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DAMAGES AND INTELLECTUAL PROPERTY: AN UP-DATE ON HUGHES AIRCRAFT COMPANY vs USA

by

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Abstract

In August of 1993 the U.S. Court of Claims made findings based on the unlicensed use by the government of the United States of a patent entitled "Velocity Control and Orientation of a Spin-Stabilized Body." The Court held that Hughes Aircraft Company, as owner of the patent, could collect damages for the unlicensed use of the patented device on orbiting satellites.

In the damages phase of the case the Court of Claims created a formula for arriving at "just compensation" to be paid to the Company. The Court issued a ruling on June 17, 1994, which made a substantial award to the Company, but which left unresolved other elements of the claim for damages. The litigants were advised to attempt to resolve their differences.

The parties were not successful in bridging their differences. The Company filed an appeal in the United States Court of Appeals on October 31, 1994. These pleadings were supplemented on February 13, 1995. In each instance the government filed opposing briefs. These pleadings identified how the complex concept of "just compensation" might be construed. The Court of Appeals by mid-summer, 1996, had not issued a judgment in the matter.

Introduction

The Hughes Aircraft Company has been engaged in a marathon-like course of litigation since 1976 against the government of the United States dealing with patent rights relating to an object mounted on a satellite used to control the velocity and the orientation of a spin-stabilized space object.[1] In 1993 the Court of Claims rendered a judgment in favor of the Hughes Aircraft Co.[2]

The 1993 decision relied on existing patent law. Although that law was inadequate in many respects, and was later amended, it was held that national space activity, including the use of a patented spin-control system on a satellite while in earth-orbit, was subject to U.S. legislation. This was true despite

the use of the patented item beyond the territory of the launching State, which, in this case, was the United States.[3]

Hughes Quest for Adequate Compensation

With the 1993 decision establishing the liability of the U.S. government for the unlicensed use of the Williams patent, the litigants turned to the question of damages. The initial response of the Court of Claims occurred on June 17, 1994.[4] In this segment of the litigation Hughes sought monetary damages of $1.2 billion. Hughes also tried to demonstrate that it might be entitled to as much as $6 billion. During the unlicensed use of the patent the using satellites had a value in the neighborhood of $3.5 billion.

In the 1994 decision reliance was placed on 28 United States Code #1498(a) which dealt with the use or manufacture of patented objects.

In arriving at sums ultimately to be paid to Hughes the Court of Claims indicated that the final computation of an appropriate award was to be determined by the parties, or, if there were no agreement, they were to identify their respective positions on the proper award. For the guidance of the parties the Court identified general criteria.

First, if there were an established royalty rate applicable to a "patent in suit," that rate would usually be adopted as the best measure of reasonable compensation. In the instant case this formula was inapplicable because there had not been an established royalty rate nor had there been any other royalty compensation arrangement. Second, this being the case, the rate was to be determined through a process of hypothetical negotiations between an assumed "willing buyer" and an assumed "willing seller," as of the date of the initial infringement, but taking into account the events occurring after the original infringement.

Third, the royalty rate was to take into account the entire cost of each infringing space object rather than the relatively minor costs associated with the manufacture of the components constituting the altitude control system.

Fourth, the Court fixed a percentage limit on payments to Hughes. It was 1.2% of the total cost of the space object, based on correspondence with spacecraft contractors, at the time of the issuance of the patent in September, 1973, at which time Hughes had offered to license its patent. Included in this package was one case in which Hughes had identified the patentee's royalty rate under the patent. The Court emphasized the relevance of the early offers made by Hughes to potential licensees.

Finally, the Court, in placing the burden on the litigants to arrive at a settlement, took note of the absence of guidance in section 1498 concerning the computation of damages. According to the tribunal congressional intention required only that a claimant receive "reasonable and entire compensation."[5]

With these considerations in mind the Court determined first that the applicable royalty rate should be 1% of the value of the spacecraft utilizing system; second, that a uniform rate of compensation would apply for delay damages[6] during an identified time period; and, third, should depend on federal legislation governing the amount of interest taxpayers are entitled to

receive following an overpayment of taxes.

On this last point the court was explicit. It stated that the plaintiff was to receive delay damages computed at an annual rate of 7.5% over the period from September 11, 1973 through December 31, 1975; at an annual rate of 8.5% from January 1, 1976 through January 31, 1980, compounded on January 31 of each year, and commencing on February 1, 1980 in accordance with the tax overpayment rate prescribed from time to time as set forth in 26 U.S.C. ##6621 and 6622(a). The Court fine-tuned its formula by adding that it contemplated that a judgment would be entered for the total amount of damages calculated as of March 31, 1994, plus interest on that sum, taking into account the tax overpayment rate compounded daily from March 31, 1994, until paid.[7]

The Appeal of Hughes Aircraft Company

On October 31, 1994 Hughes filed an appeal in the United States Court of Appeals for the Federal Circuit. The Company urged that the formula employed by the Court of Claims did not contemplate or constitute just compensation. In support of this contention it was argued that the factors deemed controlling by the trial court did not take suitable account of the real worth of patented property, and, hence did not measure the extent of the loss to the company from the unlicensed use of its property.[8]

The Company contended the trial court erred in its determination that a 1% royalty was appropriate in light of the royalty rates contained in three licensing offers made by it during a period of pending litigation and a period of "widespread infringement" by the government. These factors were seen as depressing the true worth of the patent. The Company urged that it had sought a 3% royalty, that this offer had been rejected by aerospace companies, and that, since it was a rough measure of the value because of the above-identified circumstances, that a 3% royalty rate should have been the "floor" adopted by the trial court.[9] In support of this view that company urged that the 3% figure was the minimum that it had ever indicated as being acceptable. Thus, it contended that a justly compensating royalty would presumably exceed that floor.[10] Underlying the Company's contention was the proposition that the Williams patent was an important invention and that it had significantly facilitated instantaneous global communications and navigation.

