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# Intellectual Property: Trade Secrets and the Federal Tort Claims Act/DD Form 882 Over Substance: Caveat Forfeiture

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*IPv6—Say That Three Times Fast!*

Internet protocol version 6 (IPv6), like its predecessor IPv4, is an Internet “addressing mechanism that defines how and where information such as text, voice, and video move across interconnect networks.”<sup>316</sup> Its developers designed it “to increase the amount of available IP [Internet protocol] address space.”<sup>317</sup> While recognizing that “transition is already underway” largely because IPv6 can greatly increase address space, the GAO also cautioned agencies that IPv6 can “introduce additional security risks,” such as unauthorized traffic and more direct access from the Internet.<sup>318</sup> Fortunately, the DOD appears ahead of other agencies in planning for the transition to this updated Internet protocol.<sup>319</sup>

*Who Let the Data Out?*

In July 2005, the GAO strongly criticized the federal government for a general lack of IT security.<sup>320</sup> Using sweeping language, the GAO castigated executive branch agencies for “[p]ervasive weaknesses in . . . information security policies and practices [that] threaten the integrity, confidentiality, and availability of federal information and information systems” and that “put federal operations and assets at risk of fraud, misuse, and destruction.”<sup>321</sup> Though the report acknowledges that “the government is making progress in its implementation of FISMA,” it nonetheless asserts that agency weaknesses “place financial data at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption.”<sup>322</sup> If the IT sky really is falling across the government, at least it’s falling everywhere—the report attributes “pervasive weaknesses” to “24 major agencies.”<sup>323</sup> Unfortunately, the report doesn’t address reactions from those twenty-four agencies to these allegations. However, it does include a two-page letter from the OMB disagreeing with several GAO suggestions for the OMB,<sup>324</sup> as well as a two-page GAO response.<sup>325</sup>

Lieutenant Colonel John J. Siemietkowski

**Intellectual Property**

*Trade Secrets and the Federal Tort Claims Act*

In *Jerome Stevens Pharmaceuticals v. Food & Drug Admin.*,<sup>326</sup> the Court of Appeals for the District of Columbia held that a contractor may sue the federal government for wrongful disclosure of trade secrets under the Federal Tort Claims Act (FTCA).<sup>327</sup> Although *Jerome Stevens* is not the first case to have such a holding,<sup>328</sup> it is the only case disposing of the issue as to whether disclosure of trade secrets is a discretionary function of a federal agency.<sup>329</sup> In the opinion, the court

<sup>316</sup> U.S. GEN. ACCOUNTABILITY OFF., REP. NO. GAO-05-471, *Internet Protocol Version 6: Federal Agencies Need to Plan for Transition and Manage Security Risks* Highlights (May 2005).

<sup>317</sup> *Id.*

<sup>318</sup> *Id.* at What GAO Found.

<sup>319</sup> *Id.*

<sup>320</sup> U.S. GEN. ACCOUNTABILITY OFF., REP. NO. GAO-05-552, INFORMATION SECURITY: WEAKNESSES PERSIST AT FEDERAL AGENCIES DESPITE PROGRESS MADE IN IMPLEMENTING RELATED STATUTORY REQUIREMENTS (JULY 2005).

<sup>321</sup> *Id.* at What GAO Found.

<sup>322</sup> *Id.*

<sup>323</sup> *Id.*

<sup>324</sup> *Id.* at 42-43.

<sup>325</sup> *Id.* at 44-45. The report also includes a list of thirty-two GAO reports since 2002, all generally critical of federal IT security efforts. *Id.* at 47-49.

<sup>326</sup> 402 F.3d 1249 (D.C. Cir. 2005).

<sup>327</sup> 28 U.S.C.S. § 1346 (b) (LEXIS 2005).

<sup>328</sup> See *Kramer v. Secretary, U.S. Dep't of the Army*, 653 F.2d 726 (2d Cir. 1980) (holding that the alleged wrongful disclosure of the name of a subcontractor amounted to an allegation of wrongful misuse of a trade secret, however mislabeled, within the district court's jurisdiction under the Federal Tort Claims Act).

