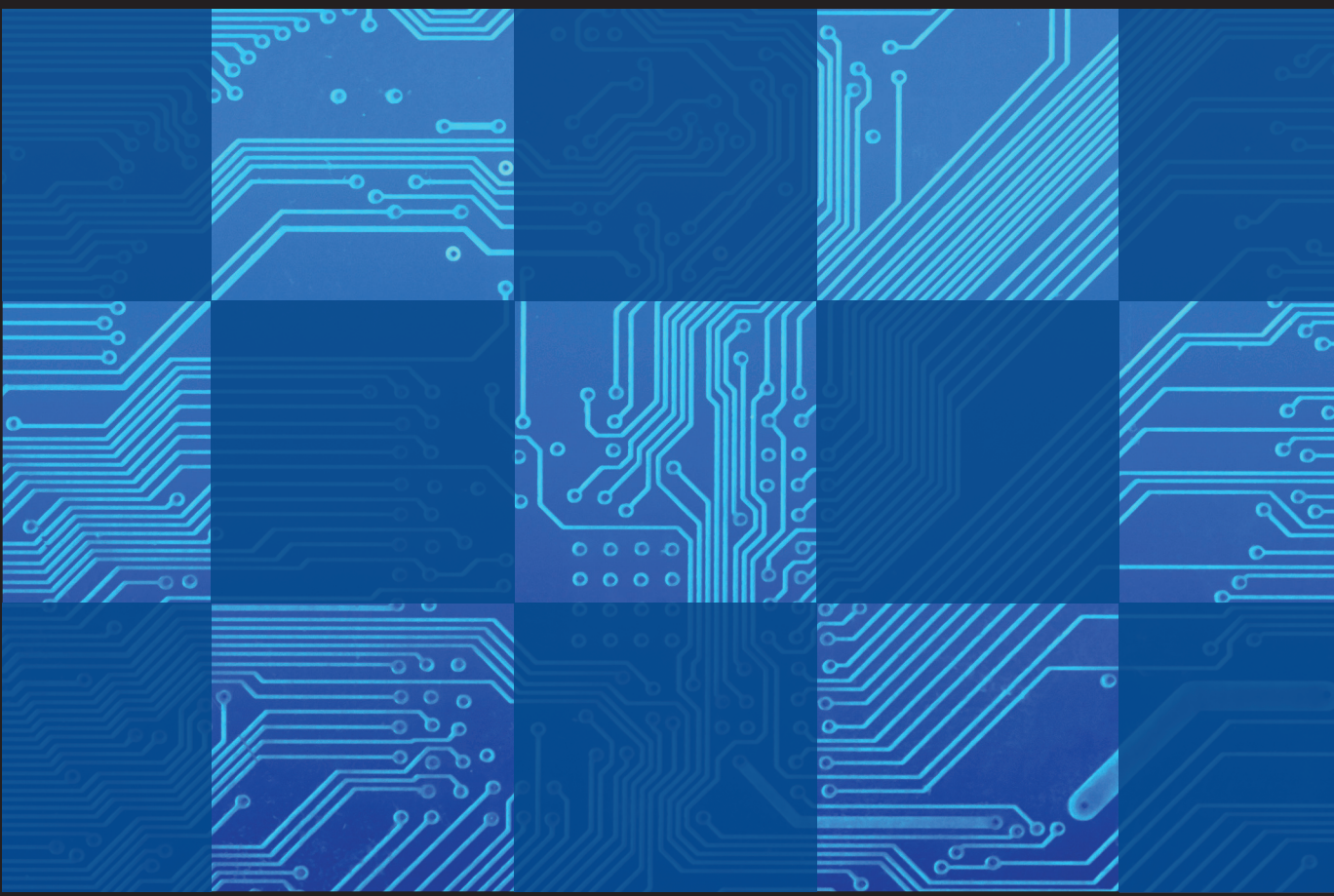
intellectual property operations and implementation in the 21st century corporation



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CHAPTER 9

Working with Government

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As a purchaser of goods and services and as a source of funding for innovative efforts, the U.S. government offers many opportunities for companies.[1] The government is a large consumer of many of the same commercial goods and services purchased by other companies. In order to maximize the return when spending the taxpayer dollar, the government typically purchases according to the generally commercially available terms of each good or service. This allows the government to benefit from commercially available products and leverage commercial market competition that sets prices and terms. When the existing, commercial-off-the-shelf (COTS) alternatives are unable to meet the government's needs, the government may solicit proposals in order to determine one or more sources to develop a custom solution. In some cases, the development efforts funded by the government have not only established a solution to the government need, but also led to technology successfully adopted for nongovernment applications.

