

**DIVING INTO  
UNCHARTED WATERS**

Ounce of Prevention Seminar (OOPS)



# Government Contracts IP: Developments and Trends

Jon Baker

John McCarthy

Chris Garcia

Charles Baek

**DIVING INTO  
UNCHARTED WATERS**

Ounce of Prevention Seminar (OOPS)



# Legislative & Regulatory Updates

# 2018 NDAA – IP Provisions

- Section 802: IP within DoD
  - Requires DoD to develop IP acquisition and licensing policy that would enable coordination and consistency across DoD
    - Ensure program managers are aware of rules re IP rights allocations and that they fully consider and use all available techniques and best practices for acquiring/licensing IP early in the acquisition process
    - Encourage customized IP strategies for each system based on, at a minimum, the system's/component's unique characteristics, the product support strategy, the organic industrial base strategy, and the commercial market
  - Requires DoD to establish team of IP experts to be assigned to a program office

# 2018 NDAA – IP Provisions

- Section 835: Licensing of IP
  - Before selecting a contractor for engineering and manufacturing development or production of a major weapon system, DoD must negotiate a price for technical data to be delivered under the contract
  - Adds section to 10 U.S.C. § 2320 (re Rights in Technical Data) requiring DoD, “to the maximum extent practicable,” to negotiate and enter into specifically negotiated licenses for technical data to support the product support strategy of major weapon systems or subsystems

A vertical banner image on the left side of the slide. The top portion shows a large, jagged iceberg floating in blue water. Below the waterline, two divers are visible in silhouette, swimming towards the left. The bottom portion of the banner shows a diver in a black and yellow wetsuit swimming horizontally, also in silhouette.

**DIVING INTO  
UNCHARTED WATERS**

Ounce of Prevention Seminar (OOPS)

## **GSA Final Rule – Unenforceable Commercial Supplier Agreement Terms**

- When: 83 FR 7631 issued on February 22, 2018
- What:
  - Declares certain Commercial Supplier Agreement terms unenforceable as inconsistent with federal procurement law. For example:
    1. Indemnification & Arbitration provisions
    2. Provisions subjecting USG to state law
    3. Automatic renewal provisions
  - Allows terms to be incorporated by reference (proposed rule required full text to be included with offer)
- Why: eliminates the need for negotiation on now unenforceable terms and facilitates faster procurements

# NIST's Updates to Patent Rights Regulations

- The U.S. Department of Commerce's National Institute of Standards and Technology (NIST) issued a series of changes to regulations implementing the Bayh-Dole Act (codified at 35 U.S.C. § 200 *et seq.*), which govern rights in inventions made under federal funding agreements
- 37 CFR 401, Rights to Inventions Made by Nonprofit Organizations and Small Business Firms under Government Grants, Contracts and Cooperative Agreements
  - Implements Bayh-Dole
  - NIST's updates applicable to 37 CFR 401

# NIST's Updates to Patent Rights Regulations, Cont'd

- Effective May 14, 2018:
  1. No time limit on USG to demand title for untimely disclosed subject inventions (from 60 days → 0)
  2. Requires contractors to make inventor employees assign their patent rights
  3. More time for provisional applications: “automatic” one-year extension (unless agency denies within 60 days of request)
  4. Maintained requirement for substantial U.S. manufacture of subject inventions
  5. Confirmed Bayh-Dole’s application to large businesses
  6. Expands exceptions for the use of the standard patent rights clause

**DIVING INTO  
UNCHARTED WATERS**

Ounce of Prevention Seminar (OOPS)

# NIST's Updates to Patent Rights Regulations, Cont'd

- Bottom line:
  - Plenty of changes
  - Both substantive and timing related
  - Will changes be implemented in the FAR?



