

THE UNIQUE WORLD OF GOVERNMENTAL INTELLECTUAL PROPERTY: WHO HAS RIGHTS TO WHAT?

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Overview

- Rights in Technical data and computer software
- Patent Rights
- Government IP issues in transactions

Rights in Technical Data and Computer Software - Rights Allocation

- Contractor gets title!
- USG gets a license
- General categories of government license rights in computer software & technical data
 - Unlimited rights
 - Government purpose rights (DoD Only)
 - Restricted rights (computer software) / Limited rights (technical data)
 - Specifically negotiated rights

Unlimited Rights

- USG has the right to do whatever it wants with the software/tech data
 - *E.g.*, Right to publish in The New York Times
- USG can grant third parties rights as well

Limited Rights in Technical Data

- May be reproduced or used by the USG
 - The USG may not give computer software to competitors
- May not be disclosed outside the USG or used for manufacture
- FAR Exception (FAR 52.227-14, Alt. II)
 - Be aware of other permitted uses listed in the contract!
- DFARS Exceptions (DFARS 252.227-7013(a)(14))
 - Emergency repair
 - To USG support contractor
 - To foreign government if in the interest of the U.S.
 - Subject to certain restrictions & contractor notification

Restricted Rights in Computer Software

- USG may:
 - Use a computer program with one computer at one time
 - May not be accessed, at one time, by more than one terminal or CPU
 - May not be time shared
 - Transfer to another USG agency computer
 - Make copies for safekeeping (archive), backup, or modification purposes
 - Modify computer software
 - Generally may not disclose to competitors
 - Permit service contractors to use computer software to diagnose/correct deficiencies, or to modify to respond to urgent tactical situations
 - Disclose to contractors for emergency repair and overhaul
- FAR 52.227-14; DFARS 252.227-7014(a)(15)

Government Purpose Rights

- DFARS concept only
- Right to use within the USG without restriction
- Right to authorize others to use for any USG purpose
 - Primarily for reprocurement purposes
- Expire after a period of years and become unlimited rights



Determining the USG's License



- *Was the data first produced in performance of the contract?*



- *Did the USG pay for the development?*

General Rules: Determining When the USG Gets Unlimited Rights in Technical Data

Civilian (FAR)

- First produced in performance of USG contract, irrespective of funding

DoD (DFARS)

- Item, component or process developed exclusively with USG funds
- Tech data created exclusively with USG funding where contract does not require development, manufacture, construction, or production of items, components, or processes

Civilian & DoD

- Other specific categories, *e.g.*, form, fit & function data; manuals or instructional and training materials for installation, operation, or routine maintenance or repair

General Rules: Determining When the USG Gets Unlimited Rights in Computer Software

*Civilian
(FAR)*

- First produced in performance of USG contract, irrespective of funding

*DoD
(DFARS)*

- Developed exclusively with USG funds
- S/W documentation required to be delivered under the contract
- Corrections or changes to s/w or documentation furnished by USG

General Rules: Determining When the USG Gets Limited Rights in Technical Data / Restricted Rights in Noncommercial Computer Software

*Civilian
(FAR)*

- Not developed in performance of USG contract; and
- Developed at private expense

*DoD
(DFARS)*

- Item, component, process or software developed exclusively at private expense
- Tech data created exclusively at private expense where contract does not require development, manufacture, construction, or production of items, components, or processes