Examples of commercial successes based on earlier government-funded development efforts include the microwave oven, semiconductors, and the global positioning system (GPS). While radar research in the 1940s was directed to finding enemy aircraft, the ability to use a component of a radar system to cook food was discovered by Percy Spencer of Raytheon, resulting in Raytheon Company's successful product launch of the first microwave oven, the Amana Radarange. Technology in semiconductors, a foundational aspect of electronics today, were developed by AT&T Bell Labs, Fairchild Semiconductor and others. The GPS is another example of a government-funded effort that has resulted in much commercial success.

This chapter addresses some major themes of intellectual property (IP) aspects of working with the government. It is important to note that this discussion should be viewed as an illustrative guide only, as the legal issues with any specific interaction with the government are driven by a variety of factors. As with any transaction, the contract between the parties is important. However, when working with the government, many regulations, including government branch or agency-specific clauses,

as well as various statutory provisions, often impose additional requirements. The content and manner in which some of these regulatory provisions are enforced can and have changed over time. Advice of counsel to ensure an appropriate understanding of the specific situation is always recommended.

The Big Picture

IP rights of interest to the government can be driven in part by factors not prevalent among most commercial consumers. This can lead to the government's desiring access to more IP than a typical commercial customer. These factors can include relatively short commercial product cycles compared to anticipated government use of the item; multiyear procurements of the same products, or large time gaps, even multiple years, between such purchases; need for interoperability among products purchased by different parts of the government; unusual uses such as for hostile military environments or space exploration. Other aspects of the government's interests include long-term maintenance of the items it procures, the training of operators and maintainers, the option to improve the item or change it to work with different items.

Turning now to the contractor, in addition to being selected by the government to be a supplier, the contractor's interests include a sustainable business model. This usually includes maximizing its return on investments, producing innovations that distinguish its products and solutions in the marketplace. Importantly, this can require avoiding a loss of effective control of its IP, such as by the government's having such extensive licenses or ownership rights that would enable the government to make more of the contractor's product, or an improvement of the product, with no involvement by the contractor.

The government's acquisition policies have varied over the decades, with significant variations in the scope of IP rights sought by the government. The trend has swung from the government's owning the rights to the government's obtaining a license to only the rights it needs, enabling the contractor to better commercialize and benefit from the technology. Currently, the emphasis is again swinging back in the direction of increasing government rights in the IP at the expense of a contractor's ability to protect its ideas and innovations from being freely used and modified by competitors.

The government's regulatory approach has traditionally provided a reward for private investment by allowing the contractors to prevent the corresponding technical data and software from being disclosed and used by other competitors. However, if the government had funded the development, the government had the option to freely share the resulting technical data or software of which it had taken delivery.

However, with many development projects, the government is now commonly seeking very broad rights, including rights sufficient to enable any government contractor to compete directly against the company that privately funded the development, using any or all of the technical data and software for free. This is likely to both reduce willingness to work with the government and reduce private investment in areas of unique interest to the government, to the detriment of the government. The government is additionally now dividing procurement programs requiring development into smaller portions, to provide additional opportunities for sharing of

technical data and software among competitors, further diminishing the value of private investment in development. For example, the Department of Defense (DoD) is more frequently dividing large development programs into at least three portions, each having a separate competitive phase and contract, with fewer winners in each successive phase, resulting in a single competitor's winning the final stage. As is becoming more common, the solicitation at each phase establishes an evaluation criterion to downgrade "proprietary" solutions, indicating that the government desires rights to freely share all technical data and software with any contractor working on any government program for any purpose, and in some cases, to disclose to the general public at large.

Common government uses of such technical data and software include operation of the items or systems delivered, support and maintenance, modifications and future enhancements, as well as procurement of additional items or systems. All of these uses of interest to the government may be undertaken by competitors of the original supplier, without involvement by the original supplier, if the government is provided with sufficient rights. Therefore, it is critically important when considering an opportunity to accept government funding for development, to obtain counsel skilled in government contracting to ensure that proposals and any resulting contract properly address the interests of the contractor. In performing any government contract, a solid understanding of the procedural requirements of the contract is vitally important, as many are very different than typical commercial development contracts.

