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IP FRONTIERS

Patent rights issues under government R&D contracts

This article will present an overview of some of the issues pertaining to the disposition of patent rights to inventions made under a government R&D contract. As will be seen, without careful adherence to the statutes and regulations governing such patent rights, it is possible for a contractor to unintentionally lose or waive these valuable rights.

In 1980, Congress implemented chapter 18 of 35 United States Code (USC), which is titled "Patent Rights in Inventions Made with Federal Assistance" (the Law). The Law originally applied only to small business firms and nonprofit organizations. However in 1983, President Ronald Reagan issued a "Memorandum on Government Patent Policy" extending the benefits of the Law to all R&D contactors, including large businesses and for-profit organizations.

Among the Law's main policy objectives listed in 35 USC § 200, are:

• "to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition and enterprise without unduly encumbering future research and discovery" and

• "to ensure that the government obtains sufficient rights in federally supported inventions to meet the needs of the government and protect the public against nonuse or unreasonable use of inventions."

Since contractors and the government do not always have the same interests, these policy objectives sometimes conflict with each other.

To balance these objectives, the Law

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states that, under an R&D agreement funded in whole or in part by the federal government (a "funding agreement"), a contractor may elect to retain title to a subject invention, 35 USC § 202 (a). However, upon election of the right to retain title, the government acquires a worldwide, nonexclusive, irrevocable, paid-up (royalty free) license to practice the subject invention for its own purposes, 35 USC § 202 (c) (4).

The license gives the government the right to allow other contractors, including competitors to the contractor, to produce the subject invention for sale to the government. Therefore, potential contractors in a funding agreement must take care to evaluate the benefits of receiving such funds versus the potential loss of market share due to the non-exclusive license of the subject invention to the government.

It is important to note that a subject invention is defined under 35 USC § 201(e) as an invention that is "conceived or first actually reduced to practice" in performance of work under the funding agreement. The filing of a patent application is considered constructive reduction to practice and is not actual reduction to practice. Actual reduction to practice requires a showing of the invention in a physical or tangible form that shows every element of a claim in an application. Wetmore v. Quick, 536 F.2d 937, 942, 190 USPQ 223, 227 (CCPA 1976). See also MPEP 2138.05, titled: "Reduction to Practice."

As a practical matter, when a company is developing a new product, it is not uncommon for multiple patent applications to be filed, and even issued, on the initial concepts of an invention long before the invention is actually reduced to practice. Often, these patent applications are among the broadest in scope and protect the most important aspects of an invention. If the company later enters into a funding agreement with the government and the invention is actually reduced to practice in performance of that agreement, then the government will get a license in those earlier filed patent applications because they fall under the definition of "subject invention."

To enable the right to retain title, 35 USC § 202 (c) (1) requires that the contractor of a funding agreement must disclose each subject invention to the government within a reasonable time (usually two months) after it becomes known to contactor personnel responsible for the administration of patent matters (usually the contactor's patent counsel). Moreover, if the contractor does not disclose a subject invention within such reasonable time, then the government "may" obtain title to the subject invention.

The decision by the government to demand title to a subject invention after a contractor's failure to comply with the disclosure requirements of 35 USC §

202 (c) (1) is a discretionary matter. In a case of first impression on this point, the Federal Circuit held that a contractor's failure to timely identify a unique manufacturing process as a "subject invention" under the applicable patent rights clauses of the funding agreement enabled the government to acquire title to the invention. The Court also held that the decision to insist on forfeiture of title from the contractor was within the bounds of sound discretion, even though the contractor's failure to comply with the reporting requirements caused no harm to the government. Campbell Plastics Engineering & Mfg., Inc. v. Brownlee, 389 F.3d 1243 (Fed. Cir. 2004).

Therefore, it is critical that a contractor strictly comply with all disclosure requirements regarding a potential subject invention in a funding agreement. These disclosure requirements are typically provided by standard Federal Acquisition Regulation (FAR) clauses that are either inserted into the funding agreement or incorporated by reference. Failure to comply with such disclosure requirements means that a contractor risks forfeiting the right to retain title in a subject invention to the government. Further, in some cases, this could mean that a contractor risks forfeiting title to patent applications and/or issued patents that have been filed prior to the funding agreement but first actually reduced to practice during performance of the agreement.

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