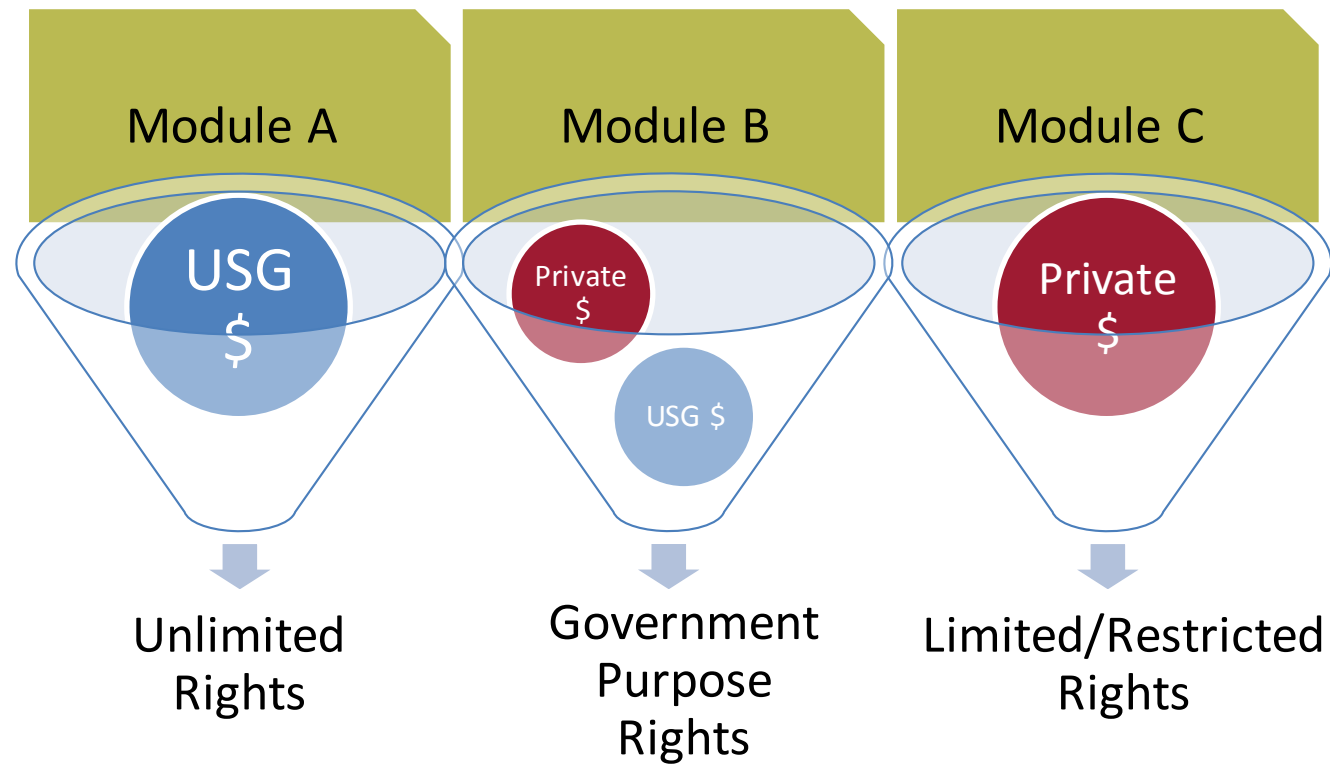
General Rules: Determining When the USG Gets Government Purpose Rights in Technical Data & Noncommercial Computer Software

- Civilian
(FAR)* {
- N/A
- DoD
(DFARS)* {
- Item, component, process, or software developed with mixed funding, *i.e.*, some USG & some private/indirect funding
 - Tech data created with mixed funding where contract does not require development, manufacture, construction, or production of items, components, or processes

Private Expense Determination

- Developed exclusively at private expense
 - FAR silent, but DFARS informative
 - “development was accomplished entirely with costs charged to indirect cost pools, costs not allocated to a government contract, or any combination thereof” DFARS 252.227-7013(a)(8), 252.227-7014(a)(8)
- Developed exclusively at U.S. Government expense
 - Direct contract charges
- Segregability
 - Private expense determinations should be made at the lowest practicable level (*e.g.*, software subroutine)
 - Must segregate in proposals what is developed at private expense
 - If you cannot segregate, then → mixed funding, GPR under DFARS, unlimited rights under FAR
- For fixed price contracts, if costs exceed fixed price, additional costs not considered for rights allocation

Private Expense Determination



When is an Item, Component, or Process “Developed”?

- Why do I care?
- An item, component, or process exists and is workable
- The item or component must have been constructed or the process practiced
- Workability is generally established when the item, component, or process has been analyzed or tested sufficiently to demonstrate to reasonable people skilled in the applicable art that there is a high probability that it will operate as intended

DFARS 252.227-7013(a)(7)

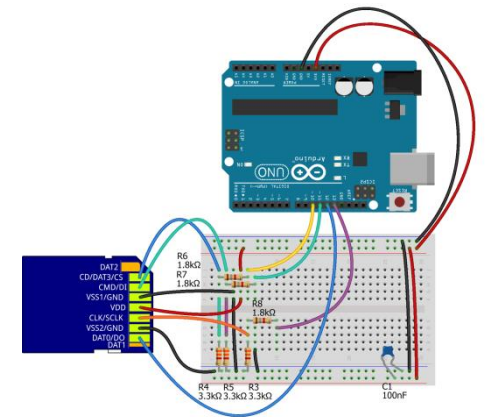
When is Software “Developed”?