COTS products, which are unmodified products available to the general commercial market, purchased on their own, are likely to be acquired by the government under Federal Acquisition Regulation (FAR) Part 12. Under this approach, the government would not seek IP rights beyond those offered with product sales to the commercial market. However, substantial modifications to commercial items and commercial items purchased in combination with noncommercial items under FAR Part 27, will often result in the government's desiring extensive access and rights to IP that are critical to the competitive commercial position of the product and its manufacturer.

Changes in technology have broadened the impacts of the policy shifts, making it easier to replicate and transmit technical data and software. With electronic storage, transmission, copying, access, and sharing of technical data, it is much easier now to distribute and use information. For example, historically, government access to detailed technical data and software was largely limited to insight gained by viewing a copy at various design review meetings, followed by possession of an official, final delivery paper copy at the conclusion of the contract. It is much more common now for the government to have a contractual requirement to use a shared electronic workspace or shared server arrangement to enable government access to the full electronic copies of interim drafts and final versions of the technical data and software, including underlying design models.

Determining how to address these challenges and shifting environment, while enabling a company to execute a long-term, survivable business model, requires a familiarity with the significant aspects of the regulatory environment. The impact of any particular transaction with the government will depend heavily on the underlying circumstances of both the government's need and the specifics of the item or process.

Commercial or Noncommercial

When planning to work with the government, it is important to understand whether the item or service to be provided to the government qualifies as a commercial item according to FAR § 2.101 (48 CFR 2.101). IP applicable to commercial items or services, when sold to the government, is subject to the same commercial terms that the contractor has chosen to offer to all commercial customers, enabling the contractor much greater control over the terms. The government is treated much the same as every other customer purchasing the item or service.

Typically, if an item is available to the general public for nongovernmental purposes, or will soon be offered to the public, the item qualifies as a commercial item.[2] Somewhat similarly, a service offered and sold competitively in substantial quantities in the commercial marketplace can qualify. The service will qualify if it is based on established catalog or market prices for specific tasks performed or specific outcomes to be achieved and provided to the government under standard commercial terms and conditions.[3] If an item or service does not qualify as commercial, it is treated as a noncommercial item or service under the regulations.

Commercial Item

There are typically significant differences in the rights provided to the government pertaining to a commercial item versus a noncommercial item. If the item or service qualifies as a commercial item or service, the government will typically act as a participant in the commercial marketplace and acquire the item or service according to its generally available terms, unless a provision is prohibited by law. For example, provisions in a commercial software license obligating the government to indemnify the software provider will not be enforceable. In general, the activities required of the contactor in selling a commercial item or service to the government are not unlike those for any other customer. The license rights and activities often required of a contractor providing a noncommercial item are discussed later in this chapter.

Changes to COTS Using Government Funding

A commercial item to be provided to the government need not be identical to the COTS product. Two types of modifications to the commercial product are permissible while maintaining commercial status.[4] First, modifications that are generally available in the commercial marketplace are permitted. For example, there is a commercial market for computers sold to aircraft manufacturers and other customers that mount and operate the computers in less than ideal conditions. In each case, the computers may be supplied with custom mounting arrangements, custom cooling hookups, and specific power supply interfaces. Various degrees of ruggedization are also available to typical commercial customers, so as to avoid interruptions in the computers' operation, such as during a turbulent flight or a hard landing. Because these types of custom configurations are available to the general public, the

government can also participate in the market as a typical commercial customer and procure the customized computer as a commercial item.

A second type of permitted modification to a commercial product, while retaining commercial status, is a minor modification not customarily available in the commercial marketplace but made to meet federal government requirements. Examples include, but are not limited to, adding an extra handle to aid in lifting or securing the item on a military cargo aircraft or painting a product with a special military-grade paint. Such modifications must not significantly alter the nongovernmental function or essential physical characteristics of the item or component, or change the purpose of a process. Factors to be considered in determining whether a modification is minor include the value and size of the modification and the comparative value and size of the final product.[5]

Noncommercial Item

A government-funded effort will be subject to noncommercial item regulations if modifications to a commercial item are beyond the scope previously noted, if the effort is for the initial development of an item, or if the effort is for further development to an already-existing noncommercial item. Some important differences between typical commercial development projects and government contracts for noncommercial item development include the determination of license rights for technical data, software, and inventions, and restrictions on treatment of subcontractors, as well as requirements for specific internal procedures and processes.

