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UNAUTHORIZED USE OF TECHNICAL DATA IN GOVERNMENT CONTRACTS: REMEDIES OF THE DATA OWNER

THEODORE M. KOSTOS*

INTRODUCTION

Since the issuance of Defense Procurement Circular (DPC) No. 6 on May 14, 1964,¹ the agitation in the "technical data"² area, rather than diminishing, as some may have hoped, has increased in intensity. This unrest is marked by simultaneous concern with the rights and remedies available to the data owner if the data is improperly used by the government or by a company acting on behalf of the government. There are some who argue that the owner of technical data has practically no remedy if the data is used without authorization in performance of a government contract. Others contend that the data owner has an unlimited range of remedies both against the government and the contractor who utilizes the data. It is the writer's opinion that the data owner has substantial remedies which are not, however, co-equal with the remedies that would be available to the data owner had data not been used in a government contract.

TECHNICAL DATA AS TRADE SECRET

In order to be eligible for protection in the courts, technical data must probably come within the "trade secret" category.³ A trade secret may be described as data (1) which has been treated by the owner as secret, and (2) which is of some value. The first element requires that the owner must have conducted himself in such a way as to show clearly that he intended the data to be secret. This includes, for example, placing a legend on prints or drawings, similar to that in Armed Services Procurement Regulation (ASPR) 9-203.3.⁴ The

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¹ D.P.C. No. 6 revises ASPR, 32 C.F.R. §§ 9.200-9.207-2 (1964).

² Section 9-201 of the Armed Services Procurement Regulations defines technical data as follows:

(a) "Data" means writings, sound recordings, pictorial reproductions, drawings, or other graphic representations and works of any similar nature whether or not copyrighted. The term does not include financial reports, cost analyses, and other information incidental to contract administration.

ASPR, 32 C.F.R. § 9-201 (1961).

³ *Bickley v. Frutchey Bean Co.*, 173 F. Supp. 516 (E.D. Mich. 1959), aff'd, 279 F.2d 685 (6th Cir. 1960). See generally Ellis, *Trade Secrets* (1953).

⁴ Furnished under United States Government Contract No. - - - and only those portions hereof which are marked (for example, by circling, underscoring or

second basic element—value—is ascertained by (a) the amount of effort or money expended in developing the data and (b) the ease or difficulty with which the data could be properly acquired or duplicated by others.⁵

Does technical data fall in the trade secret category? ASPR 9-201 defines proprietary data;⁶ this definition is similar to the concept of a trade secret.⁷ In the writer's opinion, there can be no serious doubt that technical data which qualifies as proprietary data also meets the criteria for trade secrets. There is both confidentiality and value. There is, however, a possibility that data which receives administrative protection under DPC 6 would not satisfy the criteria for a trade secret, for DPC 6, as amended by DPC 24,⁸ involves a significant change in approach by the government on technical data. Under the former policy,⁹ proprietary data received protected treatment, and there was a greater latitude on the part of data owners to withhold proprietary data from disclosure to the government. Under DPC 6, however, the government may require unlimited rights in all data which falls within certain enumerated categories.¹⁰

otherwise) and indicated as being subject to this legend shall not be released outside the Government (except to foreign governments, subject to these same limitations), nor be disclosed, used, or duplicated, for procurement or manufacturing purposes, except as otherwise authorized by contract, without the permission of ----- This legend shall be marked on any reproduction hereof in whole or in part.

ASPR, 32 C.F.R. § 9-203.3 (1961).

⁵ Restatement, Torts § 757 (1939).

⁶ (b) "Proprietary data" means data providing information concerning the details of a contractor's secrets of manufacture, such as may be contained in but not limited to its manufacturing methods or processes, treatment and chemical composition of materials, plant layout and tooling, to the extent that such information is not disclosed by inspection or analysis of the product itself and to the extent that the contractor has protected such information from unrestricted use by others.

ASPR, 32 C.F.R. § 9-201 (1961).

⁷ See Munves, *Proprietary Data in Defense Procurement*, 1962 Mil. L. Rev. 155 (Oct. 1962).

⁸ D.P.C. No. 24 (Feb. 26, 1965) clarified the language of D.P.C. No. 6, *supra* note 1.

⁹ ASPR, 32 C.F.R. §§ 9.000-9.206 (1961).

