



## **In Case of First Impression, Federal Circuit Rules That Contractor Forfeited Patent Rights: *Highlights Need to Establish and Implement IP Policies***

Intellectual Property, Patents and Government Contracts Practices

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Title to a U.S. patent was recently stripped from a government contractor for failing to fully and timely disclose the invention to the Army. On November 10, 2004, the U.S. Court of Appeals for the Federal Circuit (CAFC) affirmed a decision by the Armed Services Board of Contract Appeals ("ASBCA") by upholding an administrative officer's demand for title to the invention under 48 C.F.R. §52.227-11 ("FAR 52.227-11").<sup>1</sup>

FAR 52.227-11 requires a contractor to disclose any "subject invention" developed pursuant to a government contract and sets forth certain substantive requirements for doing so. It also provides that the government may obtain title if the contractor fails to disclose the invention within two months from the date upon which the inventor discloses it in writing to contractor personnel responsible for patent matters.

This case highlights just one reason why it is imperative for government contractors to establish and adhere to effective Intellectual Property (IP) policies. As this case evidences, failure to do so can result in a severe loss of rights. As detailed below, other adverse consequences can result from failing to adopt and adhere to effective IP policies.

### **Factual Background**

On September 25, 1992, Campbell Plastics Engineering & Manufacturing Inc. ("Campbell") contracted with the Army to develop components for aircrew protective masks. The contract incorporated the FAR 52.227-11 disclosure obligations. This provision requires a contractor to disclose any "subject invention" to the government agency "in the form of a written report and shall identify the contract under which the invention was made and the inventor(s)." This disclosure must be made within two months from the date upon which the inventor discloses it in writing to contractor personnel responsible for patent matters. The contract specifically required that the invention reports be made on DD Form 882, which requires additional information beyond the scope of FAR 52.227-11.<sup>2</sup>

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<sup>1</sup> FAR 52.227-11 arises from the 1980 Bayh-Dole Act, 35 U.S.C. § 200-212, under which nonprofit organizations and small business firms are allowed to retain title to any "subject invention" that they develop pursuant to a government contract. According to that statute, each contract entered into pursuant to the statute must contain provisions that require the contractor to "disclose each subject invention to the Federal agency within a reasonable time after it becomes known to the contractor personnel responsible for the administration of patent matters, and that the Federal Government may receive title to any subject invention not disclosed to it within such time." A "subject invention" is defined as an invention that is first conceived or reduced to practice in connection with a government contract.

<sup>2</sup> For example, DD Form 882 also requires the contractor to disclose the patent or application number, an election of whether it will file foreign patent applications, and if so, the countries and other information.

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Over several years, Campbell made regular progress reports on the development and testing of the protective masks and certain sonic welding techniques that were developed for use on the masks. On three occasions, October 11, 1992, October 6, 1993 and September 15, 1994, Campbell submitted DD Form 882 to the Army indicating that no inventions had been developed. Through November 1995, however, Campbell still continued to provide progress reports to the Army, including information on changes to the technology and the testing done on the sonic welding process. By June 1997, the Army was provided an enabling disclosure of the invention through Campbell's piece-meal submission of progress reports. However, no DD Form 882 was ever submitted to provide notice of a patentable invention, the details of what was deemed patentable, or the other information required by DD Form 882.

In August 1997, Campbell contacted a patent attorney who soon after drafted a patent application for a "Sonic Welded Gas Mask and Process." This application was filed with the United States Patent and Trademark Office (PTO) on October 9, 1997. As is routinely done for these types of patent applications, the Patent Office provided a copy of the patent application to the Army on January 30, 1998 for the limited purpose of making a secrecy determination. On April 20, 1999 U.S. Patent 5,895,537 was issued to Campbell for a "Sonic Welded Gas Mask and Process." Campbell notified the Army in writing of the patent on April 28, 1999.

### **Procedural History**

After the Army claimed joint ownership to the invention, an Administrative Contracting Officer ("ACO") concluded that Campbell had forfeited title to the patent by failing to comply with the Section 52.227-11.

On appeal, the ASBCA upheld the ACO's demand for title to the invention. Campbell appealed. The CAFC affirmed. (Campbell Plastics Engineering & Manufacturing Inc. v. Brownlee, Fed. Cir., No. 03-1512, 11/10/04).

### **Legal Standard**

The inventions to which FAR 52.227-11 applies are inventions:

- i) made by the contractor;
- ii) that is or may be patentable; and
- iii) were conceived or first actually reduced to practice in performance of work under the contract.

The government can claim title to such inventions if the contractor failed to disclose the technical aspects of the invention, the inventor, and the contract under which the invention was developed, within two months of disclosing the invention to contractor personnel responsible for patent matters.

## **Campbell's Arguments**

Campbell advanced four arguments in support of its attempt to retain title. It argued:

- i) the disclosure requirement was fulfilled by its submissions;
- ii) the disclosure requirements are procedural, not substantive;
- iii) the government learned of the invention through other means; and
- iv) the forfeiture penalty was not warranted because the government was not harmed.

The CAFC rejected each of these arguments and held that Campbell's obligations under the contract were clear and unambiguous. It further found that the contract afforded the government the opportunity to take title to inventions for which proper and timely disclosure was not made.

