

ARMED SERVICES BOARD OF CONTRACT APPEALS

Appeal of -- )  
)  
Raytheon Company, Inc. ) ASBCA No. 52226  
)  
Under Contract No. DAAK40-78-C-0109 )

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OPINION BY ADMINISTRATIVE JUDGE YOUNGER

Appellant, a patent holder on the Stinger weapon system, seeks additional royalties under a transferable license that it granted to the United States to permit production of the Stinger in Europe. Appellant contends principally that respondent breached the license agreement as amended by failing to pay additional compensation when a patent was issued on an improvement to the Stinger. Respondent argues chiefly that appellant's patent rights in the improvement were not "actually included" in the amended license agreement as required, and that the amended agreement violated an Army regulation. Respondent has also moved to reopen the record to admit the results of a reexamination of appellant's patent by the Patent and Trademark Office. Only entitlement is before us. We deny the motion and sustain the appeal.

FINDINGS OF FACT

*A. The Stinger Weapon System*

1. The Stinger weapon system is a man-portable ground-to-air missile system originally developed by respondent under contracts with General Dynamics Corporation (General Dynamics). It was developed to succeed respondent's Redeye system, which was produced from 1965 to 1976. The Stinger weapon system went through four evolutionary stages, as set forth in findings 2 through 5, below.

2. Basic Stinger, which was produced from 1976 to 1987, was capable of striking both rotary and fixed wing aircraft. Basic Stinger was equipped with limited Infrared Counter Measure (IRCCM) capability. (App. ex. 13 at 9; tr. 433)

3. Stinger POST, which was produced from 1985 to 1987, contained passive optical sensor technology (POST). It was the first Stinger that contained electronics incorporating microprocessors, had an infra red and ultraviolet detector, and improved performance in clutter and advanced IRCCM. Significantly, Stinger POST was a predominantly analog missile and could not be reprogrammed without disassembling and hardware modification (*id.*; tr. 431).

4. Stinger RMP, which was produced from 1985 to 1995, contained a reprogrammable microprocessor (RMP) (ex. 13 at 2, 9). The RMP technology made it possible to download or reprogram tactical missile software from a source external to the missile, thereby making the system more adaptable to a changing threat environment. (*Id.*) The Stinger RMP represented an improvement on Basic Stinger and Stinger POST because it was primarily digital and could respond to evolving IRCCM and threat spectra by means of external programming without the need for disassembling (tr. 431, 433-34). When fired, the missile component of Stinger RMP could attain supersonic speed (tr. 367-68). The missile and firing apparatus together weighed 35 pounds, 23 pounds of which comprised the missile itself (tr. 362).

5. Stinger RMP Block 1, which has been produced since 1995, incorporates the functions of RMP and adds a roll frequency sensor (RFS) (tr. 422). The RFS is a sensor inside the missile itself that improves guidance by providing a roll reference set of information once the missile is launched (tr. 459). The RMP Block 1 has improved performance against infrared countermeasures, against rotary wing aircraft, and in night performance. The RMP Block 1 retains the reprogramming feature of the Stinger RMP. (App. ex. 13 at 9; tr. 348)

#### B. *The NATO License Agreement*

6. By date of 18 April 1978, respondent entered into Contract No. DAAK40-78-C-0109, entitled DEPARTMENT OF THE ARMY RELEASE AND LICENSE FOR MANUFACTURING RIGHTS, PRIVATELY OWNED RIGHTS, DATA AND PATENTS WITH GENERAL DYNAMICS CORPORATION (R4, tab 1 at 1, 13). The parties refer to this contract as the NATO License Agreement.

7. It is undisputed that, in 1992, Hughes Electronics Corporation (Hughes) acquired assets of the missile business of General Dynamics and all rights and obligations under the NATO License Agreement. Thereafter, in December 1997, Raytheon Company acquired the defense business of Hughes through merger, and the merged entity, which was named

Raytheon Company, became the successor in interest to both General Dynamics and Hughes with respect to the NATO License Agreement. Hereafter, General Dynamics, Hughes and Raytheon are collectively referred to as appellant, except where designation by name is warranted.

8. In negotiating the NATO License Agreement, appellant was represented by Donald Bjelke, who was vice president and general counsel of General Dynamics' Pomona Division (Trial testimony of Donald K. Bjelke (Btr.) 7). Respondent was represented by John Garvin, chief of the Intellectual Property Law Division at the Army Missile Command, Redstone Arsenal, AL (tr. 555; ASR4, tab 21 at 1). Mr. Garvin testified, and we find, that the NATO License Agreement "was a matter that I took some direct interest in and direct responsibility for and did not delegate . . . to any of my subordinates" (tr. 563). We further find that, while Mr. Garvin had authority to negotiate the NATO License Agreement, he was not the contracting officer; that official was the Command Counsel of the U.S. Army Materiel Development and Readiness Command (ASR4, tab 21 at 1; tr. 506-07).

9. The NATO License Agreement contained various recitals, including the following:

WHEREAS, the GOVERNMENT desires a license under all existing patents and/or applications for patent, owned or controlled by CONTRACTOR, pertaining to the STINGER/POST Weapon System, and any other CONTRACTOR owned or hereafter acquired patent covering any invention relating to the STINGER/POST Weapon System; and

....

WHEREAS, the Government desires to acquire technical data rights, know-how and patent rights to the STINGER/POST Weapon System for the purpose of manufacturing, using and selling or causing the manufacture, use or sale of said Weapon System in one or more NATO nations; and

....

WHEREAS, this CONTRACT is authorized by law, including 10 U.S.C. 2386. . . .

(R4, tab 1 at 2-3)

10. The NATO License Agreement contained Article I, DEFINITIONS, which provided that, “[f]or the purpose of this CONTRACT, the term ‘STINGER/POST Weapon System’ shall designate the system described in Exhibit ‘B’ hereto.” Exhibit B in turn contained a two paragraph description of Stinger POST by reference to the system specification and Basic Stinger, and referred to Exhibit A, which defined Basic Stinger by reference to 23 components, designating the particular part number for each. (*Id.* at 3, 14-16)

11. The NATO License Agreement contained Article II, TECHNICAL DATA, and Article III, TECHNICAL ASSISTANCE. In Article II, the parties agreed that appellant would, under separate contract, prepare and deliver a technical data package to include “CONTRACTOR’S technical data and know-how resulting from CONTRACTOR’S Independent Research and Development effort.” The parties further agreed that, if Stinger POST could not be manufactured in NATO countries from data delivered by appellant, then appellant would supplement the data as needed. In Article III, appellant was obligated to provide to respondent or to entities selected by respondent within the NATO countries “qualified individuals to provide instruction concerning utilization of the technical data and know-how and to provide Technical Assistance with respect to the design, know-how, methods of manufacture, improvements and other related matters” regarding Stinger POST. (*Id.* at 3-4)

12. The NATO License Agreement also contained Article IV, LICENSE. Article IV.A. pertained to technical data and know-how. It provided:

A. CONTRACTOR grants and conveys to the GOVERNMENT, as represented by the Secretary of the Army, an irrevocable, transferable, nonexclusive license to use or cause to be used all or any part of the technical data or know-how described in ARTICLE II, ARTICLE III and Exhibit “C” and more specifically, CONTRACTOR agrees that GOVERNMENT may:

(1) Manufacture or cause to be manufactured the STINGER/POST Weapon System on one or more production or assembly lines in all NATO countries.

(2) Reproduce, deliver, disclose and utilize said data and know-how for manufacture or production purposes of the STINGER/POST Weapon System in NATO countries.

(3) Use, or cause to be used, said STINGER/POST Weapon System anywhere in the world.

(4) Dispose of, or cause to be disposed of, said STINGER/POST Weapon System as a loan or grant to grant aid countries who are members of NATO, or to forces allied in combat with the United States.

(5) Dispose of, or cause to be disposed of, said STINGER/POST Weapon System through sales to any NATO nation approved by the GOVERNMENT.

(6) Dispose of, or cause to be disposed of, worn-out or otherwise unrepairable and unserviceable STINGER/POST Weapon Systems as surplus, in accordance with law.