- Computer program (*e.g.*, object code)
 - Successfully operated in a computer and tested
 - To demonstrate to reasonable persons skilled in the art
 - Program can reasonably be expected to perform its intended purpose
- Computer software (*e.g.*, source code)
 - No operation required
 - Only “tested or analyzed”
- Computer software documentation
 - Written in any medium

DFARS 252.227-7014(a)(7)

Examples of “Developed”

- *Applied Devices Corp., B-187902, 77-1 CPD ¶ 362*
 - Breadboard of a radar set deemed developed
 - Subsequent government funds to convert to a manufactured item did not give government unlimited rights
- *Dowty Decoto, Inc. v. Dep’t. of the Navy, 883 F.2d 774 (9th Cir. 1989)*
 - Aircraft “repeatable holdback bars” achieved workability prior to government funded improvements improved performance

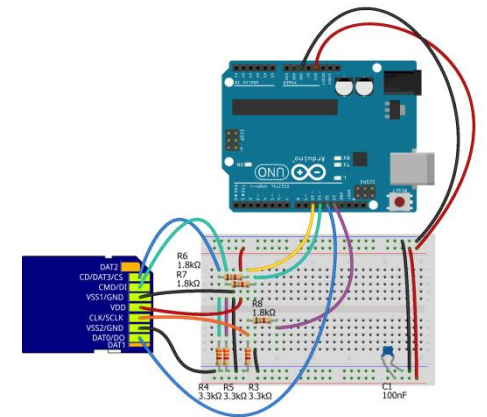


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Subcontractor Rights

- Subcontractors entitled to the same protections as prime contractors



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Traps for the Unwary

- Marking Requirements
- Maintaining Records
- Other Data Rights Clauses

Notice/Marking

- Must provide notice and mark **all** data exactly as required or risk a grant of unlimited rights to the government
 - Unlabeled data is unlimited rights data
- Proposal must include table identifying what data/software is being delivered with other than unlimited rights

Marking Requirements – Noncommercial Computer Software

- Contractor may only assert restrictions on the USG's rights to use, modify, reproduce, release, perform, display, or disclose computer software by marking the deliverable software or documentation subject to restriction
- Exception: the “combat” scenario

Marking Practical Pointers for Contractors

- Mark the software/tech data you are delivering to the USG
 - Mark when software/technical data is created
- Use the required FAR/DFARS labels
 - Do not get creative
- Have a gate keeper for communications with the USG
 - Avoid direct Contractor engineer to USG engineer electronic or paper correspondence

Data Assertions Table

- Proposal must include table identifying what data/software is being delivered with other than unlimited rights. For example (DoD procurement):

Description	Asserted Rights	Basis of Assertion
Computer Program X.1	Restricted Rights	Developed exclusively at private expense
Drawing No. 2	Limited Rights	Component developed exclusively at private expense
Specification No. 7	Government Purpose Rights	Component developed with mixed funding

Validation of Marking Requirements

- USG may require contractors to provide data to justify restrictive markings
 - Failure to respond may provide a basis for questioning restrictions
 - May result in government unilaterally modifying an asserted mark
- FAR 52.227-14(e); DFARS 227.7103-13

Government Challenge Procedures

- Pre-challenge request for information
- Challenge must
 - Must be in writing
 - Must provide basis for the challenge
- The Contractor is required to respond within 60 days providing justification for the marking
- The Contracting Officer may
 - Extend the time for a response
 - Request additional supporting documentation
- The Contracting Officer must issue a final decision
- USG will honor the asserted restriction during any appeal of that final decision
- USG deals directly with subcontractors/suppliers in challenging such restrictions

Maintaining Records

- Contractors need to maintain an accounting system to track what is:
- Developed in the performance of a contract
- Developed exclusively at private expense
- DFARS 252.227-7019(b):
- “The Contractor shall maintain records sufficient to justify the validity of any markings that assert restrictions on the Government's rights to use, modify, reproduce, perform, display, release, or disclose computer software delivered or required to be delivered under this contract and shall be prepared to furnish to the Contracting Officer a written justification for such restrictive markings in response to a request for information”

Maintaining Records - Practical Pointers

- Upfront planning required -- Define scope of each development effort, whether in-house or under contract and confirm no overlap between IR&D and contract work
 - Design modifications – must use the same analysis
- Track the development effort from a technical standpoint to make sure that it stays consistent with the original charter
- Maintain separate charge accounts for each new development effort and maintain traceability between the charge accounts and the technical documentation
 - Put charge codes on technical data/software when created
- Retain the development records (technical and accounting)
 - Exempt from document destruction policy