¹⁰ (b) *Unlimited Rights*. Technical data in the following categories, when specified in any contract as being required for delivery, or subject to order under the contract, shall be acquired with unlimited rights:

(1) technical data resulting directly from performance of experimental, developmental, or research work which was specified as an element of performance in a Government contract or subcontract;

(2) technical data necessary to enable others to manufacture end-items, components and modifications, or to enable them to perform processes, when the end-items, components, modifications or processes have been, or are being, developed under Government contracts or subcontracts in which experimental, developmental or research work was specified as an element of contract performance, *except* that technical data pertaining to components or processes which were developed at private expense and incorporated into, or used in making, the

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The essential element now is whether the data was developed at private expense, not whether it was proprietary. It may well be, for example, that data that does not meet the criteria of a trade secret, would, nevertheless, be subject to limited rights protection under DPC 6 if developed at private expense. On the other hand, it is theoretically possible that technical data previously protectible as proprietary data could be required to be turned over to the government with unlimited rights if the data was developed at the expense of the government, either through independent research and development programs where costs are shared by the government and the contractor, or through other techniques in which it might be claimed that the government directly or indirectly paid part or all of the costs of developing the data. All this remains to be more clearly defined, but for the purposes of this article, the basic question is as follows: assuming that the technical data meets the trade secret criteria, what rights has the owner of that data when it is disclosed without authorization for use in a government contract? This question is focused both at the government and at the third party contractor who uses it.

REMEDIES AGAINST THE GOVERNMENT

Any analysis of remedies available against the government must begin with the rudimentary principle that the government cannot be sued unless there is a statute under which it has consented to be sued.¹¹ There are many fields of activity in which acts or conduct of the government, if performed by the ordinary citizen, would be the subject of a valid cause of action, but which result in no liability to the government since it has not consented to be sued in those particular areas. Examples of this include trademark infringement, libel, and malicious prosecution. Under 28 U.S.C. § 1498, the government has

end-items, components, modifications or processes developed, shall be acquired with limited rights, if the contractor furnishes with unlimited rights the "form, fit and function" data as described under (4) below, for the components or processes developed at private expense;

(3) technical data constituting corrections or changes to Government-furnished data;

(4) technical data pertaining to end-items, components or processes which was prepared for the purpose of identifying sources, size, configuration, mating and attachment characteristics, functional characteristics, and performance requirements ("form, fit and function" data, *e.g.*, specification control drawings, catalog sheets, envelope drawings, etc.);

(5) manuals or instructional materials prepared for installation, operation, maintenance or training purposes; and

(6) other technical data which has been, or is normally furnished without restriction by a contractor or subcontractor.

D.P.C. No. 6, *supra* note 1.

¹¹ *Kawanakoa v. Polyblank*, 205 U.S. 349 (1907); *United States v. Lee*, 106 U.S. 196 (1882).

consented to be sued for patent and copyright infringement.¹² Under this statute, the exclusive remedy for patent infringement, where the use occurs in performance of a government contract, is an action for damages against the government in the Court of Claims. One cannot secure an injunction either against the government or against an infringing contractor;¹³ nor can a patent holder file an action for damages against the infringing contractor where the infringement occurs in a government contract. These remedies are readily available when patent infringement involves only commercial contracting parties. As a result, there are procurement bidders, who, fully intending to infringe, are comforted by the knowledge that, according to the rulings of the General Accounting Office,¹⁴ their bids must be considered. The only recourse of the patent holder is a petition in the Court of Claims.¹⁵

The breach of a trade secret or of a confidential disclosure is a tort at common law.¹⁶ The Federal Tort Claims Act¹⁷ subjects the government to liability for the ordinary tort committed by the government. However, this statute does not embrace certain torts which interfere with the intangible rights of the injured party, as distinguished from damage to his property or person. In *Aktiebolaget Bojors v. United States*,¹⁸ it was held that the Federal Tort Claims Act does not embrace the tort of breach of confidential disclosure. Accordingly, if there is a breach by the government of technical data which meets the definition of a trade secret, no action against the government will lie under this statute.

There is, however, another statute, the Tucker Act,¹⁹ which con-

¹² (a) Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

²⁸ U.S.C. § 1498(a) (Supp. V, 1964).

¹³ *Kidd, Patent, Copyright and Trademark Suits Against the Federal Government*, 25 Fed. B.J. 125 (1965).

¹⁴ Comp. Gen. Dec. No. B-141459 (May 1960).

¹⁵ See remarks of Eugene P. Foley, Administrator, Small Business Administration, March 12, 1965, Luncheon Address of Philadelphia Briefing Conference on Government Contracts.