*(Id.* at 5)

13. Article IV.B. pertained to patent rights. It provided:

B. For the utilization of all or any part of the data and know-how licensed pursuant to this CONTRACT, CONTRACTOR further grants and conveys to the GOVERNMENT, as represented by the Secretary of the Army, an irrevocable, nonexclusive, transferable license to practice or cause to be practiced by all NATO nations and their contractors in the manufacture in, or sale or grant to, NATO countries and the use of the STINGER/POST Weapon System throughout the world, or any part thereof, in accordance with law any and all inventions disclosed in any patents or patent applications, both US and foreign, now owned or controlled by the CONTRACTOR or with respect to which CONTRACTOR, on the effective date of this CONTRACT has the right to grant licenses, or any such inventions which become the property of or controlled by CONTRACTOR or with respect to which CONTRACTOR will acquire the right to grant licenses, to include, but not be limited to, [specified American and foreign patents and patent applications].

*(Id.* at 5-6) It is undisputed that the RMP technology (*see* finding 4) did not exist when the parties entered into the NATO License Agreement.

14. The NATO License Agreement also contained Article VI, CONSIDERATION, REPORTING AND PAYMENT OF LICENSE FEES AND/OR ROYALTIES. It provided in ¶ A:

The GOVERNMENT, in consideration of this CONTRACT for Know-How and Technical Data, Patent License, Release and commitment for technical assistance, shall pay the CONTRACTOR for STINGER/POST Weapon Systems manufactured in NATO countries license fees and/or royalties under either Option 1 or Option 2 as set forth below. The GOVERNMENT shall elect one and only one option at the time this CONTRACT shall be made effective and the option not elected shall be revoked.

(R4, tab 1 at 7) The provisions of Option 1, under which respondent would make a single payment within 60 days of the effective date (*see* finding 16), and of Option 2, under which respondent would make an initial payment within 60 days of the effective date, plus running royalties on each missile round sold, were then set forth (*id.* at 7-10).

15. The NATO License Agreement also contained Article IX, APPLICABLE LAW, which provided that “[t]his CONTRACT shall be governed by, construed and interpreted in accordance with the laws of the District of Columbia” (*id.* at 11).

16. The NATO License Agreement also contained Article XI, EFFECTIVE DATE. It provided in part:

This CONTRACT shall become effective upon the date which the GOVERNMENT notifies the CONTRACTOR in writing that the STINGER/POST Weapon System has been selected by one or more NATO nations for production of such system in one or more NATO nations together with an election as to the license fee and royalty option of ARTICLE VI selected by said one or more NATO nations, provided that such notice shall occur not later than ten (10) years from the date hereof.

(*Id.* at 11-12) We find that, by letters to respondent dated 5 April 1988 and 30 June 1988, appellant agreed to extend the effective date for exercise of the option to and including 31 December 1988 (ASR4, tabs 6, 8).

### C. *The NATO Memorandum of Understanding*

17. By date of 27 April 1983, the United States and the Federal Republic of Germany, as the system licensee and lead nation, entered into a Memorandum of Understanding for the Dual Production and Sale of the Stinger Weapon System (the NATO MOU). Thereafter, on various dates between April and August 1983, the United States, and the governments of Belgium, the Federal Republic of Germany, Greece, Italy, the

Netherlands, and Turkey executed the Security Annex to the NATO MOU (R4, tab 2 at 4, 9-10, 13). We find that appellant was not a party to the NATO MOU (*id.*; tr. 605).

18. The NATO MOU contained a preamble, which provided in ¶¶ 5 and 6 as follows:

1. To enhance standardization of self-defense surface-to-air defense weapons among members of the North Atlantic Treaty Organization (NATO), the United States Government (USG) is offering the US developed man-portable STINGER Weapon System as its candidate for a standardized weapon. The USG is offering the weapon under any of several acquisition alternatives, ranging from Foreign Military Sales (FMS) from US production sources to production under licensing agreements of the complete STINGER Weapon System on one or more production or assembly lines in the European NATO countries.

....

5. The USG [United States Government] has the present right, as a result of the terms and conditions of research, development, or production contracts with its prime contractor, to authorize the manufacture, through use of the Production TDP for the Stinger Weapon System, of the entire Weapon System except for the guidance section of the missiles.

6. The USG has license agreements with its prime contractor wherein the prime contractor grants and conveys to the USG an irrevocable, transferable, nonexclusive license to enable the manufacture of the entire Stinger Weapon System, including the guidance section of the missile, on one or more production or assembly lines in European NATO countries. . . . The pertinent terms and conditions of the license agreements are set forth in [the NATO License Agreement and the domestic production contract (*see* findings 6-16, 25)].

(R4, tab 2 at 1)

19. The NATO MOU also contained Article I, STINGER DUAL PRODUCTION PROGRAM - SCOPE AND CONDITIONS, which provided in ¶ A that the MOU addressed “Basic STINGER, the more advanced STINGER-POST, and associated training and support equipment” (R4, tab 2 at 2). Article I also provided in ¶ B that dual production was subject to the following condition regarding the transfer of certain guidance technology: “[t]hat

portion of the guidance technology which deals with target evaluation and counter-countermeasure processing and which is contained within two wafers of the seven wafer electronics section will be supplied to the NATO European consortium from US production sources” (*id.* 2).

20. The NATO MOU also included Article II, SALE AND DUAL PRODUCTION OF THE STINGER WEAPON SYSTEM, which provided in ¶ A.2 that “[i]t is the policy of the US Government to charge a royalty for the use of a [technical data package] for production. With the application of the royalty, there shall be no charge for R&D recoupment.” Paragraph A.2 set forth a system of differing royalty payments for NATO nations participating in the dual production program, for NATO nations not participating in the program, and for the United States. (*Id.* at 3)

21. Article II also contained ¶ B., which provided in part that “[a]ll supplies and services, including the technical data to be furnished by the USG will be subject to separate Letters of Offer and Acceptance (LOA) (DD Form 1513) pursuant to the Arms Export Control Act and implementing regulations.” In addition, Article II contained ¶ E., which provided in part that “[t]he parties recognize and understand that the ability of the USG to transfer the right to manufacture the guidance section of the missile to European NATO countries is subject to license agreements with the US prime contractor” (*id.* at 4).

#### D. *The RMP Development and Production Contracts*

22. Following execution of the NATO License Agreement, appellant developed the RMP, which ultimately made it possible to reprogram the Stinger missile from an external source to adapt to a changing threat environment (*see* tr. 423, 426-27). Thereafter, in October 1984, appellant disclosed the RMP improvement to respondent and requested funding so that the RMP technology could be incorporated into production models of the Stinger (tr. 178-81, 427).

23. By date of 25 September 1984, respondent awarded appellant letter contract No. DAAH01-84-C-A225 for engineering development of the Stinger RMP (R4, tab 5 at 1). The parties definitized the letter contract by date of 22 March 1985, when they entered into modification BZ0003 to Contract No. DAAH01-84-C-A225, providing for engineering development of the Stinger RMP at a not-to-exceed ceiling price of \$35,500,000 (*id.* at 1-3). The parties refer to the letter contract and the definitized contract collectively as the RMP Development Contract.

24. Modification No. BZ0003 to the RMP Development Contract contained clause H-17, ACQUISITION OF UNLIMITED RIGHTS IN TECHNICAL DATA AND COMPUTER SOFTWARE. Clause H-17 referred to the NATO License Agreement and another contract providing for domestic production of Stinger POST and provided in part:



A. [A domestic production contract and the NATO License Agreement] are presently outstanding between the contractor and the Government. Under these contracts (and other contracts) the Government acquired the right to cause the production of the STINGER POST Weapon System and its components by entities other than the contractor.

B. A major purpose of the instant contract is to improve the STINGER POST Weapon System. Therefore, the Contractor agrees that all technical data and computer software pertaining to improvements made under the instant contract to the STINGER POST Weapon System, or components thereof, will be delivered with unlimited rights whether such technical data or computer software is ordered or delivered under the instant or any future contract.

C. The contractor further agrees to amend the contracts referenced in (a) above to incorporate such improvements with no increase in any of the payments required under such contracts, upon the request of the Government. The provision relating to “no increase in any of the payments” will not apply to patent rights (including invention disclosures or pending application), if any, the contractor may have. It is understood that said contracts may be amended without present consideration for patent rights provided the amendments recognize the Contractor’s right for future consideration if such patent rights are actually included in the contracts. As an alternative to amending said contracts, it is agreed that new contracts (License Agreements) may be entered into covering the improved STINGER POST Weapon System, upon the request of the Government.

(R4, tab 5 at 64-65) We find that clause 17.C. was drafted by Mr. Garvin (Btr. 36-38; tr. 197-99, 589-91; SR4, tab 114 at 4; *see also* tr. 571; R4, tab 110a).