<sup>329</sup> *Jerome Stevens Pharm.*, 402 F.3d at 1252; see Ralph C. Nash & John Cibinic, *Government Disclosure of a Trade Secret: A Tort Claim?*, 9 NASH & CIBINIC REP. 6, 28 (Jun. 2005).

states "[t]he parties appear to agree that the disclosure of trade secrets is not a discretionary function because federal law prohibits it."<sup>330</sup> In addition, the court found that wrongful disclosure of a trade secret did not fall under the intentional tort exception of the FTCA.

The FTCA grants federal district courts jurisdiction over claims arising from certain torts committed by federal employees in the scope of their employment, and waives the government's sovereign immunity from such claims.<sup>331</sup> Two important exceptions to jurisdiction and the waiver of sovereign immunity are relevant here: the discretionary function exception and the intentional tort exception.<sup>332</sup> The discretionary function exception prohibits claims "based upon the exercise or performance or failure to exercise or perform a discretionary function or duty on the part of a federal agency or an employee of the Government, whether or not the discretion, involved is abused."<sup>333</sup> The intentional tort exception prohibits "[a]ny claim arising out of assault, battery, false imprisonment, false arrest, malicious prosecution, abuse of process, libel, slander, misrepresentation, deceit or interference with contract rights."<sup>334</sup>

In *Jerome Stevens*, the court did not ask whether the wrongful disclosure of a trade secret fell within the discretionary function exception. The court simply concluded that the parties seemed to agree that the discretionary function exception did not apply because federal law prohibits disclosing trade secrets.<sup>335</sup>

As for the second exception, the "district court treated [plaintiffs] claims of misappropriation of trade secrets and breach of a confidential relationship as a claim of interference with contract rights,"<sup>336</sup> which the intentional tort exception bars.<sup>337</sup> On appeal, the DC Circuit disagreed finding that the duties underlying such claims are different.<sup>338</sup> Unlike wrongful disclosure of trade secrets, claims regarding intentional interference with contracts involve an economic relationship with a third party.<sup>339</sup> Consequently, the court narrowly construed the intentional tort exception to "those circumstances [that] are within the words and reason of the exception"—no less and no more.<sup>340</sup>

After *Jerome Stevens*, it appears that tort relief is available to contractors when the government misappropriates or wrongfully discloses trade secrets.

#### *DD Form 882 over Substance: Caveat Forfeiture*

In a case of first impression, the CAFC, in *Campbell Plastics Engineering & Manufacturing v. Brownlee*,<sup>341</sup> held that the government may obtain title to the subject invention<sup>342</sup> where a contractor fails to comply with FAR invention disclosure requirements set forth in the contract. Harm to the government is not required in order for the contracting officer<sup>343</sup> to remain within the bounds of sound discretion in demanding forfeiture.<sup>344</sup>

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<sup>330</sup> *Jerome Stevens Pharm.*, 402 F.3d at 1252 (citing 18 U.S.C. § 1905 (2000); 21 U.S.C. § 331(j) (2000); 5 U.S.C. § 552 (b)(4) (2000); 21 C.F.R. § 314.430 (2004)).

<sup>331</sup> *Id.* (citing *Sloan v. U.S. Dep't of Housing & Urban Dev.*, 236 F. 3d 756, 759 (D.C. Cir. 2001); 28 U.S.C. §§ 1346(b), 2674 (2000)).

<sup>332</sup> *See* 28 U.S.C.S. § 2680 (LEXIS 2005).

<sup>333</sup> *Jerome Stevens Pharm.*, 402 F.3d at 1252 (citing 28 U.S.C. § 2680(a) (2000)).

<sup>334</sup> *Id.* (citing 28 U.S.C. § 2680(h)).

<sup>335</sup> *Id.* (citing 18 U.S.C. § 1905; 21 U.S.C. § 331(j); 5 U.S.C. § 552 (b)(4); 21 C.F.R. § 314.430 (2004)).

<sup>336</sup> *Id.* at 1255.

<sup>337</sup> 28 U.S.C. § 2680(a) (2000).

<sup>338</sup> *Jerome Stevens Pharm.*, 420 F.3d at 1255.