## **The Court's Rational**

### Campbell's Disclosure Argument Rejected

The Federal Circuit was not persuaded by Campbell's contention that, through various progress reports and drawings submitted to the Army, it continually disclosed all features of its invention throughout the contractual period. The Federal Circuit held that the contract requirement of a single, easily identified form on which to disclose inventions is sound and needs to be strictly enforced. It stated:

*If we were to find Campbell Plastics's style of disclosure sufficient, methods of disclosure could vary widely from case to case. The government never would be sure of which piece of paper, or which oral statement, might be part of an overall invention disclosure. But we do not so find. The contract instead demands a single form for disclosure, which enables the contracting officials to direct the inventive aspects of the contract performance to the correct personnel in the agency for a determination of whether the government has an interest in the disclosed invention, and for the government to determine how best to protect its interest. Sound policy is promoted by the rule of strict compliance with the method of disclosure demanded by the contract.*<sup>3</sup>

### Campbell's Timing Argument Rejected

The Federal Circuit rejected Campbell's argument that the disclosure requirement refers only to the timing of the disclosure, not its substance. Under that interpretation, the Court noted that Campbell could disclose anything under the sun, in any form, and still avoid forfeiture; so long as it did so within two months of disclosing the subject invention to its personnel responsible for patent matters.

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<sup>3</sup> The CAFC stated that this plain-meaning interpretation of the contract is consistent with the Bayh-Dole Act's policy of providing the government with certain rights to inventions and safeguarding those rights by requiring government contractors to disclose subject inventions. A single, written report containing the information required by FAR 52.227-11(c)(1) effectively provides such a safeguard.

Government's Knowledge of Invention through Other Means

The court rejected Campbell's argument that its disclosure obligations were satisfied by the government's possession of an enabling disclosure of the subject invention by June 1997, and by its later review of the patent application for secrecy determination purposes. The Court stressed that whatever information the government had regarding the patent application, it was not received from Campbell in the form of a proper invention disclosure. Rather, it received such information from the Patent Office.

Forfeiture

The Federal Circuit likewise dismissed Campbell's reliance on the principle that "forfeiture" is disfavored at common law. The Federal Circuit noted that Campbell cannot use this proposition as a shield to protect against the government's right to enforce the terms of the contract that Campbell willingly signed.

Discretion Was Not Abused Even if There Was No Harm

Finally, the court rejected Campbell's argument that the ACO abused his discretion by demanding title in circumstances where the government allegedly suffered no harm. The Federal Circuit agreed that FAR 52.227-11(d) vests discretion in the government in determining whether to invoke forfeiture when an invention has not been properly disclosed to it. Moreover, the Court held that harm to the government is not a requirement in order for the ACO to insist on forfeiture and remain within the bounds of sound discretion.

**Summary**

The court concluded that the reasons for these requirements are clear. The disclosure provisions of Section 202(c)(1) provide the government adequate means to protect its right under Section 202(c)(4) to a paid-up license to practice the invention when the contractor elects to retain title, and its rights under Section 202(c)(3) to receive title to the invention in the United States or any other country in which the contractor has not filed a patent application on the invention prior to any pertinent statutory bar date.

Why IP Policies are Necessary for Government Contractors

This case demonstrates one significant example of why the failure of government contractors to adopt and implement effective IP policies can be devastating. But the loss of title to the patent encountered here is just one example of the adverse consequences that may result from the failure to do so. Other examples of IP issues that need attention by contractors include the following:

1. A "subject invention" covers technology that is either first conceived or **actually** reduced to practice under the contract. Therefore, filing a patent application as a **constructive** reduction to practice before entering into a government contract, does not exempt a contractor from patent notice obligations under FAR. Nor does it prevent the government from obtaining certain patent rights in that earlier filed application.

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2. If a contractor fails to timely file a patent application for a “subject invention” the government can step in and file a patent application.
3. Even if proper notice of invention is given to the government, if a contractor waits too long to file a patent application, such delay may cause the right to file to be irrevocably lost.
4. Patent rights, Rights in Technical Data (“Data”) and Rights in Computer Software (“Software”) are each treated differently under the FAR. Different steps may be necessary to adequately protect each of these classes of valuable rights.
5. Proper record keeping and timely assessment of when an invention is conceived and actually reduced to practice can minimize the rights the government may obtain to your Patents, Data and Software.
6. Various steps can be taken to limit the scope of any license the government may obtain for work done pursuant to a government contract. The types of licenses include a limited license, a government purpose license and an unlimited license. It is obviously best to avoid the unlimited license. By careful definition, even the government purpose license can be narrowed. If a product embodying an invention can properly be classified as a “commercial item” the broadest rights may be retained by the contractor.
7. In some cases, the government license rights in a single item can be severed. For example, if part of the invention relates to a commercial item and part was developed pursuant to the government contract, different government license rights can attach to the “severed” parts.
8. Proper marking of Data and Software before delivery to the government is a must. If the Data or Software is deemed proprietary, additional marking requirements must be followed. The proper form of marking is essential.
9. The foregoing are illustrative examples only. IP rights may be impacted in many other ways. For this reason, a comprehensive IP policy is necessary.

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If you would like additional information on this topic or on how to establish and implement an IP Policy please contact James G. Gatto at [jgatto@pillsburywinthrop.com](mailto:jgatto@pillsburywinthrop.com) or 703.905.2000. Mr. Gatto is a partner in Pillsbury Winthrop's Intellectual Property practice and has worked with numerous government contractors on IP issues. This advisory was prepared with assistance from Danielle Avolio, an Associate in Pillsbury Winthrop's Intellectual Property practice.

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