¹⁶ Restatement, Torts, *supra* note 5.

¹⁷ 28 U.S.C. §§ 1346(b), 2680 (1958).

¹⁸ 194 F.2d 145 (D.C. Cir. 1951).

¹⁹ 28 U.S.C. § 1491 (1958) provides as follows:

The Court of Claims shall have jurisdiction to render judgment upon any

ceptually offers some promise of conferring jurisdiction on a federal court where there has been a breach of a trade secret or a disclosure of technical data by the government. The Tucker Act essentially establishes jurisdiction in the Court of Claims over an action founded upon an express or implied contract with the government. This, then, is an action which sounds in contract, and not in tort. To be justiciable, the facts of the case must lend themselves to that approach. Moreover, to fall within the jurisdiction of the court under the Tucker Act, an implied contract must be one implied in fact and not in law.²⁰

As a result, it had been believed that the government could not be liable in damages for breach of confidential disclosure or trade secret. For example, in a typical case where technical data was furnished to the government in a framework which adequately established its confidentiality and where the technical data was used by the government in a manner not consistent with the consent of the data owner, it was widely believed that there was no recourse in the courts by the data owner for damages against the government, since such an action ordinarily was grounded in tort. However, in 1963, in *Padbloc Co. v. United States*,²¹ the Court of Claims found the government liable in damages for breach of an implied contract, which contract was found to have been created on disclosure of technical data by Padbloc to the government. Padbloc had worked for several years to develop an effective technique for packaging napalm bombs. Padbloc had discussed this new packaging technique with the government in the hope of interesting the government in utilizing the technique in specifications. The technical data consisted of certain proprietary information and "know-how." When the discussions had reached a certain point, and after there had been some testing of the packaging, Padbloc submitted a letter to the government setting forth an understanding of an agreement with the government covering the use of the technical data. Padbloc was to turn over the data and the government was then to amend its specifications to require use of the Padbloc technique. After 104,000 packages were sold, Padbloc was to grant the government a royalty-free license. In reply to Padbloc's letter, the government requested that the data be turned over. But instead of following through on the

claim against the United States founded either upon the Constitution, or any Act of Congress, or any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in tort.

Nothing herein shall be construed to give the Court of Claims jurisdiction in suits against, or founded on actions of, the Tennessee Valley Authority, nor to amend or modify the provisions of the Tennessee Valley Authority Act of 1933, as amended, with respect to suits by or against the Authority.

²⁰ *United States v. Minnesota Mut. Inv. Co.*, 271 U.S. 212 (1926); *Department of Water & Power v. United States*, 105 Ct. Cl. 72, 62 F. Supp. 938 (1945).

²¹ 137 U.S. Pat. Q. 224 (Ct. Cl. No. 523-57, 1963).

"understanding," the government then released the data for use by industry. The court found that the government had, by its conduct and action, assented to the Padbloc letter and had thus created a contract implied in fact.²²

It is pertinent to note at this point the similarity between this situation and that involving prospective subcontractors and prime contractors prior to submission of a bid. This is an awkward area for the parties involved, since the prospective subcontractor may make data disclosure to a prospective prime contractor in contemplation of joining him in performance of a government contract. If adequate precautions are not taken by both parties, and if it later develops that the prime contractor, upon receiving the award, is unable or unwilling to use the subcontractor, a serious question is created as to what, if any, data initially turned over by the subcontractor can be used by the prime contractor. A prudent concern contemplating a possible relationship with another company in a pending procurement, either as prime or sub, should be careful to define with particularity the specific parts of the submitted technical data which are considered proprietary. In addition, there should be a clear agreement on the use of the data in contemplation of a condition of the relationship between the parties or a discontinuance of that relationship. In any event, it appears that under the Tucker Act, there is a possibility of action being taken against the government for damages for unauthorized disclosure of technical data. This author knows of no other cases in which this theory has been followed. It does not appear that the facts of the *Padbloc* case are typical of the ordinary unauthorized data disclosure case.