<sup>339</sup> *Id.*

<sup>340</sup> *Id.* at 1256 (citing *Kosak v. United States*, 465 U.S. 848, 853 n. 9 (1984) (quoting *Dalenite v. United States*, 346 U.S. 15, 31 (1953))).

<sup>341</sup> 389 F.3d 1243 (Fed. Cir. 2004).

<sup>342</sup> 35 U.S.C. § 201 defines "subject invention" as "any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement." 35 U.S.C. § 201 (2000).

<sup>343</sup> In this case, the administrative contracting officer made the decision. Nonetheless, he will be referred to as the contracting officer throughout this discussion. *Campbell Plastics Eng'g & Mfg.*, 389 F.3d at 1243.

<sup>344</sup> *Id.* at 1250 (referring to the abuse of discretion test set forth in *McDonnell Douglas Corp. v. United States*, 182 F.3d 1319, 1326 (Fed. Cir. 1999)).

Campbell Plastics, a § 8(a) contractor, entered into a cost-plus-fixed-fee contract with the Army to develop components of an aircrew protective mask. Section I of the contract incorporated by reference the FAR Clause 52.227-11, Patent Rights-Retention by the Contractor. This clause "requires a contractor to disclose any subject invention developed pursuant to a [G]overnment contract and sets forth certain substantive requirements for doing so."<sup>345</sup> This clause allows the government to "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."<sup>346</sup>

Section I of the contract also incorporated by reference DFARS Clause 252.227-7039, Patents-Reporting of Subject Inventions, "which requires the contractor to disclose subject inventions in interim reports furnished" periodically.<sup>347</sup> Most importantly, to report on inventions and subcontracts, the contractor was required to submit a Department of Defense (DD) Form 882. Although the contractor failed, repeatedly, to disclose any subject inventions on the DD Form 882, contractor disclosed all technical aspects of the invention to the Army.<sup>348</sup> The Army even admitted that it possessed an enabling disclosure of the invention.<sup>349</sup> Technically, however, the contractor did not comply with the contract requirement that the subject invention be disclosed on DD Form 882.

At the ASBCA, contractor argued that its failure to comply with the contract requirement was in "form only" and should not result in title forfeiture.<sup>350</sup> The ASBCA denied contractor's appeal ruling that contractor "failed to satisfy its contractual obligation"<sup>351</sup> to properly inform the Army of the subject invention. Although the Army eventually found out about the subject invention, this was only discovered from "its review of the patent application for secrecy determination purposes and its own June 1997 report," which contractor did not supply.<sup>352</sup> Finally, the board held that FAR 52.227-11(d) allows the government to obtain title to a subject invention and the contracting officer in this case did not abuse his discretion in doing so.<sup>353</sup> Consequently, the contractor appealed.

The Federal Circuit agreed with the ASBCA.<sup>354</sup> The court focused on the purpose behind requiring disclosure of subject inventions to the government within a reasonable time after it has become known to contractor personnel:

Though the [Bayh-Dole] Act provides nonprofit organizations and small business firms the right to elect title to a subject invention, it also vests in the [G]overnment the right to a paid-up license to practice the invention when the contractor elects to retain title..., and the right 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.<sup>355</sup>

In other words, the disclosure provisions ensure that the government has sufficient measures to protect its own rights. The court found that the contract was clear in that it required the contractor disclose subject inventions on the DD Form 882. The court was unsympathetic to contractor's argument that the Army had knowledge of the substance of the invention. The court said that the requirement to have the disclosure on an "easily identified form . . . is sound and needs to be strictly enforced."<sup>356</sup> Without rigid application of the rule, the government would never be sure of which piece of paper or oral statement might comprise the subject invention disclosure.<sup>357</sup>

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<sup>345</sup> *Id.* at 1244.

<sup>346</sup> *Id.* (referring to FAR 52.227-11).

<sup>347</sup> U.S. DEP'T OF DEF., DEFENSE FEDERAL ACQUISITION REG. SUPP. 252.227-7039 (July 2004) [hereinafter DFARS].

