Intellectual Property in Government Contracts: Trends and Developments

John McCarthy
Chris Garcia
Yuan Zhou
Agenda

• Recent Case Law Decisions
• Government/Industry Panel Developments
• Notable Agency Reports
• Other Transactions IP Guidance
• Current IP Trends & Themes
Recent Case Law Decisions
Appeal of CiyaSoft Corporation (ASBCA, June 27, 2018)

Commercial License Terms May Govern Even Without CO Knowledge

• CiyaSoft asserted claim the Army had breached the terms of its license by using more copies of the software than were permitted.
  – CiyaSoft included commercial license terms limiting the software’s use inside the box; in shrinkwrap; and in clickwrap.
• Army denied claim because the contract contained no terms specifying how the government would protect the software.
• The ASBCA held that the government breached the terms of its commercial software license agreement even though the CO had neither seen nor discussed the license terms with CiyaSoft. According to the Board:
  – The CO had a duty to inquire about those license terms and failure to do so imputed knowledge of the terms on the Army.
  – The government can be bound by a commercial software license the CO has neither negotiated its terms nor seen as long as the terms are consistent with those customarily provided by the vendor to other purchasers and do not otherwise violate federal law.
Appeal of the Boeing Company (ASBCA, July 17, 2018)

Software Development under TIAs

- The dispute involved two TIAs issued to Boeing pursuant to 10 U.S.C. 2385 as Research and Development Projects: one fully funded by the government and the other partially funded by the government; and an Army Low Rate Initial Product (LRIP) contract for the manufacturing of AH-64D model aircraft, which incorporated DFARS 252.227-7014.
  - Boeing asserted that the government had restricted rights in certain software delivered under the LRIP contract because the software was developed under the TIAs and, therefore, exclusively at private expense for data rights purposes.
  - The government challenged Boeing’s assertion because the TIAs, and therefore the software development, were government funded, and ultimately issued a final decision which Boeing appealed.
- The ASBCA held that the TIAs are not government “contracts” as defined in FAR 2.101 and, therefore, the associated funding are not “costs charged directly to a government contract” for the purposes of the source of funding test under DFARS 252.227-7014(a). Thus, the associated software was “developed exclusively at private expense” under DFARS 252.227-7014(a)(8) and subject to Restricted Rights.
Appeals of the Boeing Company (ASBCA, November 28, 2018)

Stick to the Markings

- Under the terms of its contract with the Air Force, The Boeing Company (Boeing) was required to deliver certain technical data to the government with unlimited rights.
  - Boeing marked the data with unique marking legends.
  - The Air Force rejected the markings as non-conforming.
- The Board concluded that the specific legends identified in the DFARS and a copyright notice are the only permissible legends for limited data rights.
Sikorsky Aircraft Corporation (GAO, May 22, 2018)

Delivery of Source Code

- Post-Proposal Challenge to Solicitation Terms
  - Solicitation include Clause H-03 which specified the requirements for the rights in and delivery of technical data and computer software required for operations, maintenance installation and training (OMIT) issued with the certain somewhat ambiguous clauses relating to the requirements relating to the rights in and the delivery of computer software for depot level repair
  - Sikorsky submitted its proposal which included interpretations of the various clauses and included a list of its baseline configuration items and depot level repairable items.
  - During discussions, the Agency to issue with Sikorsky’s interpretations and the attached lists
  - Sikorsky protested challenging the Army’s interpretation of these clauses
Sikorsky Aircraft Corporation (GAO, May 22, 2018)

Delivery of Source Code

- Sikorsky objected to the delivery of source code under clause H003
  - DFARS OMIT definition does not include computer software or detailed manufacturing or process data (DMPD)
    - Agency discussions clarified that the RFP OMIT definition was broader than the DFARS definition and does include computer software and certain DMPD if required for OMIT
  - The term computer software as used in the RFP excludes source code
    - The DFARS definition “computer software” expressly includes “source code”
    - Therefore, if source code is required for OMIT, delivery may be required
  - Data rights clauses do not restrict the agency’s right to require delivery of source code
    - GAO noted the distinction between data rights which are governed by the data rights clauses and delivery rights which are not
  - Delivery of source code not required because it is the equivalent of DMDP
    - Source code was not DMPD because the DFARS definition of DMPD was limited to technical data
The Challenging Climb: Government-Industry Advisory Panel Developments
Section 813 Government-Industry Advisory Panel

Background

- 813 Panel established under FY16 NDAA § 813 (as amended by FY17 NDAA § 809), to review 10 U.S.C. §§ 2320 and 2321, regarding rights in technical data and their implementing regulations.

