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FEATURE COMMENT: ASBCA Issues Wake-Up Call About The Dire Consequences Of Failing To Report Subject Inventions

The Armed Services Board of Contract Appeals' recent decision in *Campbell Plastics Eng. & Mfg., Inc.*, ASBCA 53319, 2003 WL 1518313 (Mar. 18, 2003), 45 GC ¶ 146, underscores the dire consequences that can result when a contractor fails to timely report inventions conceived or first reduced to practice under a Government contract or other funding agreement. From a legal perspective, there is nothing surprising about the ruling; the Board simply gave careful effect to the clear language of the governing statute (35 USC § 202) and the patent rights clause (FAR 52.227-11 (Short Form) (June 1989)). Yet many companies are not adequately aware of the reporting requirements and their consequences, and give insufficient attention to monitoring and reporting procedures. The key lessons are that a forfeiture of patent title can occur notwithstanding the Government's actual awareness of the technology or the lack of any prejudice from the contractor's failure to comply strictly with formal reporting requirements. The Board's conclusion as to the required content of the disclosure, and its review of the Army's exercise of discretion in assuming title are also noteworthy.

The Campbell Plastics Case—In 1992, the Army awarded Campbell Plastics (then called Venture Plastics) a cost-reimbursement contract to provide tooling and components for air crew protective masks through the small disadvantaged business program. The contract contained the FAR Patent Rights clause, which implements the statutory policy at 35 USC § 202. Under this policy, the con-

tractor retains title to inventions conceived or first actually reduced to practice in performing the contract, while the Government obtains a worldwide, royalty-free license under any resulting patent.

Campbell performed from 1992 through at least 1997. During this period, Campbell investigated and employed sonic welding to join mask components, a technique which proved to have advantages over alternatives and was ultimately adopted for use in producing masks for the Army. Campbell filed numerous progress reports, many of which described the investigation of sonic welding. In 1995 and 1997, the Army published articles on mask development that discussed ultrasonic welding, thus demonstrating awareness and considerable understanding of the significance of the technology. Campbell also filed several Reports of Subject Invention and Subcontract (DD Form 882), which reported "no inventions."

In 1997, Campbell determined that the sonic welding technique had patent potential, and engaged a patent attorney to prepare an application. As required by the statute and the patent rights clause, the application duly noted the use of Government funding and Government license rights that would pertain to a resulting patent. As required where the Government has a property interest in a patent application, the Patent & Trademark Office consulted the Government sponsor (the Army) to determine whether the application would be withheld from publication under a secrecy order for national security reasons. See 35 USC § 181. Secrecy was not imposed, and a patent issued in 1999. The patent contained the requisite notice of Government funding and Government license rights. Campbell informed the Army about the patent and the Government's license rights. However, the Contracting Officer noted that the invention had not been timely disclosed on a DD Form 882 and issued a final decision exercising the Government's right under the patent clause to as-

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sume title. Campbell then appealed to the Board.

Actual Knowledge and Lack of Prejudice Do Not Preclude Forfeiture—Campbell’s argument revolved around two contentions. First, Campbell maintained that the technology was in fact disclosed to the Army in considerable detail, *e.g.*, through progress reports, albeit not using the prescribed subject invention form. From the company’s perspective, its error was one of form rather than substance. Second, Campbell argued that the law disfavors the “draconian” remedy of forfeiture, and that the patent rights clause should not be construed to authorize that remedy where the disclosure was flawed in form but not in substance.

These arguments were to no avail. Regarding the disclosure, the Board found that Campbell had not attempted to conceal the development of the sonic welding technique, and indeed reported on it repeatedly. Further, the Army gained a considerable understanding of the technology and indeed published articles referring to it. Yet, in the Board’s view, the disclosure was not merely flawed in form; the decisive omission was the failure to identify the sonic welding technique as an *invention*. Although the Board did not elaborate, the contractor’s use of the term “invention” would signify that the discovery is recognized as potentially meeting the criteria for patentability, including novelty and nonobviousness. *See* FAR 27.301 (definition of “invention”).

