

THE GOVERNMENT CONTRACTOR®



Information and Analysis on Legal Aspects of Procurement

Vol. 46, No. 44

November 24, 2004

Focus

¶ 457

FEATURE COMMENT: Federal Circuit Upholds Patent Forfeiture For Failure To Comply Strictly With Reporting Requirement, Despite Lack Of Prejudice

The Federal Circuit has now issued its first-ever decision reviewing a Contracting Officer's decision to impose a patent forfeiture. *Campbell Plastics Engineering & Mfg., Inc. v. Brownlee*, 03-1512 (Fed. Cir., Nov. 10, 2004), *affing Campbell Plastics Engineering & Mfg., Inc.*, ASBCA 53319, March 18, 2003. In so doing, the Court construed the contractor's reporting obligation strictly. The Court also established that the Government's discretion to claim ownership in the event of the contractor's noncompliance is close to unfettered.

The Campbell Plastics Case—Campbell Plastics (formerly known as Venture Plastics) had a cost-reimbursement contract under the Army's small disadvantaged business program to provide components for air crew protective masks. Under the Bayh-Dole Act, 35 USCA § 202, the contractor retains title to inventions conceived or first actually reduced to practice in performing a federal contract, while the Government obtains a worldwide, royalty-free license under any resulting patent. The contract implemented this statutory policy with the Federal Acquisition Regulation Patent Rights clause, 52.227-11.

From 1992 through 1997, Campbell experimented with sonic welding as a means to join mask components. Campbell later used this technique to produce masks for the Army. Several of Campbell's many progress reports to the Army

described evaluation of sonic welding. However, its Reports of Subject Invention and Subcontract (DD Form 882) reported "no inventions." Nevertheless, the Army apparently was well aware of and understood the significance of the method, since it published articles in 1995 and 1997 that discussed ultrasonic welding of mask components.

In 1997, Campbell prepared a patent application disclosing the sonic welding technique. This application included the endorsement specified by the patent rights clause, which acknowledges the use of Government funding under the contract and the Government's license rights in any resulting patent. A patent was issued in 1999, whose specification incorporated the requisite notice of Government funding and Government license rights. Campbell informed the Army of the patent and the Government's license rights. However, the CO noted that the invention had not been reported on a DD Form 882, and exercised the Government's right under the patent clause to assume title.

The Armed Services Board of Contract Appeals upheld the forfeiture, holding that that action was authorized by the patent statute and the patent rights clause of the contract. The CO's decision was found not to be an abuse of discretion, although there was no finding that the contractor's error had caused harm or that the forfeiture would serve a purpose. See 45 GC ¶ 149.

The Federal Circuit Decision—On appeal to the Federal Circuit, Campbell argued that the failure to report the invention on the DD 882 form was inconsequential. The Government had been informed of the invention by other means, the patent application acknowledged the Government's license rights, and no harm resulted from the failure to report on the prescribed form. The Court was unpersuaded. Since the contract specified the form to be used, any other form of disclosure did not meet the requirement and could not preclude forfeiture. Moreover, prejudice to the Government was not a prerequisite for exercising the forfeiture option.

The Appellant further contended that, even if a basis for forfeiture existed, the CO abused his discretion in ordering it. The Court held that the CO's exercise of discretion as to patent forfeiture is measured by four factors enunciated in *McDonnell Douglas Corp., v. U.S.*, 182 F.3d 1319, 1326 (Fed. Cir. 1999) (citing *United States Fid. & Guar. Col. v. U.S.*, 676 F.2d 622, 630 (Ct. Cl. 1982)): (1) evidence of whether the Government official acted with subjective bad faith; (2) whether the official had a reasonable, contract-related basis for his decision; (3) the amount of discretion given to the official; and (4) whether the official violated a statute or regulation.

As applied in this case, this is a decidedly lenient standard, even as compared with other deferential standards, such as that applied by the Government Accountability Office in bid protest cases or the "abuse of discretion" standard applied in judging agency action under the Administrative Procedure Act, 5 USCA § 706(2)(A). The first factor, bad faith, is an extraordinary occurrence (one hopes) and notoriously difficult to prove. Factors (3) and (4) really address whether the decision was within the discretionary realm to begin with, and do not examine whether the discretion was soundly exercised. Only factor (2) offers potential for any level of substantive review of the decisionmaker's rationale for the remedy. If "reasonable, contract-related basis," merely means that the contract makes the decision discretionary, it begs the question of the reasons for the decision. If it means instead that there must be some reasonable, articulated rationale for the decision to forfeit, then that entails some substantive review, albeit appropriately deferential.

But the latter type of review appears not to have occurred in *Campbell Plastics*, since neither the ASBCA nor the Federal Circuit decision mentions, much less evaluates, what the CO thought would be achieved by the forfeiture. The Federal Circuit decision states that the Government thought the lack of timely notice jeopardized foreign patent rights, but does not assert that a forfeiture would remedy this. Indeed, under the patent clause, the Government has march-in rights for foreign applications even if the contractor retains ownership of the U.S. patent. Moreover, the decision strongly suggests that the result would have been the same regardless of any effect on for-

feign filings, since the Court held that prejudice is not a requirement.

This scenario contrasts with the *McDonnell Douglas* case, cited by the Court for the abuse of discretion standard. That case challenged a default termination. The fact that the Government had something substantial to gain from the decision was obvious, since its recovery under a default termination would be far higher than in a termination for convenience.

The question whether the contractor's error (failure to report on the proper form) caused harm is distinct from the question whether the chosen consequence (forfeiture) will accomplish anything. Such a benefit might be a reversal or mitigation of the harm (if any occurred) or it could be some affirmative benefit, such as an enhanced ability to exploit the patent, or a prospect of royalties. As noted above, there was no showing that the forfeiture would mitigate any demonstrated harm. Nor did the Board or the Federal Circuit articulate a benefit that was intended or would be achieved by the forfeiture. The Government would not gain any benefit with respect to its own use of the patented technology, because it already had a worldwide, royalty-free, perpetual license to practice the patent, including the right to sublicense contractors to use it in supplying the Government. Thus, ownership would only confer a theoretical benefit in the commercial market. But does the Department of Defense have any intent, much less the necessary resources and marketing plan, to do that? Or would the market be better served by leaving ownership in the innovator's hands, at least in a case where there is no evidence that the contractor tried to conceal its invention or prevent the Government from enjoying its broad license rights?

A Cautionary Tale—The lesson of *Campbell Plastics* is that a contractor engaged in development must assume the worst: (1) that the Government will elect patent ownership if given the opportunity; and (2) that there is scant chance of overturning that decision, regardless of the circumstances. The contractor must have a reliable internal system for identifying potential inventions and assessing whether they are subject inventions and therefore reportable. In cases of doubt, it may be prudent to err on the side of re-

porting. Finally, care should be taken to determine whether the contract or applicable agency regulations specify a particular reporting form, and to use it.



This Feature Comment was written for THE GOVERNMENT CONTRACTOR by Dave Burgett, a partner in the government contracts and intellectual property practices of Hogan & Hartson LLP, resident in the firm's Washington office. He is a former chair of the Federal Bar Association's Government Contracts Section. His practice focuses on government and commercial technology transactions and associated intellectual property rights.