25. By date of 13 August 1985, the parties entered into Modification No. P00009 to Contract No. DAAH01-85-C-A073, providing for production of the Stinger RMP weapon system. The parties refer to this contract as the RMP Production Contract. Modification No. P00009 included clause H-33, ACQUISITION OF UNLIMITED RIGHTS IN TECHNICAL DATA AND COMPUTER SOFTWARE. Clause H-33.C. also provided that:

C. The contractor further agrees to amend [the NATO License Agreement and another contract] to incorporate such

improvements with no increase in any of the payments required under such contracts, upon the request of the Government. The provision relating to “no increase in any of the payments” will not apply to patent rights (including invention disclosures or pending application), if any, the contractor may have. It is understood that said contracts may be amended without present consideration for patent rights provided the amendments recognize the Contractor’s right for future consideration if such patent rights are actually included in the contracts. As an alternative to amending said contracts, it is agreed that new contracts (License Agreements) may be entered into covering the improved STINGER POST Weapon System, upon the request of the Government.

(ASR4, tab 3 at 1)

*E. Amendment One to the NATO Memorandum of Understanding*

26. By date of 26 March 1986, the United States and the Federal Republic of Germany, as the system licensee and lead nation, entered into Amendment One to the NATO MOU “to authorize the release of technical data for the Stinger-Post and its follow-on, the Stinger-RMP.” (R4, tab 12 at 12). The parties agreed to amend Article IA. of the NATO MOU (*see* finding 19) to provide that the MOU included “the Basic Stinger, the Stinger-Post and the Stinger-RMP and associated training and support equipment” (*id.*). The parties also agreed to amend Article IB. of the NATO MOU (*see* finding 19) in its entirety to read:

- a. Design and production information, to build the microprocessors for the Post and RMP, to include firmware, will not be sold or transferred to the dual production program.
- b. The microprocessors and cadmium sulfide crystals for the Post and RMP will be sold to the dual production program through U.S. foreign military sales (FMS) channels.
- c. The external firmware module to reprogram the RMP missile will not be sold or transferred to the dual production program pursuant to this MOU. Any future requests for this module will be dealt with between the U.S. and the individual consortium member countries on a case-by-case basis.

d. Test software and test equipment required for the manufacture of the Stinger-Post and Stinger-RMP guidance sections will be sold through U.S. FMS channels.

(*Id.*)

F. *Amendment 1 to the NATO License Agreement*

27. By date of 30 July 1986, appellant and respondent entered into Amendment 1 to the NATO License Agreement. Amendment 1 contained various recitals, acknowledging both the NATO License Agreement, which was referred to as the “CONTRACT,” and the RMP Development Contract, and providing that “both the GOVERNMENT and the CONTRACTOR are desirous of amending the CONTRACT to add the STINGER-RMP Weapon System thereto and to . . . add a third option for making payment” (R4, tab 16 at 1-2). We find that none of the recitals of Amendment 1 expressed any intention of the parties to amend Amendment 1 further.

28. By ¶ a to Amendment 1, the parties agreed to add the words “and STINGER-RMP Weapon System” following the words “the STINGER/POST Weapon System” throughout the NATO License Agreement, with two exceptions not relevant here (*id.* at 2).

29. By ¶ c to Amendment 1, the parties agreed to add the following new subparagraph to Article I of the NATO License Agreement (*see* finding 10) to provide that, “[f]or the purpose of this CONTRACT, the term ‘STINGER-RMP Weapon System’ shall designate the system described in Exhibit ‘E’ hereto” (*id.* at 2).

30. By ¶ e to Amendment 1, the parties agreed to add the following sentence to the last line of Article IV.B. of the NATO License Agreement (*see* finding 13):

Notwithstanding the above, the GOVERNMENT recognizes the CONTRACTOR’s right for future consideration if patent rights directed to the Reprogrammable Microprocessor (RMP) improvement made to the STINGER/POST Weapon System are actually included in this CONTRACT.

(*Id.* at 2) The parties did not define the meaning that they intended to convey with the phrases “[n]otwithstanding the above” and “actually included in this CONTRACT.” At the time that Amendment 1 was executed, appellant’s application for a patent on the RMP technology was pending (*see* finding 50).

31. By ¶ f of Amendment 1, the parties agreed to rewrite Article IV.D. of the NATO License Agreement to read: “In the event that Option 3 [*see* finding 32] is exercised, the license rights herein granted will cover all applications of the STINGER/POST Weapon System and the STINGER-RMP Weapon System” (*id.*).

32. In Amendment 1, the parties also added to Article VI of the NATO License Agreement (*see* finding 14) a new Option 3, INITIAL PAYMENT AND RUNNING ROYALTY (R4, tab 16 at 3). Option 3 provided for an initial payment of \$17,500,000 within 60 days of the effective date “subject to escalation from November 1, 1985 until paid,” together with a running royalty on each Stinger POST and/or Stinger RMP missile round in excess of 20,000 rounds (*id.* at 2-3). Option 3 expressly excluded purchases from appellant by NATO nations, or by the United States (*id.* at 3). Subsequently, by date of 2 November 1988, the parties entered into Change No. 1 to Amendment 1, altering the formula for computing the running royalties and providing that, “[e]xcept as herein modified, the CONTRACT with said Amendment No. 1 shall remain in full force and effect” (R4, tab 30 at 1-2).

33. The NATO License Agreement had been executed before the effective date of the Contract Disputes Act, 41 U.S.C. §§ 601 *et seq.*, and incorporated a pre-Act DISPUTES clause (R4, tab 1, ex. D at 3). By Amendment 1, the parties added the standard post-Act clause entitled DISPUTES (APR 1984), expressly providing that “[t]his contract is subject to the Contract Disputes Act” (R4, tab 16, ex. D at 3-5).

34. In Amendment 1, the parties agreed to “[a]dd Exhibit ‘E’ attached hereto to the CONTRACT” (R4, tab 16 at 5). Exhibit E provided that the “STINGER-RMP Weapon System is . . . as of March 20, 1986, described” in 23 drawings or other documents, which were itemized (*id.* at 12; *see* tr. 635-36; *see also* finding 10). Mr. Garvin testified, and we find, that respondent prepared Exhibit E and that the description appearing there “was the then configuration” of the Stinger RMP (tr. 610). Item 5 in Exhibit E was described as “Gripstock-Control Group, Guided Missile Launcher, (RMP), APN [Army Part Number] 13251828” (R4, tab 16 at 12).

35. At the end of Amendment 1, the parties provided that, “[e]xcept as herein modified, the [NATO License Agreement] shall remain in full force and effect” (*id.* at 5). The parties did not include any provision in Amendment 1 regarding exploitation of the RMP technology, in the event that appellant’s pending U.S. patent application (*see* finding 50) was granted.

#### G. Negotiation of Amendment 1

36. Amendment 1 was negotiated by Mr. Garvin and Mr. Bjelke, for respondent and appellant, respectively (Btr. 31, 70; ASR4, tab 21 at 1-2). Mr. Bjelke was assisted by Mr. Gault, appellant’s director of estimating, who participated in some of the negotiations, which were chiefly conducted telephonically (Btr. 46, 69-70; tr. 193, 195). As with the NATO License Agreement itself, Mr. Garvin was authorized to negotiate for the contracting officer. We find no credible evidence that Mr. Garvin represented that he was the contracting officer. In a 1995 affidavit, Mr. Garvin attested that he then had “no

recollection of any conduct or statements by me that could be interpreted by [appellant] as a representation that I was the Procuring Contracting Officer for the original contract or the amendment” (ASR4, tab 21 at 1). The contracting officer who executed Amendment 1 was the Command Counsel of the U.S. Army Materiel Command (ASR4, tab 21 at 1; R4, tab 16 at 1; tr. 507-08; *see also* finding 8). We find that the Command Counsel served as contracting officer pursuant to delegations within the Department of the Army of the procurement authority granted under 10 U.S.C. § 2386 (tr. 504-06). As a result of those delegations, the Command Counsel was, as he stated in a 1996 memorandum, “the only person within [the U.S. Army Materiel Command] designated to procure patent rights” (SR4, tab 164 at 1). The Command Counsel also executed Change No. 1 to Amendment 1 (R4, tab 30 at 2; tr. 508; *see* finding 32).

37. We find that the disputed sentence added by Amendment 1 to the end of Article IV.B. (*see* finding 30) came in part from clause H-17 of the RMP Development Contract (*see* finding 24) (Btr. 74, 165; tr. 214-15, 596-97; R4, tab 59 at 24). It also came, as Mr. Garvin testified, from “language I suggested needed to be there to protect the Government’s interests” (tr. 597; *see also* Btr. 69; tr. 286-89, 293-94).