**DIVING INTO  
UNCHARTED WATERS**

Ounce of Prevention Seminar (OOPS)



# **Section 813 Government-Industry Advisory Panel Developments**

DIVING INTO  
UNCHARTED WATERS

Ounce of Prevention Seminar (OOPS)

## Government-Industry Advisory Panel

- Created pursuant to Sec. 813(b) of FY 2016 NDAA, as modified by Sec. 809(f) of FY 2017 NDAA
- Develop recommendations re laws and regulations relating to rights in technical data and computer software
  - Does not include patent rights

# Government-Industry Advisory Panel

## Appropriate consideration to the following factors:

- Ensure DoD does not pay more than once for the same work
- Ensure DoD contractors are rewarded for innovation & invention
- Provide for cost-effective reprocurement, sustainment, modification, and upgrades to DoD systems
- Ensure DoD has technical data rights necessary to support MOSA
  - Take into consideration the distinct characteristics of major system platforms, major system interfaces, and major system components developed exclusively with Federal funds, exclusively at private expense, and with a combination of Federal funds and private expense
- Encourage the private sector to invest in new products, technologies, and processes relevant to DoD missions
- Ensure that DoD has appropriate access to innovative products, technologies, and processes developed by the private sector for commercial use

# Tension Point White Papers

- Organizes information to be addressed in Panel report
- Each tension point represents identified issue or conflict
  - Between existing law/regulation, and a desired state
  - Between Industry and Government
  - Between Industry and Industry
    - Prime contractors, subcontractors, component OEMs, repair contractors, and spares contractors
  - Between Government and Government
    - R&D laboratories, acquisition centers, sustainment centers
    - Need for data for Government use, publication purposes, depot use (sharing with depot contractors), competition (sharing with third parties)



DIVING INTO  
UNCHARTED WATERS

Ounce of Prevention Seminar (OOPS)

## Issues Considered – Tension Points

- Business model concerns – different business models in Government and industry create differing objectives
  - Include in solicitations the USG’s IP requirements, to the degree known
  - Share with Industry the USG’s priorities
  - When mixed funding exists, consider extending period of GPR or negotiate a SNL.
  - When USG requires more than the default licenses, it should negotiate a fair and reasonable price
- Acquisition planning and requirements – access for limited purposes (Cyber Review, Airworthiness Approvals) versus delivery as a CDRL

## Issues Considered – Tension Points

- Source selection concerns
  - Data rights as an evaluation factor
  - Need for Government flexibility
- Balancing the interests of the parties
  - Indirect cost pools are considered privately funded
  - Treatment of IRAD
  - Funding test for rights
  - Commercial versus noncommercial
  - Commercial software terms versus Government-unique requirements
  - Authorized release and use of limited rights
  - Need for IP rights versus need for competition
  - Are existing rights for depots sufficient?



DIVING INTO  
UNCHARTED WATERS

Ounce of Prevention Seminar (OOPS)

## Issues Considered – Tension Points

- Implementation concerns
  - Differences between technical data and software
  - Development versus adaptation
  - FFF, technical data, software documentation
  - OMIT versus detailed manufacturing and process data (DMPD)
  - Rigid IP requirements versus need for flexible arrangements
  - Poor DID alignment with statutory/regulatory categories
  - 10 U.S.C. § 2321 protection versus complexity (link to source of funding alternatives)
  - Embedded software (object code) versus source code
  - Mandatory flow-down of clauses to commercial vendors/suppliers
  - Right of first refusal regarding license rights for spare parts acquisition



DIVING INTO  
UNCHARTED WATERS

Ounce of Prevention Seminar (OOPS)

## Issues Considered – Tension Points

- Compliance/administrative concerns
  - Maintaining CDRL deliverables up to date
  - Small Business Innovation Research (SBIR)
  - Lack of trained personnel
  - Data assertion list
- Data acquisition concerns
  - Deferred ordering
  - Time limits on priced contract options
  - Deferred delivery versus escrow
- Modular Open Systems Architectures (MOSA) concerns
  - GPR in interfaces developed with mixed funding



**DIVING INTO  
UNCHARTED WATERS**

Ounce of Prevention Seminar (OOPS)



# Tension Point Example

**DIVING INTO  
UNCHARTED WATERS**

Ounce of Prevention Seminar (OOPS)

## Section 813 Panel: Next Steps

- No set date for final report
- One open issue
- Report will likely be finalized in June
- Report will go to the OSD before going to Congress

**DIVING INTO  
UNCHARTED WATERS**

Ounce of Prevention Seminar (OOPS)



# Contractors Going on the Offensive

DIVING INTO  
UNCHARTED WATERS

Ounce of Prevention Seminar (OOPS)

## *Oshkosh Defense, LLC v. U.S.*

- Filed in U.S. Court of Federal Claims in March 2018, Case No. 18-404
- Alleges that USMC failed to follow DFARS 252.227-7037 procedures prior to removing restrictive markings
- Challenges USMC's unlimited rights determination