- Tasked to develop recommendations on laws and regulations relating to rights in technical data and computer software (does not include patent rights) while considering enumerated factors:
  - (A) Ensure DoD does not pay more than once for the same work.
  - (B) Ensure DoD contractors are appropriately rewarded for their innovation and invention.
  - (C) Provide for cost-effective re-procurement, sustainment, modification, and upgrades to DoD systems.
  - (D) Encourage the private sector to invest in new products, technologies, and processes relevant to DoD missions.
  - (E) Ensure that DoD has appropriate access to innovative products, technologies, and processes developed by the private sector for commercial use.
  - (F) Encourage the use of Modular Open System Architecture (MOSA).
Section 813 Government-Industry Advisory Panel

• Final Report released November 2018
  – Contained recommendations for statutory, regulatory or policy changes (presented as collection of white papers)
  – Presented as addressing key “tension point” issues (i.e., identified issue or conflict between USG and industry)

• Covering eight broad areas: business model, acquisition planning and requirements, source selection and post source selection IP licensing, balancing the interests of the parties, implementation, compliance/administrative, data acquisition, and MOSA
  – Also identified eight topic areas better suited within 809 Panel’s Purview (e.g., applicability of flow down in clauses, multiple definitions of “commercial item” in statute)
Section 813 Government-Industry Advisory Panel

Tension Point Recommendations – Examples

- **Acquisition Planning & Requirements**: Noted lack of guidance regarding access to contractor data without formal Contract Data Requirements List. Recommended changes to DFARS to allow designated contracting officials to sign NDAs to gain data access. No recommended legislative changes.

- **Balancing Interests of the Parties**: Noted that for R&D, tensions exist because contractors often retain IP rights despite receiving federal funding or reimbursement for R&D work.
  - Recommended USG right of first refusal to acquire rights to technical data/software upon a contractor’s decision to stop supporting a contracted product or service.

- **Some majority v. minority positions**
  - **Mandatory Flowdowns**
    - Majority recommended elimination of 10 USC 2320 mandatory flowdowns for COTS, and required negotiations for data rights for COTS only. Also recommended 10 USC 2321 amendments by eliminating validation for COTS items.
    - Minority position saw no need for statutory changes
Section 813 Government-Industry Advisory Panel

- Deferred Ordering
  - Majority suggested narrowing DoD’s ability to exercise deferred ordering (e.g., to make deferred ordering optional, for technical data developed with mixed funding, including interfaces, be excluded from deferred ordering).
  - Minority asked Secretary of Defense to non-concur on statutory proposal to make deferred ordering optional.

What Happens Next?
- A number of pending DFARS cases to be addressed, e.g., DFARS Case 2018-D070, Continuation of Technical Data Rights during Challenges; DFARS Case 2018-D071, Negotiation of Price for Technical Data before Sustainment of Major Weapon Systems
Government Reports
Army IP Policy & Memo

Enabling Modernization Through the Management of Intellectual Property

• On December 7, 2018, Secretary of the Army, Mark T. Esper, approved a new policy for managing intellectual property.

• **Purposes**
  – To establish Army policy for the creation, acquisition, use, maintenance, and protection of data (e.g. technical data, computer software, patents) and the associated license rights to among other things, use, modify, or disclose such data in support of acquisition and sustainment of Army material and non-material.
  – To support the Army’s modernization priorities by allowing for the rapid development and delivery of new warfighting capabilities without dissuading private industry from partnering with the Army.
Army IP Policy & Memo

Enabling Modernization Through the Management of Intellectual Property

• Policies
  1. Foster an environment of open communication early in the acquisition process, including disclosing as much detail as practicable about the Army’s intended product support strategy;
  2. Conduct early planning for the data and license rights needed to acquire, sustain, and dispose of Army solutions or systems;
  3. Identify the Army’s minimum needs for technical data, computer software, and license rights;
  4. Negotiate appropriate licenses rights early in the process; and
  5. Ensure that both contractors and the Army are fairly compensated for use of contractor or Army-owned IP.
Army IP Policy & Memo