38. From a 1995 affidavit by Mr. Garvin, and from testimony at trial, we find that the parties reached an impasse in the negotiations regarding the valuation of appellant’s pending RMP patent application, and that they resolved the impasse with the disputed sentence in Amendment 1 (Btr. 74, 76; tr. 208, 212-14, 602; ASR4, tab 21 at 2-3). As Mr. Bjelke testified, he:

wanted to negotiate the compensation.

And Garvin put us off, saying “well, we can’t really do it right now because the patent hasn’t issued,” because this, because that, because of the other, and “we’ll get that later when things are more finalized because it’s too difficult at this stage of the game to” - -

Essentially what he was saying was it’s too difficult unless we’re dealing with something . . . more of a known quantity . . . to scale the amount of the royalties.

And . . . that was generally the answer he gave. But at the same time, they were willing to put a clause equivalent to the H-17 clause [*see* finding 24] in the new contract that said that there would be . . . further compensation for . . . the R.M.P. even though we included the R.M.P. currently in the license.

(Btr. 47-48) For his part, Mr. Garvin stated in his 1995 affidavit that he and Mr. Bjelke had “considerable discussion” regarding:

what arrangement the parties should make with regard to RMP patents that [appellant] had applied for, but which had not issued as patents. Mr. Bjelke expressed a desire that some definite financial arrangements be concluded in the amendment to compensate [appellant] in the event that one or more patents were granted, but I refused to consider same in that there were too many unknowns.

....

Since there was no patent in existence at the time for the reprogrammable microprocessor (RMP), and since I was unaware of the exact language of the claims of a future patent or of the additional costs of a missile incorporating same, I took the position that it was not feasible for the Government to make any finite financial arrangements until a patent or patents were issued. I understood that if one or more patents were subsequently issued, equity could easily require that a payment be made to [appellant]. . . .

(ASR4, tab 21 at 2) In resolving the impasse by adding the disputed sentence in Amendment 1 (*id.* at 3), the parties reserved the pricing of the RMP technology, and, as Mr. Garvin testified, “I suggested that he [Mr. Bjelke] actually include it in the contract and he bought it” (tr. 602).

39. Mr. Garvin testified that, in drafting Amendment 1, appellant’s then-pending application for the RMP patent (*see* finding 50) was not added to the patents and patent applications referenced in Article IV.B. (*see* finding 13) because Mr. Bjelke “never requested it be in there” (tr. 597). Mr. Garvin testified, and we find, nonetheless that the patents and patent applications set forth “are not necessarily words of exclusion, if you will. [The list in Article IV.B.] identifies some that [appellant] identified to the Government to be incorporated in the agreement” and he agreed that respondent got rights in any patent that existed or was going to exist regarding the weapon system (tr. 565; 616-17).

40. The testimonial evidence conflicts regarding the parties’ intent at the time of contract formation concerning the introductory phrase of the disputed sentence of Amendment 1 (*see* finding 30). Mr. Bjelke, whose testimony we find more credible than Mr. Garvin’s, understood the phrase “Notwithstanding the above” to mean that “‘the above’ [in Article IV.B.] said that there wouldn’t be any additional consideration. And what that says is notwithstanding that, that if the . . . R.M.P. rights are actually included in this

contract, we have a right . . . to future consideration” (tr. 202-03). By contrast, Mr. Garvin testified that, while Article IV.B. provided that “the Government had the right basically to infringe with immunity patents, rights owned or controlled by [appellant] then or hereinafter acquired; that [‘]notwithstanding [the] above[’] basically eliminated the RMP patents from the terms of that provision” (tr. 599).

41. The testimonial evidence conflicts regarding the parties’ intent at the time of contract formation concerning the inclusion clause in the disputed sentence of Amendment 1 (*see* finding 30). With respect to the phrase “actually included in this CONTRACT,” Mr. Bjekle testified that the:

things that included it in the contract are the modifications of the contract, including the Exhibit “E” to change the [original] Stinger/Post to put in Stinger-R.M.P.

And then when the Government pays us the money, the 20 – 20 [sic] million dollars [*see* findings 14, 32], the license now is effective and is – is actuated and the Government then gets the rights to everything, including the – the R.M.P. patents. That’s included in the contract.

(Btr. 206) He also testified that, at the time of execution,

this agreement is still an option. It hasn’t been exercised by the Government. So . . . if and when the Government exercises, . . . then at that time all of the rights, which are already in the contract by reference, . . . the contract becomes . . . a fully implemented contract and the Government now has all of those rights.

(Btr. 75). Stated otherwise, when respondent did in fact exercise the option, “everything went into place, and the only thing that was open was the . . . amount of our compensation for the -- the inclusion of R.M.P.” (Btr. 49).

42. By contrast to Mr. Bjelke’s understanding, Mr. Garvin testified that he understood that the inclusion clause embraced the mandate of Army Regulation (AR) 27-60 (1974) (*see* finding 43) by requiring, in the first instance, an investigation of the RMP patent as issued, to ascertain “that we were not buying a pig in a poke.” If the investigation “comes out affirmative, [and] we found out we had gold in that poke and not a pig,” then “the contract [would be] amended to incorporate the RMP patent” and to provide consideration for appellant (tr. 586, 599-600; *see also* tr. 642-43).

43. AR 27-60 contained Chapter 9, PROFFERS OF LICENSES AND ASSIGNMENTS TO THE GOVERNMENT. Paragraph 9-3, CLEARANCE TO CONSIDER AND PROCURE LICENSES AND ASSIGNMENTS, provided in part:

a. Promptly after a receipt of a communication proposing a license or an assignment . . . the designee shall request in writing from the Chief, Patents Division, clearance to consider and procure, if desirable, the license or assignment on behalf of the Department of the Army.

. . . .

c. The Chief, Patents Division, upon receipt of the request for clearance, shall determine . . . whether the Government has any license or other interest in any patent or patent application involved and shall then grant such clearance in writing as appears proper.

d. Upon receipt of such clearance, the designee shall consider the proposed license or assignment on behalf of the Department of the Army and, if deemed advisable by him following coordination with any other interested Department of Defense agencies, procure the same in accordance with paragraph 9-5.

(R4, tab 110 at 9-1) In turn, ¶ 9-5, PROCEDURES APPLICABLE TO PROCUREMENT OF INVENTION AND PATENT RIGHTS, generally required the official who had previously received a clearance, to submit a memorandum through the Chief, Patents Division describing various particulars regarding the patent or patent application (*id.* at 9-2; *see also* 8-6-8-8).

44. We find that the record contains evidence of uneven compliance with AR 27-60. When asked on direct examination whether he was obligated to follow the regulation, Mr. Garvin testified, “No question. It was basically a guideline that certainly – I would’ve heard from somebody if I didn’t follow it” (tr. 560). He added that “[o]ne of the principal reasons” for the procedures in ¶ 9-5 “is to avoid purchasing or buying a pig in a poke” (tr. 561; *see also* tr. 562). On cross examination, however, he testified that he did not comply with the requirements of ¶ 9-5 for submission of a memorandum concerning the validity of the RMP patents (tr. 629). With respect to other patents relevant to the license, he testified that he “didn’t specifically recall doing it on all of them. Obviously, we did it on the foreign ones” (*id.*).



45. We find that the record does not establish that, in negotiating Amendment 1, Mr. Bjelke and Mr. Garvin agreed to condition compensation for the RMP patent on whether the NATO countries manufactured the Stinger RMP with or without the external module. Mr. Bjelke testified that, in negotiating Article IV.B. (*see* finding 13), “the intent there, which is shown also in one of the ‘Whereas’ clauses, is that the Government wants all of this: they want the entire package of patents that we own” (Btr. 30), and that there was a similar intent in the negotiations over clause H-17 (*see* finding 24; Btr. 37). Mr. Bjelke also testified that, in his understanding, once the RMP patent was issued and respondent made the initial payment to appellant, respondent was liable “for something” even if the Europeans never manufactured a single Stinger RMP (Btr. 206). The evidence of Mr. Garvin’s understanding is conflicting. He did not mention a condition on payment for the RMP patent in his 1995 affidavit (ASR4, tab 21), as he admitted at trial (tr. 627-28). Apart from the affidavit, he agreed that Amendment 1 contained no “limitation as to what would be manufactured by the [participating NATO] countries” (tr. 611). Nonetheless, Mr. Garvin testified that he never told Mr. Bjelke that he would agree to pay for the RMP patent just because it issued and that he would not agree to amend the NATO License Agreement to include the RMP patent if there were no possibility of infringement by the weapon system that the Europeans were manufacturing “because that would be the pig in the poke” (tr. 600; *see also* tr. 627). He also testified that he did not tell Mr. Bjelke that appellant would only receive additional compensation if a license were necessary to avoid infringement (tr. 627).

