

IP AND GOVERNMENT CONTRACTS UPDATE

Government Obtains Perpetual Royalty-free License Merely by Funding First Reduction to Practice of One Element of Claimed Invention

In a recent decision of the Court of Federal Claims, an inventor learned the hard way that prior conception, constructive reduction to practice, and patent applications are not enough to prevent the inadvertent conveyance to the federal government of a perpetual royalty-free license under a later demonstration contract. While not breaking new ground in the law of government contracts and intellectual property, *Pilley v. United States*, No. 05-382C (COFC Nov. 30, 2006), underscores the fact that customary steps to protect IP rights against commercial competitors are insufficient when the government becomes involved. It also illustrates that rights may be unintentionally conveyed even when the amount of government funding is modest or received at a relatively late stage of the development process.

The inventor held several U.S. patents for means and methods for ground and air traffic guidance for collision avoidance at airports, employing a global positioning system (GPS). All of these patents claimed priority to the key patent, for which the application was filed in 1990 and which issued in 1993.

The inventor and his wife were co-owners and principal employees of Deering System Design Consultants, Inc. In November 1992, the Federal Aviation Administration (FAA) awarded Deering a research and development contract to “demonstrate and evaluate [a] GPS-based airport,



navigation, and control system” described in Deering’s contract proposal. This contract contained the standard Patent Rights – Retention by the Contractor clause (FAR 52.227-11), which gives the government a perpetual royalty-free license in “subject inventions.” A subject invention is one conceived or first actually reduced to practice in performing the contract statement of work. The inventor conducted a successful demonstration under the contract in 1993.

In 2005, the inventor sued the United States for a reasonable royalty under 28 U.S.C. § 1498, claiming the government was using its patented inventions without a license. The government asserted the affirmative defense that it had obtained a royalty-free license in the invention under the 1992 FAA demonstration contract.

The Court found that the invention had been conceived before the 1992 contract, and therefore did not qualify as a subject invention by virtue of conception under the contract. It had also been constructively reduced to practice through a patent application, but constructive reduction to practice does not protect against a government license under the patent clause. The key issue was thus when the invention was first *actually* reduced to practice. Claim one of the key patent had six elements. The Court found that each of these was demonstrated and thus actually reduced to practice under the 1992 demonstration contract. However, the inventor had already largely reduced the invention to practice before that government contract. The Court found that a single element—“means associated with the 3-dimensional map for generating airport control and management signals as a function of the vehicle path to control the traffic in an airport”—had not been practiced until the 1992 demonstration. Therefore, the first reduction to practice was completed under the 1992 contract. Even though the government funding supported only the final link in a fairly long chain of R&D, the consequence was a royalty-free government license. The outcome was certainly not what the inventor intended or expected when Deering entered the 1992 contract, since it substantially eliminated the potential U.S. market for the invention.

The lesson for technology innovators is that even government contracts for mere “demonstration,” which the technologist may think of as distinct from and subsequent to “development,” can result in inadvertent royalty-free licensing. Technical and legal analysis of the statement of work and comparison to evidence of prior actual reduction to practice are essential to ensure that revenue opportunities are not inadvertently obliterated.

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