Response of the U.S. Government

In response to the arguments made by Hughes the government urged that the trial court property weighed the evidence in fashioning a "just compensation" royalty.[11] Underlying this conclusion was the contention that the value of the Williams patent was not as large as Hughes had endeavored to prove. In order to sustain this outlook the government presented historical information respecting both successful and unsuccessful space launches.

The government also argued that the trial court's awarding of delay compensation to Hughes constituted a "windfall," and that on appeal this issued should be addressee *de novo*.

Response of Hughes Aircraft Company

In its reply brief, dated February 13, 1995 (Nos. 94-5149, 95-5001), in its capacity as Plaintiff-Appellant, the Company urged that the Government had engaged in "assiduous selectivity" respecting the operational characteristics of satellites employing gravity gradient equipment.[12]

The Company also considered that the Government was engaged in a "deconstructionist enterprise" when it traced the history of successful communications satellites.[13] These arguments were addressed to the value to space endeavors and to a larger body of uses of a patent allowing for the changing of a satellite's orientation so that it could be inserted into a final orbiting position.

In addressing the figure to the be placed on delay compensation the Company suggested that the government's *de novo* approach constituted "an invitation to judicially legislate, for all section 1498 cases, niggardly uniform rates bearing no relationship to the harm done to patent owners by virtue of government takings."[14] While objecting to a *de novo* approach by the United States Court of Appeals on the grounds that this would be "inappropriate," because of the absence of legislation, the Company urged that the establishment by the Court of Claims of delay compensation was to be upheld. Behind this contention was the view that the trial court had made a determination of just compensation "at uniform rates established in precedent. . ."[15]

One of the more interesting aspects of this extremely lengthy litigation, which in 1996 had been going on for thirteen years, relates to the trial court's determination that compound interest should be paid as previously indicated.[16] This aspect of the trial court's decision was not disputed by the Government.

In its effort to minimize the sums due to the Company the government argued that if royalties had been paid in the past the Company would have been obliged to pay income taxes on such royalties and that earnings derived from royalties would also have been subject to taxation. Thus the government suggested that the amount compounded should be discounted accordingly, that is, that the sums constituting the assumed taxes should not be made a part of the ultimate compensation payable to the Company. The litigants also presented other taxation issues to the court. Their intricacy, respecting identification and application, is so vast as to preclude further comment here. However, it may be for this reason that the Court has not resolved the litigation as of the Summer of 1996. Over 17 months have elapsed since the litigants presented their last briefs to the Court.

Conclusion

This case, which originally produced an interest for those identified with the development of national and international space law, and which confirmed that a nation's patent laws can have extra-territorial application, namely, where the patented device is employed in outer space, has currently been focused on formulas for the allocation of damages.

The federal courts dealing with the remaining issues have not been able to have recourse to detailed legislation

on the subject, although there are numerous court decisions which bear tangentially on the subject of patent violations. Also, the enormity of the monetary damages sought by the Company has induced the Federal Court of Appeals to proceed very gingerly.

At this numbingly late hour the saga of the Williams patent and its use for the benefit of outer space activity has not been brought to a close. Like other cases characterized by novelty and complexity this case has taken on a life of its own.

Notes

1. *Hughes Aircraft Co., v. United States*, 534 F. 2d 889, 192 USPQ 296 (Ct. C. 1976). Even before 1976 Hughes Aircraft Company, acting with the inventor of the spin-control system, Mr. Donald T. Williams, a Hughes Aircraft Co. scientist, was engaged in litigation with the National Aeronautics and Space Administration. See 423 F. 2d 1253, 165 USPQ 326 (CCPA 1970); 463 F. 2d 889, 175 USPQ 5 (CCPA 1972). Between 1973 and 1994 the Hughes litigation was considered by the U.S. Court of Claims ten times.

2. 29 Fed. Cl. 197 (1993).

3. C.Q. Christol, "Judicial Protection of Intellectual Property: Hughes Aircraft vs. USA," *Proceedings of the 37th Colloquium on the Law of Outer Space* 145 (1995).

4. Hughes Aircraft Company vs. U.S.A. 31 Fed. Cl. 481 (1994). The Court's order was made on August 5, 1994.

5. *Id.* at 484.

6. By "delay damages" was meant compensation for harms occurring at an earlier date, e.g., starting with the use of the unlicensed patent down to the time when the sums owing from the conduct are actually paid to the successful litigant.

7. *Id.* at 495.

8. Brief for Appellant/Cross-Appellee, Nos. 94-5149, 95-5001, October 31, 1994, pp. 1-2.

9. *Id.* at 1.

10. *Id.* at 48.

11. *Government Brief* at 16.

12. *Id.* at 6.

13. *Id.* at 7.

14. *Id.* at 24.

15. *Id* at 24, citing cases.

16. *Supra*, p. 4.