46. Mr. Garvin authored an internal information paper dated 20 February 1986 to respond to questions raised by both the Undersecretary of the Army and a commander regarding appellant’s proprietary rights to Basic Stinger, Stinger POST and Stinger RMP. He stated in part that, “[w]hile [appellant] may have owned proprietary rights to the Reprogrammable Microprocessor (RMP), it has relinquished such rights at no cost to the Government.” (R4, tab 9 at 1) He also stated that respondent:

has never investigated the allegation of private development of the RMP by [appellant] because it was able to preclude any possible claims, which might prevent competitive acquisition of the STINGER-RMP system, by including Special Provision H-17 . . . in [the RMP Development Contract]. This provision requires the delivery of technical data pertaining to improvements (RMP) with Unlimited Rights in the Government. This provision further sets forth an obligation on [appellant] to either amend the pertinent License Agreements to incorporate RMP with “no increase in any of the payments . . .” required by the License Agreements. While this special provision further sets forth that “no increase in any of the payments” does not apply to patent rights, if any, of [appellant], it is in the opinion of the Government of no consequence.

(R4, tab 9 at 3 (m)) Mr. Garvin noted that respondent “will shortly commence action to amend the pertinent License Agreements or enter into new agreements to incorporate RMP per the special provision in [the RMP Development Contract]” (*id.*).

47. By memorandum to respondent’s Stinger Project Office dated 7 March 1986, Mr. Garvin advised that he was “presently in the process of preparing amendments to the [domestic and NATO] license agreements to broaden their coverage to include the STINGER-RMP Weapon System and to provide a monetary option to [the NATO License Agreement] which is more palatable to the consortium lead by the Federal Republic of Germany.” He requested that the Office “prepare a description for the STINGER-RMP Weapon System for incorporation as Exhibit ‘E’ to subject license agreements.” (R4, tab 114 at 1)

48. By letter to Mr. Bjelke dated 10 March 1986, Mr. Garvin referred to meetings between the parties, and to clause H-17, and stated that, “[i]n view of the above, the undersigned has prepared the enclosed Amendment No. 1 to the subject license agreement” (R4, tab 10 at 1). He added that the amendment, *inter alia*, “broadens the subject license agreements to incorporate the STINGER-RMP Weapon System; . . . and adds a newly written Exhibit ‘E’ which defines the STINGER-RMP Weapon System” (*id.*).

49. By memorandum dated 15 July 1986 to the Commander, U.S. Army Materiel Command, Mr. Garvin stated that the disputed sentence of Amendment 1:

. . . adds a provision to ARTICLE IV.A. [sic] which reflects that [appellant] may be entitled to “further consideration if patent rights directed to the Reprogrammable Microprocessor (RMP) improvement . . . are actually included in this CONTRACT.” Since the Government can refuse to incorporate foreign patent rights, if any, in the license agreement, this language is almost meaningless. [Appellant] refused to resolve the licensing problem without language to this effect. . . .

(R4, tab 15 at 2) Mr. Garvin testified that he characterized the inclusion clause as almost meaningless “because of the inclusion and words are actually included in this contract knowing that I was going to make an investigation as required by regulation and common sense and normal patent practices before I’d agree to buy the pig or pay for a pig in [a] poke” (tr. 595). He did not tell Mr. Bjelke that the clause was almost meaningless (*id.*). He also testified that the reference to appellant’s refusal to resolve the licensing problem without the clause “is really going to his wanting to put the words in there in further consideration and patent rights and records to the RMP improvements, and I probably added or [‘]included in this contract[’], and I’m not sure he was really aware of the real meaning of it” (tr. 595).

## H. RMP Patent

50. By date of 21 April 1987, appellant obtained a U.S. patent on the RMP technology. On that date, the United States Patent Office issued U.S. patent 4,660,170 (the '170 patent) to General Dynamics, as assignee, for a "SYSTEM FOR PROVIDING REPROGRAMMING DATA TO AN EMBEDDED PROCESSOR." (R4, tab 19; app. ex. 13 at 1) Appellant had filed its application for the '170 patent on 29 April 1985 (R4, tab 19 at 1; tr. 288-89). In July 1985, appellant advised Mr. Garvin that it had filed the application, and on 1 August 1985, Mr. Bjelke gave him a copy (R4, tab 7; SR4, tab 113; tr. 578-79).

51. The '170 patent abstract characterized the RMP technology as:

[a] system for providing information to alter the software of an electronic data processor embedded in an electronic module includes a remote reprogramming module that conducts a sequence of operations to provide data to the processor which the processor uses to reprogram itself. The system employs a data link having a bi-directional transmission path connecting the processor and the reprogramming module. A controlled switching circuit is provided at each end of the transmission path. Under normal operating conditions, the transmission path is used to transit a function signal for a function performed by the electronic module. Periodically, the processor operates one switching network to capture the path for transmission of a reprogramming inquiry signal to the reprogramming module. At the same time, the function signal is diverted to an alternate path internal to the electronic module. When the reprogramming module detects a reprogramming inquiry, it operates the other switching circuit to gain access to the transmission path. Then, in response to commands from the processor, the reprogramming module undertakes the reprogramming sequence and transfers data to alter program information held in the memory of the processor. Thereafter, both the processor and the reprogramming module operate their respective switching circuits to restore the transmission path to its normal operational use for the transmission of the function signal.

The '170 patent included 25 claims. (R4, tab 19 at 1; tr. 489-90)

## I. FMS Case GY-B-WIL

52. In accordance with Article II B. of the NATO MOU (*see* finding 21), the United States, as seller, and the Federal Republic of Germany, as purchaser, executed a letter of offer and acceptance by date of 31 October 1988 entering into Foreign Military Sales (FMS) Case GY-B-WIL providing for the “STINGER-RMP (LESS REPROGRAMMABLE MODULE) MISSILE SYSTEM.” (R4, tab 28)

*J. Payment Under Option 3*

53. We find that, by date of 30 November 1988, respondent made its initial payment to appellant under Option 3 of Amendment 1 (*see* finding 32) in the escalated amount of \$20,650,000 (ASR4, tab 42; tr. 228, 299).

*K. Evidence Regarding Circumstances Subsequent to the Negotiation of Amendment 1*

54. Mr. Garvin retired on 3 June 1988 and his successor, Hugh Nicholson, had little or no familiarity with either the NATO License Agreement or Amendment 1 (Btr. 78; tr. 554-55; 643; 648-49; 653-56; 679-80; SR4, tab 123 at 1; ASR4, tab 21 at 1).

55. In an internal pricing authorization memorandum dated 18 July 1988, Mr. Gault stated that “[t]he RMP development contract and the NATO license provide for additional compensation under the domestic and NATO licenses, respectively, if RMP is actually licensed. Since RMP is included in the domestic second source contract, and will be included under the NATO license option, re-pricing is now timely.” (SR4, tab 122 at 2) Thereafter, by letter to Mr. Nicholson dated 22 July 1988, Mr. Bjelke stated that appellant felt that “it is timely to address the issue of additional compensation for the [RMP] under the NATO license” (R4, tab 24 at 1). This was the first that Mr. Nicholson had heard of the issue (tr. 651).

56. By letter to Mr. Nicholson dated 1 August 1988, Mr. Bjelke proposed modifying Amendment 1 to provide additional compensation for the RMP patent. He wrote that, “[s]ince the RMP patent . . . has issued, . . . and since further utilization thereof is currently anticipated by the European Stinger Project Group (ESPG), it is appropriate to address . . . amending the NATO license to provide compensation for the RMP patent” (R4, tab 25).

57. By memorandum dated 22 August 1988 to respondent’s Stinger Project Office, Mr. Nicholson stated that appellant had requested a royalty payment and “[w]e will be forced to honor their request unless we can come up with a valid reason not to. It is therefore requested that the Stinger Project Office assist this office in conducting an investigation that may possibly lead to a reason to deny [appellant’s] request.” (SR4, tab 125 at 1) He proposed the “subject invention” doctrine as one avenue, and added that, “[i]f there is a substantial difference between the present configuration of the RMP in the Stinger and the

invention as claimed in the patent, this would be a proper basis for denying [appellant's] request," although "[a]nother way to deny [appellant's] request is to determine that the patent is invalid" (*id.*; underscoring in original). At trial, Mr. Nicholson explained that the Stinger Project Office was "hostile" to appellant's request, that he wanted to impress upon them that the request was "for real," and that he was "looking for a reason not to pay the claim" (tr. 663, 685).