Enabling Modernization Through the Management of Intellectual Property

- **Program Managers**
  - The memo outlines the role that PMs should play out in carrying out the Army’s IP policies, including:
    1. Assessing the short and long term needs for data and license rights;
    2. Customizing the IP strategy to meet the specific needs of the program, which is to be developed before the issuance of a solicitation; and
    3. Negotiating appropriate license rights required to support the program.
  - The memo also includes separate instructions to PMs on what rights to obtain when negotiating rights to technical data pertaining to items and processes, general interfaces, and major system interfaces.
Army IP Policy & Memo

Enabling Modernization Through the Management of Intellectual Property

• Core Tenets of IP Policy
  – According to Deputy Assistant Secretary of the Army for Strategy and Acquisition Reform, Alexis Ross:
    • Previous examples of the acquisition process have shown that the Army’s way of securing IP have resulted in one of two scenarios: requesting too little or too much IP.
    • The strategy can be divided into four core contents that provide the Army with a deliberate and balanced IP management policy approach:
      1. Plan early and develop long-term IP requirements that address the lifecycle;
      2. Negotiate with industry for custom IP rights, and seek only what is necessary to meet the Army’s needs.
      3. Negotiate prices for licensing rights early in the process, while competition still exists; and
      4. Communicate with industry early and often to meet the Army’s needs.
Army IP Policy & Memo – Implementation Guidance

• On February 5, 2019, the U.S. Assistant Secretary of the Army for Acquisition, Logistics, and Technology, Bruce D. Jette, issued a detailed Implementation Guidance to carry out the objectives set forth in the Army IP policy and memo.

• A few Red Flags . . .
Army IP Policy & Memo – Implementation Guidance

Red Flags

• **Red Flag #1: Applicability**
  – The guidance makes clear that it applies to traditional FAR/DFARS-based contracts and where feasible, to non-FAR/DFARS instruments, including OTAs.
    • Note: the guidance highlights that there has been an increasing emphasis on OTAs.

• **Red Flag #2: OMIT Data**
  – The guidance notes that there is no formal definition of OMIT data, and then proceeds to provide a lengthy and broad “informal” definition.
    • Note: the guidance suggests that PMs should consider providing contractors with a definition of what OMIT data means to the Army.
    • Reminder: USG gets unlimited rights to OMIT data.
Red Flags

• **Red Flag #3: IP Strategy Considerations**
  - In customizing the IP Strategy to meet the specific needs of a program, the Strategy must consider:
    • The product strategy for the weapon system;
    • The organic industrial base strategy of the Army;
    • The commercial market; and
    • How a modular open system approach is to be used for the program, if applicable.
  - The IP Strategy must also consider, among other things, the particular data that is required, who paid for the development of the data, the purpose it will be used for, whom the Army will share the data with, and the duration of the need for the data.
  - **Issue:** implementing regulations without proposed rule-making or notice/opportunity to comment.
Army IP Policy & Memo – Implementation Guidance

Red Flags

• **Red Flag #4: Acquiring Commercial Computer Software & Documentation**
  - Without statutory/regulatory authority, the policy instructs that when acquiring commercial computer software and documentation, the Army will:
    • Acquire rights customarily provided to the public;
    • Review the commercial license to ensure it meets the Army’s desired acquisition and sustainment outcomes; and
    • Seek software source code only when the source code delivery is consistent with the license, Army-funded development of the source code, or it is required for cybersecurity analysis.
  - **Issue:** implementing regulations without proposed rule-making or notice/opportunity to comment.
Red Flags

- **Red Flag #5: Specifically Negotiated Licenses**
  - The guidance encourages PMs to negotiate appropriate license rights, and *emphasizes* the use of specially negotiated licenses, including negotiating and contracting for a specially negotiated license for data to support the product support strategy.
    - Note: the guidance includes a Sample SNL (Appendix C).
  - **Issue:** likely to result in one-sided licenses favoring the Army.
# Army IP Policy & Memo – Implementation Guidance

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<tr>
<th>Myth</th>
<th>Truth</th>
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<tr>
<td>The Army needs to seek GPR to all data on a system.</td>
<td>The Army may not be entitled to GPR on all data within a system.</td>
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<tr>
<td>The Army paid for development, so it should own the associated data.</td>
<td>The Army does not own the underlying IP just because it paid industry or academia to develop it.</td>
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Other Transactions IP Guidance
2018 Other Transaction Guide

