* Redux

The most obvious hypothetical situation, of course, is the case that spurred the enactment of 15 U.S.C. § 1122 in the first place. In *Preferred Risk*, an insurance company accused an agency of the Federal Government (FEMA) of infringing a long-standing private trademark. The Government escaped liability only because it enjoyed sovereign immunity.<sup>157</sup>

Would the Eighth Circuit decide *Preferred Risk* the same way under section 1122? Almost certainly not. The Eighth Circuit's decision is explicitly predicated on the conclusion that "the Lanham Act does not apply to the federal government."<sup>158</sup> But section 1122(a) changes that: "The United States . . . shall not be immune from suit in Federal or State court by any person . . . for any violation" of Title 15 of the United States Code. Hence, direct infringement of a registered trademark by a government agency is specifically contemplated; the waiver of sovereign immunity is crystal clear. Under section 1122, *Preferred Risk* Mutual Insurance Co. would have prevailed in its suit against the Government. Moreover, *Preferred Risk* would have been able to enjoy the full range of trademark remedies. Not only would it have been able to recover damages; it would have been able prevent FEMA from further use of the "Preferred Risk" mark.

The same is true of *Lockridge v. United States*, in which the Court of Federal Claims declined to extend pendent jurisdiction to trademark claims on the theory that Congress had failed to waive sovereign immunity.<sup>159</sup> Since the enactment of section 1122(a), cases like *Preferred Risk* and *Lockridge* would be decided in favor of the private party.

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157. *Preferred Risk Mut. Ins. Co. v. United States*, 86 F.3d 789 (8th Cir. 1996), *cert. denied*, 520 U.S. 1116 (1997).

158. *Id.*

159. *Lockridge v. United States*, 200 U.S.P.Q. 271 (1978).

## 2. Hypothetical #2: Contributory Infringement

Another angle is contributory infringement by the Government. Contributory infringement consists of any act of assistance rendered to an infringer in disseminating products bearing the infringing mark.<sup>160</sup> A contributor can help the infringer distribute infringing products, supply raw materials, redistribute products, advertise them, and so on.<sup>161</sup> Anyone who “participates in the preparation, distribution and sale of infringing goods or services is potentially liable as a contributory infringer.”<sup>162</sup> Because the Government has comprehensively waived sovereign immunity, it should be liable both for direct infringement (as in the *Preferred Risk* scenario discussed above) and for contributing to infringement by others. Of course, contributory liability is only available for knowing infringement: “Liability for trademark infringement and unfair competition may be extended beyond those who actually sell goods with the infringing mark, to include all those contributory infringers who knowingly cooperate in illegal and tortious activity.”<sup>163</sup> But, as noted, the Government *always* knows of the existence of registered marks. After the enactment of section 1122(a), it would appear that any government infringement is willful as a matter of law.

Consider, for example, *Microsoft Corp. v. Lindows.com, Inc.*<sup>164</sup> In that case, Microsoft Corp. was suing Lindows.com over the latter’s use of the name “Lindows” to describe its Linux-based operating system. Microsoft asserted that “Lindows” is confusingly similar to “Windows.” The case was set for trial on April 7, 2003.<sup>165</sup> Although it is impossible to predict the outcome of the lawsuit (and early results seem to favor Lindows.com),<sup>166</sup> we submit that, at a minimum, Microsoft has a colorable claim. It is possible that Microsoft will prevail. If so, Microsoft will be in a position to demand that Lindows.com remove all products bearing the “Lindows” mark from the marketplace and will have viable claims against third-party users of Lindows products. Microsoft likely could not recover monetary damages from these innocent end-users but could well obtain injunctive relief.

What if the Government had bought a Lindows system? Prior to the enactment of section 1122, it is clear that Microsoft would have no recourse. After all, Lindows.com, not the Government, profited from the sale of the Lindows system, and the Government ordinarily may not be enjoined. But

160. McCARTHY, *supra* note 118, § 25:18.

161. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854–55 (1982).

162. McCARTHY, *supra* note 118, § 25:19.

163. *Id.* § 25:17.

164. *Microsoft Corp. v. Lindows.com, Inc.*, No. C01–2115C (W.D. Wash. filed Dec. 20, 2001); see Joe Wilcox & David Becker, *Microsoft Sues Linux Start-Up over Name*, Cnet News.com, Dec. 20, 2001, at <http://news.com.com/2100–1001–277314.html?legacy=cnet>.

165. Michael Singer, *Lindows.com Trademark Suit Goes to Jury*, SiliconValleyInternet.com, Jan. 24, 2003, at <http://siliconvalley.internet.com/news/article.php/1574621>.