58. Mr. Nicholson responded to Mr. Bjelke's 1 August 1988 request (*see* finding 56) by letter dated 25 October 1988. He advised Mr. Bjelke that "[m]any problems have surfaced related to your request," and specifically raised the subject invention issue, asserting that the Europeans "will not be building the entirety of the claimed invention in the foreseeable future" and hence there was no potential for infringement. (R4, tab 27) While appellant had first addressed the subject invention issue with Mr. Garvin in July 1985 (tr. 588-89; R4, tab 7), we find that, following Mr. Nicholson's letter, the parties debated the issue from October 1988 to June 1992, when respondent concluded that appellant had presented sufficient evidence to establish that the doctrine was inapplicable (R4, tab 55 at 2; *see also* tabs 27, 33, 36-37, 40-41, 44-46, 50, 52; tr. 680).

59. By memorandum to the file dated 11 July 1989, Mr. Gault set forth the results of a meeting that day with Mr. Nicholson, stating that:

we discussed clause H-17 under the RMP development contract . . . , as well as the similar provision under the Stinger NATO license . . . . Both of these provisions provide for additional compensation under the domestic and NATO licenses respectively if the Contractor's patent rights beyond those previously covered by the licenses are actually "included in the contracts" (i.e. actually built by others).

(SR4, tab 135 at 1)

#### L. *Claims and Appeal*

60. By date of 28 February 1995, appellant submitted a certified request for equitable adjustment for an initial payment of \$16,700,000 for inclusion of the RMP into the Stinger, as well as for running royalties on Stinger RMP missiles produced in quantities over 20,000 and less than 50,000 rounds (R4, tab 59 at 1). Thereafter, by decision dated 24 January 1996, the procuring contracting officer denied the request for equitable adjustment (R4, tab 66). Subsequently, by date of 18 September 1998, appellant submitted a certified claim to the contracting officer for an initial royalty premium of \$12,500,000, an escalation fee calculated according to the escalation provision of the contract, and an additional running royalty of .9 percent for each unit produced between 20,000 and 50,000 units (R4, tab 95 at 1-13). Appellant requested "a Final Decision on this claim under the

DISPUTES clause [*see* finding 33] contained in the Contract” (*id.* at 3). Thereafter, by decision dated 22 March 1999, the contracting officer denied appellant’s claim in its entirety (R4, tab 102). This timely appeal followed.

## DECISION

### *A. Motion to Reopen the Record*

As this appeal was nearing decision, respondent moved to reopen the record, asserting that a recent office action by the U.S. Patent and Trademark Office (PTO) in an *ex parte* reexamination of the ’170 patent may warrant dismissal of the appeal without prejudice. From the motion papers, it appears that, by date of 13 February 2003, the PTO initiated an *ex parte* reexamination of the ’170 patent, rejecting all 25 claims of the patent, citing 35 U.S.C. §§ 102(b), 103. It further appears that, by date of 10 March 1993, the European Patent Office granted European patent No. EP 0 201 001 to appellant for a system for providing reprogramming data to an embedded processor (Appellant Raytheon’s Opposition to Government’s Motion to Reopen the Record (Opp’n), Declaration of David P. Walsh (Walsh decl.), ¶ 3; *see also* R4, tab 53). It is undisputed that this patent is the European equivalent to the ’170 patent, and was in force, as of April 2003, in Austria, Switzerland, Liechtenstein, Germany, Luxembourg, the Netherlands, France and the United Kingdom (Walsh decl., ¶ 2). No challenges were made to the validity of patent No. EP 0 201 001, either before the European Patent Office within nine months of the time it was granted, or thereafter in any of the nations in which the patent was current and in force (Walsh decl., ¶¶ 4-6).

Respondent urges us to reopen the record to admit the results of the PTO’s reexamination, and insists that, if the reexamination becomes final, “the patent is void,” as a result of which appellant’s “claim for royalties based upon the RMP patent must fail.” (Government’s Motion to Reopen the Record Under Board Rule 13 and F.R.C.P. 60(b) (Motion) at 6) Respondent intimates that “a dismissal without prejudice [under our Rule 30] pending the final outcome of the PTO reexamination” may be warranted (*id.*). Appellant vigorously opposes the motion, contending principally that even a finding of invalidity regarding the ’170 patent will not affect the European patent, which has not been challenged. Appellant further asserts that respondent is estopped from challenging the validity of the ’170 patent, and that, in any event, reopening now would be unfairly prejudicial to appellant.

We deny the motion for two reasons. First, the PTO reexamination proceedings do not involve the European patent, and the NATO License Agreement by its terms covers “any and all inventions disclosed in any patents or patent applications, both US and foreign” (finding 13). Hence, we cannot conclude from the existing record and the motion papers that termination of the reexamination proceedings unfavorably to appellant will dictate dismissal of this appeal. Second, the reexamination proceedings are now too preliminary to

add anything of probative value to the record. At this juncture, the office action establishes only the pendency of a reexamination proceeding. So far as appears from the motion papers, no final office action has issued, finally rejecting one or more claims or determining that all claims meet the requirements for patentability. *See* 37 C.F.R. §§ 1.104-1.113, 1.550(a). While the regulatory mandate is that reexamination proceedings “will be conducted with special dispatch,” 37 C.F.R. § 1.550(a), the motion papers contain an uncontroverted affidavit from an experienced practitioner attesting that “[t]he time between an order for an *ex parte* reexamination and a final rejection of the claims or a determination that all claims meet the requirements for patentability can be expected to be around 1 year, although the process can take longer.” (Opp’n., Declaration of David H. Voorhees, ¶ 8)

Given these considerations, we do not agree that “a dismissal without prejudice [under our Rule 30] pending the final outcome of the PTO reexamination” may be warranted. (Mot. at 6) “A Rule 30 dismissal without prejudice is discretionary with the Board.” *Airborne Industries, Inc.*, ASBCA Nos. 45491 *et al.*, 95-1 BCA ¶ 27,496 at 137,032. Putting to one side the additional time for appeal to the Board of Patent Appeals and Interferences, *see* 35 U.S.C. §§ 134(b), 306, and for judicial review, *see* 35 U.S.C. §§ 141, 145, 306, we nonetheless decline to exercise that discretion to delay this already protracted appeal for the time necessary to await the resolution of the reexamination proceedings.

#### B. *Merits*

The issue dividing the parties on the merits relates to the effect of the changes that Amendment 1 made to Article IV.B. of the NATO License Agreement. In considering this issue, it is useful to set out the text of Article IV.B., with the reference to the Stinger RMP and the disputed sentence added by Amendment 1 in italics. The amended Article IV.B. thus reads:

B. For the utilization of all or any part of the data and know-how licensed pursuant to this CONTRACT, CONTRACTOR further grants and conveys to the GOVERNMENT, as represented by the Secretary of the Army, an irrevocable, nonexclusive, transferable license to practice or cause to be practiced by all NATO nations and their contractors in the manufacture in, or sale or grant to, NATO countries and the use of the STINGER/POST Weapon System *and STINGER-RMP Weapon System* throughout the world, or any part thereof, in accordance with law any and all inventions disclosed in any patents or patent applications, both US and foreign, now owned or controlled by the CONTRACTOR or with respect to which CONTRACTOR, on the effective date of this

CONTRACT has the right to grant licenses, or any such inventions which become the property of or controlled by CONTRACTOR or with respect to which CONTRACTOR will acquire the right to grant licenses, to include, but not be limited to, [specified American and foreign patents and patent applications, but not including the '170 patent].