Another statute which warrants some mention is a penal statute,²³

²² A long-term trend in the modern law of contracts supports our finding of a binding promise by defendant—not to use plaintiff's drawings and information, for general purposes, until the required 104,000 bombs had been procured—in the plaintiff's letter of May 28th and the Government's response of June 7th. That trend looks toward holding, if justice so requires, one whose promissory words have induced significant action in reliance (even though there be no technical consideration in the narrow sense). Feeding both that development and the parallel readiness of present day courts to infer an unexpressed promise from the total situation is the root conception that justified expectations arising from consensual transactions should normally be satisfied by the law—particularly in business contexts. Here, as we have said, plaintiff justifiably assumed that its confidence would not be violated and that the defendant would respect the limitations clearly placed on the use of plaintiff's drawings and other material. The contemporary rules of contract law permit that reasonable expectation to be fulfilled. *Id.* at 228.

²³ 18 U.S.C. § 1905 (1958) provides:

Whoever, being an officer or employee of the United States or of any department or agency thereof, publishes, divulges, discloses, or makes known in any manner or to any extent not authorized by law any information coming to him in the course of his employment or official duties or by reason of any examina-

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which makes an employee of the government criminally liable for unauthorized disclosure of confidential information which comes to him in the course of his employment or official duties. This writer knows of no such action having been filed against a government employee for unauthorized disclosure of proprietary data for use in a government contract. However, there does not appear to be any limitation in the statute which would preclude such an action.

REMEDIES IN THE GENERAL ACCOUNTING OFFICE

Is the data owner restricted to action in the courts or are there any other available remedies that offer effective relief? In this area, the General Accounting Office has furnished an avenue of relief which, when promptly utilized, has been most effective. The Comptroller General²⁴ held in the *Gayston* case²⁵ that the government could not proceed with an invitation for bids in which data would have been disclosed without authorization. In this case, the government had obtained technical data from Gayston under conditions which indicated that the government had agreed not to use the data without consent. When a protest was made by Gayston, the Comptroller General directed that the invitation for bids be cancelled. It was held that the government had no right to utilize Gayston's technical data without its consent. This decision has been followed by other decisions of the Comptroller General.²⁶ These cases highlight a fascinating area in government contract law. They illustrate the power available to the Comptroller General to render practical relief where the circumstances so warrant it and where there is no statutory limitation. However, the Comptroller General has stated that he would order cancellation of pending invitations for bids only if the data owner protests against unauthorized use of his data before an award is made. In the *Gayston* case, which was rendered by the Comptroller General prior to the Court of Claims decision in *Padbloc*, the Comptroller General had expressed by way of dicta that the government probably would have

tion or investigation made by, or return, report or record made to or filed with, such department or agency or officer or employee thereof, which information concerns or relates to the trade secrets, processes, operations, style of work, or apparatus, or to the identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, corporation, or association; or permits any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; shall be fined not more than \$1,000, or imprisoned not more than one year, or both; and shall be removed from office or employment.

²⁴ The Comptroller General of the United States is the head of the General Accounting Office.

²⁵ Comp. Gen. Dec. No. B-143711 (Dec. 1960).

²⁶ Comp. Gen. Dec. No. B-149295 (Sept. 1962); Comp. Gen. Dec. No. B-150369 (Aug. 1963).

had no liability to the data owner if the invitation for bids had resulted in an award.

The Comptroller General has become somewhat reluctant to order cancellation of contracts as a result of the experience in *Reiner & Co. v. United States*.²⁷ However, this reluctance might be overcome in a proper case in view of the *Padbloc* decision. Further, ASPR 3-506.1 directs that data submitted thereunder with the required restrictive legend "shall not be disclosed outside the Government without the written permission of the offeror."²⁸ Since the rule of *Christian & Associates v. United States*²⁹ has in effect elevated the Armed Services Procurement Regulation to the force and effect of law, it may be argued that a contract awarded in derogation of ASPR 3-506.1 is defective. If this is so, the contract could be cancelled without liability to the contractor if he had knowledge of the confidentiality of the data, either from legends in the data or by direct notice from the data owner. If the contract is void or voidable, the government's only liability to the contractor in the event of a cancellation would be for the value of the benefits actually received.³⁰

The General Accounting Office has exhibited a willingness to protect the rights of the technical data owner. It is the writer's hope that the General Accounting Office will extend the mantle of its protection even after award if the data owner was not negligent in not acting earlier.