<sup>348</sup> *Campbell Plastics Eng'g & Mfg.*, 389 F.3d at 1246.

<sup>349</sup> *Id.*

<sup>350</sup> *Id.*

<sup>351</sup> *Id.*

<sup>352</sup> *Id.*

<sup>353</sup> *Id.*

<sup>354</sup> *Id.* at 1243.

<sup>355</sup> *Id.* at 1247

<sup>356</sup> *Id.* at 1249.

<sup>357</sup> *Id.*

Arguing that forfeiture is disfavored by common law, the contractor asserted that the contracting officer abused his discretion in insisting on forfeiture when the government is not benefited in any way by such a decision.<sup>358</sup> The Federal Circuit agreed with the ASBCA to apply the four-prong abuse of discretion test of *McDonnell Douglas Corporation v. United States* by looking at:<sup>359</sup>

evidence of whether the government official acted with subject 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.

The CAFC agreed with the board's finding that the contracting officer did not abuse his discretion. Commentators have disagreed with the outcome of this case, specifically criticizing the use of the *McDonnell Douglas* test in ascertaining abuse of discretion.<sup>360</sup> In that case, a review of the factors the contracting officer actually considered occurred.<sup>361</sup> Here, the ASBCA's decision does not demonstrate that such a review happened.<sup>362</sup>

In conclusion, *Campbell Plastics* makes it clear that contractors must strictly comply with subject invention disclosure requirements found in government contracts to avoid forfeiture to title of invention. It is now abundantly clear that form, more specifically DD Form 882, triumphs over substance.

Major Katherine E. White

### Non-FAR Transactions

#### *DOD Issues Interim Rule Regarding Other Transaction Agreements*

In last year's *Year in Review*, we discussed the DOD's latest regulatory changes to its authority to enter into agreements that "do not comply with the normal statutory and regulatory contracting rules."<sup>363</sup> The Secretary of Defense and the Secretaries of the military departments have the authority to enter into non-traditional binding agreements for the purpose of research under two separate statutes.<sup>364</sup> Title 10, Section 2358, permits the DOD to utilize grants and cooperative agreements for research purposes.<sup>365</sup> Additionally, Title 10, Section 2371, permits the DOD to enter into agreements "other than contracts, grants, and cooperative agreements" for the purpose of research; these agreements are called other transaction agreements (OTAs).<sup>366</sup>

While the original OTA legislation did not allow a contractor performing the research to produce the item it researched,<sup>367</sup> a 1993 amendment allowed that contractor to produce prototypes derived from the research.<sup>368</sup> Later, a 2001 amendment allowed the DOD to award a follow-on production contract, without competition, to the contractor that had

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<sup>358</sup> *Id.* at 1250.

<sup>359</sup> *Id.* at 1326

<sup>360</sup> Ralph C. Nash & John Cibinic, *Postscript: Forfeiture of Title to Patent*, 19 NASH & CIBINIC REP. 1, 2 (Jan. 2005). Dave Burgett, *Feature Comment: Federal Circuit Upholds Patent Forfeiture for Failure to Comply Strictly with Reporting Requirement, Despite Lack of Prejudice*, 46 GOV'T CONTRACTOR 44, 457 (Nov. 2004).

<sup>361</sup> Ralph C. Nash & John Cibinic, *supra* note 360, at 2.

<sup>362</sup> *Id.*

<sup>363</sup> See 2004 *Year in Review*, *supra* note 88, at 152.

<sup>364</sup> See Pub. L. No. 85-599, 72 Stat. 520 (1947) and Pub. L. No. 101-189, 103 Stat. 1403 (1989).

<sup>365</sup> Pub. L. No. 85-599, 72 Stat. 520 (1947).

<sup>366</sup> Pub. L. No. 101-189, 103 Stat. 1403 (1989).

<sup>367</sup> Major Kevin J. Huyser et al., *Contract and Fiscal Law Developments of 2003—The Year in Review*, ARMY LAW., Jan. 2004, at 159-60 [hereinafter 2003 *Year in Review*].

<sup>368</sup> Pub. L. No. 103-160, § 845, 107 Stat. 1547, 1721 (1993).