166. Tony Kontzer, *Microsoft Loses First Round of Lindows.com Battle*, Information Week, Mar. 18, 2002, at <http://www.informationweek.com/story/IWK20020318S0011>; Stephen Shankland, *Lindows Seeks to Dismiss Microsoft Suit*, Cnet News.com, Jan. 15, 2002, at <http://news.com.com/2100–1001–814321.html?tag=bplst>.

after the passage of section 1122(a) in 1999, the Government can be prevented from using an infringing trademark. Microsoft thus would be in a position to force the Government to remove an infringing Lindows product from government servers. This result would offer Microsoft enhanced trademark protection—and probably helps in bidding on government contracts, too. The Government does not wish to suffer disruptions like the hypothetical Lindows injunction discussed above and therefore could be expected to shy away from bidders whose trademarks are the subject of court challenges.<sup>167</sup> At a minimum, the Government would need to strengthen its contractual indemnity clauses to avoid a costly shutdown based on contractor trademark infringement.

### 3. Hypothetical #3: Reconstruction

A third interesting case involves reconstruction—the situation in play in *Karl Storz Endoscopy-America, Inc. v. Surgical Technologies, Inc.*<sup>168</sup> Assume Company A manufactures a high-precision product for use by the Government. The high-precision product bears the trademark of Company A on a core part that cannot be replaced. The product is understood, at sale, to periodically require repairs to individual parts such that the product will eventually be refurbished. When the high-precision product is to be repaired and refurbished, all of the parts are repaired with the exception of a core part. The trademark remains located on the core part even after repair.

Company B obtains a contract to refurbish the product for the Government. The contract is to replace every part except for the core part. The refurbished product is reintroduced to the Government containing the core part with the trademark notice such that there is no indication that the product has been refurbished. Further, there is evidence that government employees have complained to Company A that the product is substandard, without knowing that the product was refurbished by Company B. Additionally, third

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167. As noted *supra* Section III.D, contracts for noncommercial acquisitions lack a clause addressing trademarks, which means that the cost of an injunction cannot be passed through to the contractor. The noncommercial indemnity clause only extends to patent infringement and “unauthorized use” of patents under 28 U.S.C.S. § 1498(a) (Law. Co-op. 1989 & Supp. 2003). See FAR 52.227–3 (Apr. 1984). By contrast, contracts for commercial items require an intellectual property indemnity clause that extends to “any patent, trademark or copyright.” FAR 52.212–4(h) (July 2003). So the Government is indemnified in the event of trademark infringement for commercial acquisitions under FAR Part 12 but not for noncommercial items acquired under FAR Part 52. Even then, a financial indemnity does not protect the Government from the effects of an injunction. A party that already has been enjoined could conceivably bid on a government contract, but cannot legally perform. And a party that is a defendant in a trademark action faces a significant possibility of injunction. To the extent that this party faces likely injunctive relief, it is arguable that a Contracting Officer could or should take the specter of injunction into account. Due to the injunction or possible injunction, the party may be prevented from providing the required product and thus completing the contract. The existence of injunctive relief, instead of mere monetary damages, means that an indemnity may not be enough to satisfy the Government. The theory under which a Contracting Officer could reject such a bid, however, is beyond the scope of our paper.

168. *Karl Storz Endoscopy-America, Inc. v. Surgical Techs., Inc.*, 285 F.3d 848 (9th Cir. 2002).

parties have observed the refurbished product and noted its deficiencies to Company A.

Under these facts, Company A could bring a suit for trademark infringement against the Government, Company B, or both. As noted by the Ninth Circuit in *Karl Storz*, post-purchase confusion can exist where persons observe the purchased product and mistakenly believe that the manufacturer has supplied the purchased item. Further, the court noted that “[p]ost-sale’ confusion . . . may be no less injurious to the trademark owner’s reputation than confusion on the part of the purchaser at the time of sale.”<sup>169</sup> Because the product has been refurbished instead of merely being repaired, all of the parts except for the core part have been replaced such that the returned product is a use in commerce. In this instance, Company A has a colorable argument that the Government’s refurbishment contract with Company B has caused a likelihood of confusion as to the source of the product in violation of the Lanham Act. Company A well may enjoin the Government’s use of the product and preclude further refurbishment.

Such refurbishment could apply to products such as aircraft and ships, which are routinely retrofitted by different contractors in order to extend their service life, and could exist in any product that is refitted with new parts. Further, although the above hypothetical assumes a trademark notice on a core part, the same argument could be made as to confusion where the configuration of the product is so distinctive that the shape itself constitutes notice of origin to a consumer or government end user. Lastly, because the Government (1) directly supplies products to foreign governments and similarly does so to the public as surplus parts and (2) indirectly advertises products through continued use, the Government’s refurbishment of the products could be especially harmful to the reputation of Company A. Third parties could rely on the Government’s use as evidence of the quality of the product sold by Company A (and refurbished by Company B).

Government regulations may be the lynchpin of this hypothetical. In *Bell Helicopter Textron, Inc. v. H-S Tools and Parts, Inc.*, Bell Helicopter sued H-S Tools and Parts and a variety of other companies offering after-market repair of Bell Helicopter parts.<sup>170</sup> These repair services conformed with Federal Aviation Administration (FAA) regulations, but arguably did not comply with Bell Helicopter guidance on part tolerances. Following *Karl Storz*, Bell argued that “the parts in question are worn beyond their useful life and thus any reconditioning or repair of the parts . . . is so basic and extensive that it is a misnomer to allow them to bear their original marks.”<sup>171</sup> The Western District

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169. *Id.* (quoting *Payless Shoesource, Inc. v. Reebok Int’l Ltd.*, 998 F.2d 985, 989–90 (Fed. Cir. 1993)).