REMEDIES AGAINST THE USER

We have reviewed the remedies against the government that might be available to the data owner. Are there remedies available directly against the unauthorized using contractor? In the writer's judgment, yes—but it will not be easy. Suppose we had a situation similar to that in *Padbloc*, where two private companies are thinking of joining together on a team bid or a prime-sub relationship in a pending government procurement. Suppose that the data owner furnishes to the other private company certain technical data subject to the condition, either by a transmittal letter or by restrictive legends marked on the data, that the data was not to be used without the consent of the data owner. Suppose further that it is in fact used without authorization despite the restriction. We have seen that in *Padbloc*, the data owner was able to recover damages on an implied in fact contract theory, thereby vesting jurisdiction in the Court of Claims under the Tucker

²⁷ 325 F.2d 438 (Ct. Cl. 1963). In this case, the Comptroller General had ordered the government to cancel a contract. The Court of Claims found that the contract had been valid and that cancellation was a breach of contract entitling Reiner to damages.

²⁸ ASPR § 3-506.1 (March 1964).

²⁹ 312 F.2d 418 (Ct. Cl. 1963).

³⁰ *United States v. Mississippi Valley Generating Co.*, 364 U.S. 520 (1960).

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Act. Between two private parties, breach of a confidential disclosure clearly is a tort, and, ordinarily, the aggrieved party, the data owner, would have a right both to enjoin the continuance of the tort and to secure damages. The usual measure of damages would be based both on the reasonable profits that, but for the disclosure, might have been made by the data owner and on the detriment to the data owner flowing from the disclosure. This author cannot find any logical argument why, simply because the use is in connection with a government contract, a similar action would not lie, either in a federal or state court, directly against the contractor guilty of an unauthorized use of technical data. Unlike the situation involving patents under 28 U.S.C. § 1498,³¹ the unauthorized data user is not protected under the present law from a direct action against him by the aggrieved party.

The more difficult question is whether an injunction can be secured against the unauthorized user who is a government contractor. The writer knows of only one case in which this issue arose.³² This case involved four parties—the government, the prime, the sub, and the owner of the technical data, who was a supplier to the sub. A supplier of a component furnished proprietary data with that component to a subcontractor who, in turn, was to place it in a system to be furnished the prime for use in a government contract. The purchase order between the subcontractor and the supplier did not authorize disclosure of that data by the sub to the prime and thence to the government. The data, when it was turned over to the prime by the sub, did not contain any restrictive legend, nor did it otherwise disclose to the prime that the data was considered confidential. Indeed, the prime's purchase order with the sub clearly stated that no proprietary data was to be furnished by the sub to the prime. However, there was data turned over by the data owner (the supplier) to the sub which was in fact proprietary. The supplier-data owner then filed an action seeking both an injunction and damages against the prime and the sub. A temporary injunction was granted against both contractors. The fact that an injunction was granted even against the prime is significant, for the prime had no knowledge of the confidentiality of the data. This matter did not go to final decision, for the case was settled with damages paid to the supplier. Thus, one can only speculate as to whether a permanent injunction could have been secured against both the prime and the sub. This case does, however, illustrate that there is a very real remedy that the data owner possesses in the event of unauthorized disclosure of data which falls within the trade secret category. However, the writer doubts that the

³¹ 28 U.S.C. § 1498 (Supp. V, 1964).

³² This is based on the author's personal knowledge. The facts of this case are not of public record.

court would have granted an injunction had the government intervened and stressed the urgency of the government procurement.³³ But it would seem quite clear that this argument would not relieve the unauthorized using contractor of liability for damages.

CONCLUSION

Let us summarize the rights and remedies of the data owner. What is ordinarily considered proprietary or limited rights data is protectible as a trade secret against unauthorized disclosure, since the data has both confidentiality and value. If the government is the unauthorized user, action will not lie in the courts unless a contract implied in fact that would support jurisdiction in the Court of Claims under the Tucker Act can be established. In the ordinary case, this would not be an easy task. However, there is a practical remedy available in the General Accounting Office, providing a protest is made of the unauthorized disclosure prior to award. After award, it is likely that the General Accounting Office would not authorize cancellation, although, given the *Padbloc* decision, this possibility still exists. If a contractor is the unauthorized user, the data owner has a cause of action against the user for breach of confidential disclosure. An essential element of such a cause of action is proof that the using party was aware of the confidentiality of the data. It is not clear whether the courts would grant an injunction against a private user, although, in an appropriate case, such a remedy is not improbable.

This is an area that has unresolved questions. Creative industry is increasingly concerned with protection of its data rights. Rights of the data owner when unauthorized disclosure occurs are more extensive than is generally supposed. However, it is a typical paradox of government contract law that unpatented information receives broader protection than does patented information.

³³ See *Space Aero Prods. Co. v. R.E. Darling, Inc.*, 208 A.2d 74 (Md. 1965).