IP Requirements

- New DoD Other Transactions Guide Issued in December 2018
- Includes detail guidance for negotiating IP terms
- Highlights exception to FOIA under 10 USC 2371(i)
  - The following data may not be disclosed under FOIA for five years from date of receipt
    - A proposal, proposal abstract, and supporting documents.
    - A business plan submitted on a confidential basis.
    - Technical information submitted on a confidential basis.
- Marking
2018 Other Transaction Guide

IP Requirements

• Negotiations
  • Develop business plan and tailor IP scheme to plan
  • Consider production and follow-on support (maintenance/sustainment)
  • Reduce need for IP rights for commercial items
  • “However, since the Government tends to use technology well past the norm in the commercial marketplace, the Government team should plan for maintenance and support of fielded prototype technology when the technology is no longer supported by the commercial market and consider obtaining at no additional cost a license sufficient to address the Government’s long-term needs to the technology.”
2018 Other Transaction Guide

IP Requirements

• Agreement Officer Responsibilities
  • IP rights under the Bayh-Dole Act (35 U.S.C. §201-204) for patents and 10 U.S.C. §2320-21 for technical data
    • AO must be familiar
    • Statutes do not apply to OTs
    • Negotiation of rights of a different scope is permissible and encouraged
IP Requirements

• AO should ensure that the agreement addresses the following:
  • Disputes:
    • Accommodate specialized disputes
      • March-in rights
      • The validation of restrictions on technical data or computer software.
  • Flow-down
  • Licensing restrictions to assist potential domestic manufacture or use of the technology
  • Export controls
  • Additional rights to DoD if contractor is unable or refuses to continue to perform
2018 Other Transaction Guide

IP Requirements

• AO should ensure that the agreement addresses the following:
  • Time periods after which the Government will automatically obtain greater rights
  • Patents:
    • Rights necessary to accomplish program objectives and foster the Government’s interest while balancing the needs of the performer
    • Consider the Government’s needs for patents and patent rights
  • Trade secret versus patent
    • Risk of a third party patenting the same technology
    • Government’s right to utilize this technology with third parties
    • Available means to mitigate these risks
2018 Other Transaction Guide

IP Requirements

• AO should ensure that the agreement addresses the following:
  • Software data rights
    • Copyright, know-how, and/or trade secret license
    • Government’s ability to use, reproduce, modify, release, and disclose outside the Government.
    • Impact the Government’s use, maintenance, and upgrade of computer software
    • Definitions, allocation of rights, delivery requirements, and restrictive legends
    • Emergency or special circumstances in which the Government may need additional rights (emergency repair or overhaul)
IP Requirements

• AO should ensure that the agreement addresses the following:
  • Commercial data
    • Typically do not need extensive rights in commercial technical data and software
    • Government may need to negotiate for greater rights in order to utilize the developed technology
2018 Other Transaction Guide

IP Requirements

• Cyber – Data protection and incident reporting
• Authorization and Consent
  • No authorization and consent where both complete performance and delivery are outside the United States, its possessions, and Puerto Rico
• Notice and Assistance
2018 Other Transaction Guide

IP Requirements

- Indemnity by contractor
  - Appropriate where supplies or services normally are or have been sold or offered for sale to the public in the commercial open market, either with or without modifications
  - Where contractor opts for trade secret protection in lieu of patent protection for patentable subject inventions -- perpetual patent indemnity clause
  - No US Government indemnity of awardees against liability for infringement
Other Transaction – What is really happening

IP Requirements

- As a general rule, DoD Agencies are not relaxing IP requirements
  - Generally resort to standard DFARS/Byah Dole clauses
- In some cases, DoD is using that contracting freedom under OTs to impose more stringent IP requirements
- Difficult to negotiate IP terms with consortiums
Current Themes & Trends
What’s on the Horizon for Government Contracts IP?

• DoD will continue to seek greater IP rights for sustainment/maintenance
• Most DoD Agencies will continue to rely on standard DFARS data rights and patent clauses for Other Transactions
• Offerors will continue to see IP rights evaluation factors
• Continued uptick in data rights challenges and challenges to commercial items status
• IP requirements for Software as a Service (SaaS) will continue to evolve
Contact Information

John McCarthy
jmccarthy@crowell.com
202.624.2579

Chris Garcia
cgarcia@crowell.com
202.688.3450

Yuan Zhou
yzhou@crowell.com
202.624.2666