*Notwithstanding the above, the GOVERNMENT recognizes the CONTRACTOR's right for future consideration if patent rights directed to the Reprogrammable Microprocessor (RMP) improvement made to the STINGER/POST Weapon System are actually included in this CONTRACT.*

(Findings 13, 30) Appellant's position is that, by Amendment 1, "the broad grant of patent rights [previously present in Article IV.B.] was expanded to include rights in the RMP Weapon System." (Appellant Raytheon's Initial Post-Hearing Memorandum (App. br.) at 20) Thereafter, upon the grant of the '170 patent (*see* finding 50) and respondent's submission of the initial payment under Option 3 (*see* finding 53), the NATO License Agreement became effective and respondent received an irrevocable, transferable license in the RMP Weapon System as defined in Exhibit E to the Agreement (*see* finding 34), including all existing and future patent rights covering the system. At that point, appellant urges, "the RMP patent rights were 'actually included' in the License Agreement and [appellant] was entitled to 'future consideration'." (App. br. at 21)

Respondent presses a contrary interpretation of the effect of Amendment 1. Respondent insists that the '170 patent "is specifically excluded in the . . . [Article IV.B.] license grant for future patents, *i.e.*, no express license." This exclusion arises, according to respondent, from the terms "[n]otwithstanding the above" that appear in the disputed sentence that Amendment 1 added to the end of existing Article IV.B. The terms "[n]otwithstanding the above," respondent urges, take away the express grant of patent rights in the RMP technology that appear "above" in existing Article IV.B. Hence, before appellant is entitled to recover, the NATO License Agreement "must be amended to 'actually include' the ['170] patent in the [Agreement] and provide for an increase in fees and royalties. It is undisputed that such an amendment has not occurred." (Government's Post Hearing Brief and Reply Brief (Resp. br.) at 58, 61-62) Among its affirmative defenses, respondent also contends that the claimed agreement would violate AR 27-60 (*see* findings 43-44) and hence would be void in any event. (*Id.* at 82, 84)

After considering the evidence of record and the parties' submissions, we conclude that the appeal should be sustained. We conclude that respondent's rights in the RMP technology were "included" in the NATO License Agreement as amended when respondent exercised payment Option 3 under Amendment 1. We reach this conclusion for the reasons set forth below.



*First*, the broad legal principles governing our analysis are well settled. Thus, “a patent license agreement is in essence nothing more than a promise by the licensor not to sue the licensee.” *Spindelfabrik Suessen-Schurr Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed. Cir. 1987) *cert. denied*, 484 U.S. 1063 (1988). “Whether express or implied, a license is a contract ‘governed by ordinary principles of state contract law.’” *McCoy v. Mitsuboshi Cutlery, Inc.*, 67 F.3d 917, 920 (Fed. Cir. 1995) *cert. denied*, 516 U.S. 1174 (1996), *quoting Power Lift, Inc. v. Weatherford Nipple-Up Sys., Inc.*, 871 F.2d 1082, 1085 (Fed. Cir. 1989). Applying District of Columbia law here (*see* finding 15), we are guided by the principle that a contract “must be interpreted as a whole, giving a reasonable, lawful and effective meaning to all its terms,” *1010 Potomac Assocs. v. Grocery Manufacturers of America, Inc.*, 485 A.2d 199, 205 (D.C. 1984); *see also Phenix-Georgetown, Inc. v. Chas. H. Tompkins Co.*, 477 A.2d 215, 225 (D.C. 1984) (holding that “contracts will be read as a whole, and every part will be interpreted with reference to the whole”). In addition, under District law, “[i]f [a] document is facially unambiguous, its language should be relied upon as providing the best objective manifestation of the parties’ intent.” *1010 Potomac Assocs.*, *supra*, 485 A.2d at 205, citing *Bolling Federal Credit Union v. Cumis Insurance Society, Inc.*, 475 A.2d 382, 385 (D.C. 1984). Nonetheless, if the terms of the contract are ambiguous, then parol evidence may be considered to determine that intent. *E.g.*, *Davis v. Davis*, 471 A.2d 1008, 1009 (D.C. 1984).

*Second*, it is undeniable that, under the terms of the original NATO License Agreement itself, respondent could receive a broad grant of rights in the Stinger POST. The scheme of the original Agreement is largely undisputed. It was in the nature of an option. *See West End Tenants Assoc. v. George Washington University*, 640 A.2d 718, 728-29 n. 21 (D.C. 1994) quoting *Tate v. Wood*, 289 S.E.2d 432, 434 (W.Va. 1982) (“An option to purchase is not a sale nor an agreement to sell: it becomes an executory contract only when properly accepted within the stipulated time.”). In the terms of Article VI, upon respondent’s selection and compliance with either payment Option 1 or Option 2 of the original Agreement, “this CONTRACT shall be made effective” (finding 14). Article XI reiterated this principle (finding 16). Thereupon, respondent would receive an irrevocable, transferable license in the technical data and know-how for Stinger POST, as provided in Article IV.A. (finding 12). Respondent also would receive a broad grant in the patent rights to Stinger POST under Article IV.B. In particular, respondent would receive an irrevocable, transferable license to practice, or cause to be practiced, any inventions disclosed in patents or patent applications relating to Stinger POST.

*Third*, putting to one side the disputed sentence that Amendment 1 added to the end of existing Article IV.B., other provisions of the amendment broadened the NATO License Agreement to embrace patent rights in the Stinger RMP. Amendment 1 contained multiple unambiguous expressions that we treat “as providing the best objective manifestation of the parties’ intent,” *1010 Potomac Assocs.*, *supra*, 485 A.2d at 205, to confer a license in the RMP technology. Thus, the parties stated in the recitals of Amendment 1 that its purposes

included “amending the CONTRACT to add the STINGER-RMP Weapon System thereto” (finding 27). Among the provisions of the amendment, the parties agreed to insert the words “STINGER-RMP Weapon System” after the words “the STINGER/POST Weapon System” wherever the latter appeared in the NATO License Agreement, with two exceptions not relevant here (finding 28). The parties also agreed to rewrite Article IV.D. of the original Agreement to provide that, upon the exercise of Option 3, “the license rights herein granted will cover all applications of the STINGER/POST Weapon System and the STINGER-RMP Weapon System” (finding 31). Finally, just as they had included an exhibit in the original Agreement defining Stinger POST by reference to its system specification and the components (finding 10), in Amendment 1 they described in detail the then-existing configuration of Stinger RMP (finding 34). Taken together, this language expanded the technology for which a license option could be exercised from Stinger POST alone to Stinger RMP as well. Disregarding the disputed sentence that Amendment 1 added to the end of existing Article IV.B., and inserting the italicized Amendment 1 changes, respondent received “an irrevocable, nonexclusive, transferable license to practice or cause to be practiced by all NATO nations and their contractors in the manufacture in, . . . NATO countries and the use of the STINGER/POST Weapon System *and STINGER-RMP Weapon System* . . . any and all inventions disclosed in any patents or patent applications . . . .” (findings 13, 28).

*Fourth*, the disputed sentence that Amendment 1 added to the end of existing Article IV.B. is ambiguous. Under District law, the determination of ambiguity is to be made on the “face of the [contract] language itself, giving that language its plain meaning, without reference to any rules of construction.” *Sacks v. Rothberg*, 569 A.2d 150, 154 (D.C. 1990) quoting *Kass v. William Norwitz Co.*, 509 F. Supp. 618, 625 (D.D.C. 1980). Moreover, “[u]nder the law of the District of Columbia, a contract is ambiguous when it is reasonably susceptible of different constructions or interpretations, or of two or more different meanings. . . .” *Rastall v. CSX Transportation, Inc.*, 697 A.2d 46, 51 (D.C. 1997) quoting *Kass, supra*, 509 F.Supp. at 623-24.

Two provisions of the disputed sentence qualify as ambiguous. The first is the introductory phrase “[n]otwithstanding the above.” Appellant reads this phrase as a qualification relating to consideration, *viz.*, while the “above” grant of a license in patent rights on the RMP technology provided for no consideration, the introductory clause was to make clear that the ensuing provisions of the sentence set forth the circumstances under which appellant could be entitled to “future consideration.” (App. br. at 27) By contrast, respondent reads the phrase as a qualification related, not to consideration, but to the grant of a license. That is, the phrase qualifies or takes away the “above” express grant of a license for present and future patents relating to RMP technology, so that the remainder of the disputed sentence may set forth the circumstances under which such rights may be included in the contract. (Resp. br. at 62) Recognizing that the parties’ disagreement over the proper construction of contract terms does not in itself produce ambiguity, *Sacks, supra*, 569 A.2d at 154-55, we nonetheless conclude that the phrase is ambiguous. The

phrase “is not defined” in Amendment 1 itself (finding 30), *id.*, at 155, and it is not clear from the face of the instrument what portion of Article IV.B, or of any other preceding part of the NATO License Agreement, is meant by “above” and the term is reasonably susceptible of different interpretations. *Rastall, supra*, 697 A.2d at 51.