DIVING INTO  
UNCHARTED WATERS

Ounce of Prevention Seminar (OOPS)

## *Analytical Graphics, Inc. v. U.S.*

- 135 Fed. Cl. 378 (2017) (Horn)
- Challenged, *inter alia*, USAF's decision to procure a non-commercial item for the Joint Inter-agency Combined Space Operations Center
- Agency required GPR, but Protester's commercial product was subject to commercial license

**DIVING INTO  
UNCHARTED WATERS**

Ounce of Prevention Seminar (OOPS)



# Other Transaction Agreements

# Prototype OT Authority

## Per 2016 NDAA

- No DoD may use this prototype authority unless:
  - At least one nontraditional defense contractor participating to a significant extent;
  - All significant participants in the transaction are small businesses or nontraditional defense contractors;
  - At least one third of the total cost of the prototype project is to be paid out of funds provided by **parties to the transaction other than the Federal Government**; or
  - exceptional circumstances, not be feasible or appropriate under a contract, or would provide an opportunity to expand the defense supply base in a manner that would not be practical or feasible under a contract.

10 U.S.C. § 2371b(d)(1)



DIVING INTO  
UNCHARTED WATERS

Ounce of Prevention Seminar (OOPS)

# *Prototype OT Authority*

Per 2016 NDAA

- Nontraditional defense contractor = business unit that has not performed
  - CAS-covered contract for 1 year (10 U.S.C. § 2302(9))
  - ~~– any other contract in excess of \$500,000 to carry out federal prototype projects or to perform federal basic, applied, or advanced research projects~~





DIVING INTO  
UNCHARTED WATERS

Ounce of Prevention Seminar (OOPS)

# *Prototype OT Authority*

## Per 2016 NDAA

- Prototype OT may provide for award of a follow-on production contract to the OT participants
  - May be awarded without competition if,
    - Competitive procedures used to select OTA participants, and
    - Participants successfully completed the prototype project
- Before 2016 NDAA, follow-on production had to be priced and scoped as part of the competitive OTA award process

# Prototype OT Authority

## 2018 NDAA

- Section 216: More inclusive conditions for the use of OTA authority in several areas:
  - Significant participation by “at least one nontraditional defense contractor or nonprofit research institution” (emphasis added).
- Section 864 makes clear that prototype OTAs are for transactions.
  - Expands coverage of other transaction authority for a “prototype project” to “a transaction (for a prototype project)”
- Section 864 includes an expanded definition of “transaction”:
  - “A transaction includes all individual prototype subprojects awarded under the transaction to a consortium of the United States industry and academic institutions.” 10 U.S.C. § 2371b(f) (as amended)(emphasis added).

# *Prototype OT Authority*

## 2018 NDAA, additional changes

- When cost share required, funding source expanded from parties to the transaction other than the Federal Government, to any non-Federal source.
- Increases the OTA approval thresholds
  - Increased maximum OTA approval authority of Senior Procurement Executive, Directors of DARPA or Missile Defense Agency from \$250M to \$500M.
  - Increased minimum threshold for obtaining OTA approval authority from Undersecretary of AT&L (with associated Congressional notification) from \$250M to \$500M.

# *Prototype OT Authority*

## Intellectual Property Guidance, 2017 DoD OT Prototype Guide

- Not required to comply within Bayh Dole (patents) or 10 USC § 2320-21 (technical data)
- However, other statutes may be applicable
  - FOIA, Trade Secrets Act
- In determining what rights to obtain, DoD should consider
  - Impact on life cycle costs, both in terms of royalty costs and the ability to obtain competition
  - Ability to use on other projects
  - Impact on attracting participants

**DIVING INTO  
UNCHARTED WATERS**

Ounce of Prevention Seminar (OOPS)



# QUESTIONS?

Charles Baek

(202) 624-2894

[cbaek@crowell.com](mailto:cbaek@crowell.com)

Jon Baker

(202) 624-2641

[jbaker@crowell.com](mailto:jbaker@crowell.com)

Chris Garcia

(213) 443-5526

[cgarcia@crowell.com](mailto:cgarcia@crowell.com)

John McCarthy

(202) 624-2579

[jmccarthy@crowell.com](mailto:jmccarthy@crowell.com)