Other Data Rights Clauses

- Beware of other data rights clauses, such as:
 - FAR 52.227-17, Rights in Data – Special Works
 - Reach-Back Clauses:
 - FAR 52.227-16, Additional Data Requirements
 - DFARS 252.227-7027, Deferred Ordering of Technical Data or Computer Software
 - Agency-specific clauses, for example:

DATA RIGHTS. The Government has unlimited rights to all documents/material produced under this contract. All documents and materials, to include the source code of any software and associated documentation produced under this contract shall be Government owned and are the property of the Government with all rights and privileges of ownership/copyright belonging exclusively to the Government. The Contractor shall not use or sell these documents and materials without written permission from the KO. The Contractor shall not use materials supplied by the Government for any other purpose. The materials shall be the sole property of the Government. This right does not abrogate any other Government rights.

Other Special Data Rights Clauses – Practical Pointers for Contractors

- Review IP clauses before submitting proposal or signing contract/task order/modification
- Consider taking exception to the special clause
 - Ask the USG/Prime to delete them
 - Where appropriate, argue that FAR or DFARS does not require incorporation of the clause
 - Consider explaining how incorporation of special clause will impact contract administration and/or cost
 - Consider proposing alternative or custom clauses

Other Considerations

- License Rights vs. Delivery
- Specifically Negotiated Rights
- Commercial items/commercial computer software

License Rights vs. Delivery

- License \neq Right to Require Delivery
- Delivery governed by contract requirements
 - Negotiate delivery requirements carefully (*e.g.*, source code)
- Carefully control delivery of computer software and technical data
 - Deliver only what is required
 - For example, if contract only requires delivery of object code and instruction manuals, do not deliver source code
- Can get additional compensation for additional delivery requirements
- Beware of reach-back clauses

Specifically Negotiated Rights

- USG is not tied to standard FAR & DFARS rights allocation
- May negotiated rights other than “standard” rights
- But at minimum: Limited/Restricted Rights
- Must include license agreement as part of the contract

Commercial vs. Noncommercial

- Contractors often want their products to be deemed commercial items
- Why:
 - Rights grant is generally more narrow
 - FAR/DFARS requirements may be waived
 - Standard commercial license terms often apply

Commercial Item Definition

- Multiple ways to qualify as a “commercial item” – FAR 2.101
- Most common definition:
 - Any item, other than real property
 - of a type customarily used by general public for nongovernmental purposes, AND
 - sold, leased, or licensed to the general public OR offered for sale, lease, or license

Rights in Technical Data Relating Commercial Items

- Compliance with the FAR and DFARS requirements may be excused
 - Including the marking requirements
- USG Rights
 - Some limited right to negotiation

Rights in Commercial Computer Software

- USG generally acquires rights under license customarily provided to the public
- Contractor not required to provide USG information not generally provided to the public
- USG gets only the rights stated in the license
- If USG needs additional rights – must negotiate

FAR 12.212

Commercial Items – Practical Pointers for Contractors

- Identify commercial items in proposal
 - If possible get USG concurrence
- Have a standard commercial license for technical data and computer software
- Use the commercial license
 - Must be slightly tailored for USG, e.g.:
 - Choice of law
 - Disputes
 - Indemnification

Commercial Items – Practical Pointers for Contractors

- Standard FAR and DFARS Clauses
 - If possible, avoid use of the FAR/DFARS “Commercial Item” clauses
 - FAR 52.227-19 Commercial Computer Software License
 - DFARS 252.227-7015 Technical Data – Commercial Items
 - License grants inconsistent with most commercial licenses

Trends in USG Approach to Commercial Items

- Increased emphasis in acquiring rights in technical data & computer software
 - Often allocation of rights in technical data computer software is an evaluation factor
 - VA Governing Law Clause
- Commercial licenses under increased scrutiny
 - GSA proposed rule identifies 15 unenforceable commercial terms, e.g.:
 - Definition of contracting parties
 - Contract formation
 - No click wrap licenses
 - No website license
 - Attach all licenses to contract
 - Automatic renewals of term-limited agreements
 - Future fees or penalties
 - Unilateral termination or modification by supplier
 - State/foreign law governed contracts
 - Confidentiality of agreement terms
 - Control of infringement actions
- More challenges to data rights markings