The second ambiguous provision appears in the condition at the end of the disputed sentence and provides for future consideration if RMP patent rights “are actually included in this CONTRACT” (finding 30). Appellant interprets the phrase to mean that, following the grant of the ’170 patent, the rights thereto were “included” when respondent notified appellant of the selection of a payment option under Article XI of the NATO License Agreement (*see* finding 16) and submitted the initial payment (*see* finding 14). (App. br. at 28-30) By contrast, respondent construes this phrase to mean that, once appellant receives patent rights in the RMP technology, they must be “included” by further separate amendment to the NATO License Agreement. (Resp. br. at 62-63) Again recognizing that the parties’ disparate interpretations do not in themselves create ambiguity, *Sacks, supra*, 569 A.2d at 154-55, we conclude that the phrase is ambiguous. How RMP patent rights become “included” is not elsewhere defined in Amendment 1 (finding 30), and the phrase is reasonably susceptible of different interpretations. *See Rastall, supra*, 697 A.2d at 51.

*Fifth*, the District follows “[t]he general rule . . . that in interpreting an ambiguous contract, extrinsic evidence ‘may be admitted to explain the surrounding circumstances and the positions and actions of the parties at the time of contracting.’” *Rastall, supra*, 697 A.2d at 51 quoting *Rivers & Bryan, Inc. v. HBE Corp.*, 628 A.2d 631, 635 (D.C. 1993).

Considering the extrinsic evidence regarding contract formation, we conclude that the parties intended the first ambiguous phrase, “[n]otwithstanding the above,” to refer to consideration. That is, they intended to denote that the disputed sentence which followed stood in apposition to the preceding provisions of Article IV.B., as amended, which provided for no present consideration for RMP patent rights. The parties appear to agree, and so do we, that Amendment 1 is the amendment contemplated by the parties in clauses H-17.C. of the RMP Development Contract (*see* finding 24) and H-33.C. of the RMP Production Contract (*see* finding 25). (Resp. br. at 68; Appellant Raytheon’s Post-Hearing Memorandum in Reply (reply br.) at 10) Indeed, in forwarding his draft of Amendment 1 to Mr. Bjelke, Mr. Garvin specifically referred to clause H-17 (finding 48), and other expressions confirm this provenance (findings 37-38, 45-46). It is significant that neither clause H-17, nor clause H-33.C. addresses the withdrawal of previously-granted patent rights. Both clauses do, however, address arrangements for future consideration. In clause H-17.C., and in clause H-33.C., appellant agreed to incorporate improvements to Stinger POST “with no increase in any of the payments” required under the NATO License Agreement (findings 24-25). In both clauses, the parties thereafter clarified their mutual understanding that the lack of present consideration was conditioned upon explicit recognition of appellant’s entitlement to “future consideration if such patent rights [to the Stinger POST improvements] are actually included in” the NATO License Agreement (*id.*).

The arrangements for future consideration in clauses H.17.C. and H-33.C. are consistent with Mr. Bjelke's explanation that, while amended Article IV.B. "said that there wouldn't be any additional consideration, . . . what [the introductory phrase of the disputed sentence] says is, notwithstanding that, that if the . . . R.M.P. rights are actually included in this contract, we have a right to future consideration" (finding 40).

Reading the "[n]otwithstanding the above" term to relate to consideration is also consistent with the intent of the parties as expressed in the recitals to Amendment 1. The parties there announced that they were "desirous of amending the CONTRACT to add the STINGER -RMP . . . thereto" (finding 27), not of adding and deleting RMP patent rights in the same instrument. Similarly, the reading that we have given the term is consistent with the testimony of both Mr. Bjelke and Mr. Garvin that they intended by the disputed sentence to defer what Mr. Garvin characterized as "definite financial arrangements" regarding the then unissued RMP patent (finding 38). *See Q.G. Products, Inc. v. Shorty, Inc.*, 992 F.2d 1211, 1213 (Fed. Cir.), *cert. denied*, 510 U.S. 868 (1993) (recognizing that patent examiners' rejections of some or all claims "often occur as part of the normal application process").

With respect to the second ambiguous phrase, "actually included in this CONTRACT," we conclude that the parties intended that, once the '170 patent was issued, the rights to it would be "included" by making the NATO License Agreement, as amended, an executory contract through the required notice from respondent (*see* finding 16), the selection of the a payment option (*see* finding 14), and the tender of payment (*see id.*).

In evaluating the testimony of the two negotiators of Amendment 1, we have found Mr. Bjelke's version more credible than Mr. Garvin's. Mr. Bjelke's explanation is encapsulated in his testimony that "when the Government pays us the money . . . the license now is effective . . . and the Government then gets the rights to everything, including the - the R.M.P. patents. That's included in the contract" (finding 41). The explanation does not vary applicable contract provisions. It is consistent with the revised Article IV.D. that the parties added by Amendment 1, providing that, upon selection of Option 3, "the license rights herein granted will cover all applications of the STINGER/POST . . . and the STINGER-RMP" (finding 31). Mr. Bjelke's explanation is also consistent with Articles VI and XI (*see* findings 14, 16), making the NATO License Agreement an option contract, and with the preceding language of the disputed sentence, which describe the "patent rights directed to" the RMP technology (*see* finding 30) that appellant did in fact hold at the time of option selection (*see* findings 50, 53).

By contrast, we cannot accept Mr. Garvin's testimony that the parties intended that an additional amendment would be required to "include" the '170 patent (*see* finding 42). While Mr. Garvin may have harbored such an interpretation, no such mutual intention is expressed in the recitals to Amendment 1 (*see* finding 27) and we have already rejected

respondent's theory that the "[n]otwithstanding the above" clause took away patent rights conveyed earlier in Article IV.B. as amended.

We also cannot accept Mr. Garvin's testimony because it is integrally related to the claimed constraints of AR 27-60 (*see* findings 42, 44). By contrast to the construction of the NATO License Agreement and Amendment 1, which is governed by District law, the question of the authority of the officials who executed those instruments is a matter of Federal law. *E.g.*, *Federal Crop Insurance Corp. v. Merrill*, 332 U.S. 380, 384 (1947); *City of Cincinnati v. United States*, 153 F.3d 1375, 1377 (Fed. Cir. 1998). We recognize that in *Zacharin v. United States*, 34 Fed. Cl. 609, 615 (1996), *vacated and remanded on other grounds*, 108 F.3d 1391, 1997 U.S. App. LEXIS 2491 (Fed. Cir. 1997), the Court of Federal Claims held that AR 27-60 made the Chief, Patents Division the "sole authority" to procure a patent license on behalf of the Army. We nonetheless decline to follow *Zacharin*, which involved the authority of a patent attorney at Picatinny Arsenal. Here, the contracting officer for both the NATO License Agreement and Amendment 1 was the Command Counsel of the U.S. Army Materiel Command, and the record establishes that he exercised delegated authority making him "the only person within [the Command] designated to procure patent rights" (finding 36). The evidence of record regarding the Command Counsel's authority is consistent with 10 U.S.C. § 2386, which was the cited authorization for the NATO License Agreement (finding 9), and which generally authorized military departments to acquire patents, patent applications and licenses. It is also consistent with 32 C.F.R. § 599.406-50 (1986), which provided:

(a) Acquisition of Licenses and Releases of Past Infringement – the Commanding General, U.S. Army Materiel Command; the Chief of Engineers; The Surgeon General; the SAFEGUARD System Manager; and the designees of any of the foregoing are authorized, subject to the limitations of this part and Subpart D, Part 9 of this title, to acquire the rights described in 10 U.S.C. 2386 and to enter into agreements in settlement of claims thereunder. Other procuring activities shall obtain written approval of a proposed agreement from the addressee in § 591.150(b)(1) of this chapter through the Chief, Patents Division . . . .

### CONCLUSION

Respondent's motion to reopen the record is denied. The appeal is sustained as to entitlement only.

Dated: 27 August 2003

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ALEXANDER YOUNGER  
Administrative Judge  
Armed Services Board  
of Contract Appeals

(Signatures continued)

I concur

I concur

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MARK N. STEMLER  
Administrative Judge  
Acting Chairman  
Armed Services Board  
of Contract Appeals

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EUNICE W. THOMAS  
Administrative Judge  
Vice Chairman  
Armed Services Board  
of Contract Appeals

I certify that the foregoing is a true copy of the Opinion and Decision of the Armed Services Board of Contract Appeals in ASBCA No. 52226, Appeal of Raytheon Company, Inc., rendered in conformance with the Board's Charter.

Dated:

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EDWARD S. ADAMKEWICZ  
Recorder, Armed Services  
Board of Contract Appeals