170. *Bell Helicopter Textron, Inc. v. H-S Tools and Parts, Inc.*, et al., No. C02–1295C (W.D. Wash. Aug. 15, 2003). Again, Gray Cary Ware & Freidenrich, LLP, represented the prevailing defendants. The authors, however, were not involved in the case, and all information contained herein is taken from publicly available sources.

171. *Id.* at 4.

of Washington granted summary judgment in favor of the defendants, holding that their compliance with FAA regulations concerning “repairs” meant as a matter of law that the parts in question had not been altered so significantly that they could no longer bear their original Bell Helicopter markings.<sup>172</sup>

The Government thus may be in legal jeopardy as a consequence of *Karl Storz*, but also may have a clever route out: it can ensure that its regulations define Company B’s conduct as repair rather than refurbishment.

#### 4. Hypothetical #4: Sale of Distinctive Part for Use in Product

Finally, the Government’s waiver of trademark immunity raises concerns with respect to the acquisition of distinctive parts. Company A manufactures product A with a distinctive part, which is trademarked and is known to be a source identifier for product A. Company A sells the product to both the Government and the private sector. Company B manufactures product B, which has a distinctive part that is similar to the distinctive part in product A. Product B is in the same category as product A. The Government procures product B instead of product A.

Under these facts, Company A may have a colorable claim for trademark infringement, likelihood of confusion, or both, in view of the trademarked and distinctive part. Specifically, because consumers view the distinctive part as being a source identifier, and because the part itself is registered as a trademark, Company A may be able to enjoin Company B’s contract to supply product B to the Government. Company A’s chances are enhanced where studies show actual confusion by the consumer as to the source due to the use of the distinctive part, and especially if the products are of comparable price.

There are multiple types and categories of products that are sold to the Government with distinctive parts.<sup>173</sup> So long as the design of these distinctive parts is not governed by utilitarian purposes, trademarking the design is perfectly legitimate. But if the Government attempts to obtain a second source for these products, it may encounter strategic litigation—at least if the second source of the product provides a product having the distinctive part. This likelihood is greatly increased if the distinctive part is included in a technical data package the Government purchased and supplied to the second-source supplier.

Where the product being supplied has a name that the Government uses to refer to it, the “distinctive part” may be the institutional name given

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172. *Id.* at 7–9.

173. For an example of the trademarking of a distinctive part (*i.e.*, a grille) for use in off-road vehicles sold to consumers and the Government, see *AM General Corporation v. Daimler-Chrysler Corporation*, 65 U.S.P.Q.2d 1001 (7th Cir. 2002). In this case, however, although there was a long history of use of Jeeps and HUMVEEs by the Government as well as the trademarking of the grilles used in these vehicles, there was insufficient evidence that, due to a similar grille alone, a likelihood of confusion would exist between the Jeep and the H2, a next-generation HUMVEE.

the product. Because the institutional name is often used to describe the product being purchased, and because the second source would often deliver the product as the institutionally named product, the Government may be forced to change institutional names merely to obtain a second source for the product.<sup>174</sup> Only Chrysler can supply Jeeps; only Lockheed Martin can supply the Javelin. This problem may have been the impetus for the Government's attempt to promulgate a new FAR clause governing rights in trademarks developed under government contracts.<sup>175</sup>

#### IV. CONCLUSION

In waiving sovereign immunity for trademark infringement despite the Supreme Court's ruling in *College Savings v. Florida Prepaid*, the Federal Government has created an underutilized and unexpected tool for government contractors.

Trademark rights are a new weapon in the contractor's arsenal to protect intellectual property. Trademark infringement is simpler to prove than other intellectual property infringements and has procedural advantages—most particularly, easily available injunctive relief. Nevertheless, there are other advantages, not the least being the ability to choose the particular forum state in which to bring the infringement suit. Also, because more lawyers and judges understand trademark law than public contract validation principles, the contractor will find trademark strategies simpler to implement. And because trademark laws apply to new and existing goods, they are highly flexible in their use and application to multiple situations and can be implemented under existing commercial strategies. Lastly, the trademark owner has the uncommon advantage that the defendant is almost totally unprepared for suit.

“Be careful what you wish for,” as the old adage says. The Government had sovereign immunity for trademark infringement, once. But it wanted to be on a level playing field with commercial contractors with regard to Lanham Act violations. As usual, the Government got what it wanted. It may come to regret it.

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174. Examples of such institutional names given to products supplied by contractors include V-22 OSPREY (Trademark Application No. 78201351), AH-64 (Trademark Application No. 78195011), GLOBAL HAWK (Registration No. 2680508), TALON (Registration No. 2361433), HUMVEE (Registration No. 1697530), JSF (Trademark Application No. 78093022), F-117 (Registration No. 2448603).

175. Federal Acquisition Regulation, Trademarks for Government Products: FAR Case 1998-018.