Technical Data & Computer Software – Summary

- Complex set of rules – not intuitive
- Need to actively manage data rights
- Consider central oversight of development
- When in doubt, ask questions before:
 - Submitting a proposal
 - Executing the contract
 - Delivering the data/software

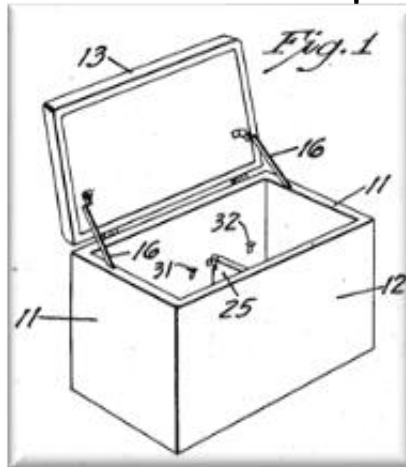
Patent Rights

- Background & Definitions
- Allocation of Rights to Subject Inventions
- Procedural Requirements for Perfecting Title
- Infringement

Background

Data Rights

- Right to the embodiment of the idea (e.g., drawing, software)
- Disclosure not required



Patent Rights

- Right to the idea
- Disclosure generally required
- Right to exclude others (see 35 U.S.C. § 271)



“Subject Invention”

- Subject Invention is any invention of the contractor *conceived or first actually reduced to practice* in the performance of work under a USG contract” (FAR 27.301)

FAR Allocation of Rights to Subject Inventions

- Two core issues:
 - Who gets the title to subject inventions?
 - What rights does the other party get?
- Allocation of rights defined by the applicable patent rights clause in the USG contract

FAR Allocation of Rights to Subject Inventions

- Contractor's right to elect to retain title (most agencies)
 - Contractor may elect to retain title to subject inventions. FAR 52.227-11(b)(1); DFARS 252.227-7038(b)(1).
 - If Contractor does not elect to retain title, USG gets the title and contractor only gets a non-exclusive license.
 - FAR 52.227-11(b)(2); DFARS 252.227-7038(b)(1).
- Some narrow exceptions to Contractor's right to elect to retain title
- Dept. of Energy and NASA generally requires large businesses to obtain a waiver in order to retain title to subject inventions

FAR Allocation of Rights to Subject Inventions

- USG license rights when contractor retains title
 - Minimum: Nonexclusive, nontransferable, irrevocable, paid-up license to practice, or have practiced for, *or on behalf of, the USG* throughout the world
 - May have additional rights to sublicense to any foreign government or international organization to effectuate treaties or international agreements

FAR Allocation of Rights to Subject Inventions

- USG's right to receive title
 - USG has right to receive title if:
 - Contractor has failed to disclose in a timely manner
 - Contractor has not elected to retain rights
 - Contractor has failed to pursue filing and prosecuting a patent

FAR Allocation of Rights to Subject Inventions

- USG’S “march-in rights”
 - Where contractor acquires title, USG can require contractor to license, or USG may license to others itself:
 - If contractor has failed to take adequate steps for practical application
 - To alleviate health or safety concerns
 - To meet requirements for public use
 - To meet domestic production preference

FAR 27.302(f)

FAR Allocation of Rights to Subject Inventions

- Contractor's license rights if USG takes title:
 - Revocable, nonexclusive, royalty-free license
 - Extends to domestic subsidiaries and affiliates
 - Includes right to sublicense
 - Transferable only with CO approval
 - May be revoked or modified by the USG to achieve expeditious practical application
- But Contractor receives no license if it fails to disclose subject invention and USG takes title

Government IP Issues in Corporate Transactions

- Sale of Government Contractors involve unique IP issues
 - IP Rights of Contractor
 - Impairment of those rights
 - USG rights
 - Other risks
- Due diligence by buyer
- Preparation by seller

Government IP Issues in Corporate Transactions – Due Diligence

- What were the contracting agencies?
- Unique IP provisions
 - Government ownership/restrictions on use
- Patents
 - Key patents
 - Processes in place?
 - Processes followed?
- Tech Data/Computer Software
 - Key tech data/computer software
 - Processes in place?
 - Processes followed?
- Seller reps
- Determine impact of issues on value

Government IP Issues in Corporate Transactions – Seller Side

- IP Audit
 - Identify assets
 - Identify issues
- Assemble/Update records
- Correct problems
- Maximize value
- Risks going forward

QUESTIONS?

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