The Board also acknowledged the harshness of forfeiture, but found that it was clearly authorized by statute and in the clause. Thus there was no room for a narrowing construction.

It bears note that the failure to timely disclose the invention did not result in any apparent prejudice to the Army. The patent application was successful and the Army received the full benefit of the license when the patent issued.

Why exercise the discretionary right to assume title?—One of the more intriguing aspects of the *Campbell* decision is the Board’s consideration of abuse of discretion. The Board noted that forfeiture is not automatic; the statute provides that the Government “may” elect a forfeiture. Therefore an exercise of decision-making discretion by the CO is unavoidable. Although Campbell had not argued abuse of discretion, the Board chose to consider whether discretion had been abused. The Board

noted that good faith is presumed in the absence of concrete evidence to the contrary. It then examined whether the CO “had a reasonable, contract-related basis supporting the decision.” The Board concluded that that he did, solely because the statutory right to assume title is clear where the contractor fails to file the required invention report.

But in my view the existence of the statutory right merely shows that the CO did in fact have discretion; it does not demonstrate whether the exercise of that discretion was reasonable or arbitrary. It is impossible to assess whether a decision is abusive or arbitrary without knowing the CO’s reason for the decision. But no rationale is mentioned in the Board’s ruling.

One could reasonably ask, what benefit would the Government receive by exercising this right, that it did not already enjoy under the license? There really is no additional benefit with respect to the use of the technology for U.S. defense purposes, since the license already gives the Government the worldwide royalty-free right to practice the patent. This includes the right to authorize third parties to practice the patent for Government purposes, for example, by establishing a second or third manufacturing source for the masks. Nor is the license limited to the Army or to DOD. Thus, for example, if there were homeland defense applications for masks employing sonic welding, other agencies might also benefit. The patent itself gives notice of the Government rights, so no royalty would be payable to Campbell (and potentially passed through to the Government) for masks supplied to the Government. The only real practical difference between ownership and license, then, would arise with respect to non-U.S. Government sales. As patent owner, the Government could potentially derive some royalty income from third parties wishing to license the patented technology. But is this really a business in which DOD wishes to involve itself, or which DOD is equipped to exploit effectively? A private patent owner has the ability and profit motive to develop commercial applications and/or to find business partner/licensees to do so. Commercial exploitation may be slowed or halted by placing ownership in govern-

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ment hands, with little or nothing in the way of countervailing benefit.

Clearly, current Government intellectual property policy, notably including the guidance issued by the Undersecretary of Defense for Acquisition, Technology, & Logistics, is strongly in favor of leveraging commercial technology to the maximum extent feasible, to increase effectiveness and lower cost. OUSD/ATL, *Navigating Through Commercial Waters: Issues & Solutions When Negotiating Intellectual Property with Commercial Companies*, October 2001, (<http://www.acq.osd.mil/ar/resources.htm>). This policy, which contrasts dramatically with past approaches, recognizes that DOD does not necessarily need to own IP in order to meet its technological and cost objectives; indeed, a “we have to own it” mentality may be an *obstacle* to meeting those objectives. One would hope that COs would not view the patent forfeiture provision as a right to be exercised automatically, but rather only if there are concrete benefits that can be identified and articulated.

Lessons Learned—Contractors, however, cannot afford to rely on the hope that COs will exercise their discretion in the contractor’s favor. They need to implement careful internal procedures to document engineering work associated with Government contracts, to ensure timely review by IP counsel to determine whether there are reportable inventions, and then to report timely and accurately. A balance must be drawn between over-reporting of numerous minor design changes that have little patent potential, and failing to report innovations that turn out to be patentable. The *Campbell* decision is fair warning that, in a close case, one should err on the side of inclusion.



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