For many branches of the government, noncommercial item regulations address the source or sources of funding used for development of each subcomponent or part of items, components, processes or software in order to determine what restrictions, if any, will apply to associated technical data or software later supplied to the government. There are significant regulatory differences within the U.S. government agencies, with many agencies using the provisions of the FAR without modification. The DoD uses their own supplement, the DoD FAR Supplement (DFARS), at 48 CFR 2, as do many other agencies, including the Department of Energy, at 48 CFR 9, and the National Aeronautics and Space Administration (NASA), at 48 CFR 18.

It is important to understand that the specific contract provisions and regulations applicable to a particular contract must always be consulted in determining license rights that the government will obtain in technical data and software supplied to the government.[6] The following discussion assumes a DoD contract subject to the DFARS.[7]

Because of the nature of the government's long-term product use, support requirements, and modification needs, there is often significant interest by the government in obtaining rights to technical data and software, including source code, that is not typically provided in commercial market transactions. Because of the high frequency of acquiring and managing such technical data and software, regulations typically specify the details of the default rights in technical data and software, using standardized terms like *unlimited rights, government purpose rights, limited rights, and restricted rights*.[8] In the case of the DoD, the DFARS also provide for *specifically negotiated license rights*.[9] These various license rights are explained in more detail

below. In that rights in technical data and software govern the government's ability to use, disclose, and authorize others to do so, they are, in many ways, analogous to the concept of trade secrets and licenses thereto in the commercial marketplace.

With the exception of specifically negotiated rights, the default level of license rights provided to the government hinge on determinations of funding of development of the underlying item, component, process, or software. *Developed* is a term that is used somewhat differently in the DoD regulations than its common commercial industry meaning.

Noncommercial Item Development

The term *developed* is defined in DFARS at 252.227-7013 and 252.227-7014.[10] In the case of technical data, it is important to note that the analysis does not turn on development of the technical data, but instead looks to the development and status of the underlying item, component, or process as existing and being workable. Workability is established when analysis or testing is sufficient to demonstrate to reasonable people skilled in the applicable art that there is a high probability that it will operate as intended. Curiously, the regulatory definition explicitly notes that the item, component, or process need not be actually reduced to practice within the meaning of the patent laws.[11]

In an illustrative court decision demonstrating how an item can be considered as developed on private funding, a manufacturer of holdback bars used in launching fighter planes from aircraft carrier decks had a privately funded design prior to contract award.[12] The contractor then used government funds to change the design to withstand 2,000 successful launches, rather than the 700-cycle capability of the precontract design. The court summarized that the government funds were used to increase performance, not achieve workability. Workability was established by the precontract design.[13]

For software, the definition of *developed* has two parts, each directed to different types of software. First, a "computer program," that is, something capable of causing a computer to perform specific operation(s), is developed when it has been successfully operated in a computer and tested to the extent sufficient to demonstrate to reasonable persons skilled in the art that the program can reasonably be expected to perform its intended purpose.[14] The second part addresses "computer software," that is, "computer programs, source code, source code listings, object code listings, design details, algorithms, processes, flow charts, formulae, and related material that would enable the software to be reproduced, recreated, or recompiled. . . ."[15] Computer software is developed when it "has been tested or analyzed to the extent sufficient to demonstrate to reasonable persons skilled in the art that the software can reasonably be expected to perform its intended purpose."[16] This second part is broader and allows for an argument that design details, flowcharts, or other related material could be analyzed to demonstrate that it can reasonably be expected to perform its intended purpose. This may provide a viable approach for a contractor seeking to establish completion of Development in the absence of code executing on a computer, as would typically be required under the first part of the definition.[17]

Because of the significance of determining when an item, component, process, or software is developed, it is important to retain documentation that may be

valuable later in establishing that the item, component, process, or software (to include "computer program" or "computer software") was developed as of a certain date. This documentation should include information that specifies the intended operation/purpose and satisfies the demonstration requirements in the "developed" tests set forth above. As discussed in more detail later in this chapter, the source of the funding for development activities is also important and should be correlated with the records establishing completion of development. Because the corresponding technical data or software may be applicable to another contract years later, a need to reference or produce documentation on this issue can arise a decade or more after development.

Noncommercial Item Development Funding

In short, while the specific level of license rights to the government can be negotiated to provide other than what the regulations specify, the regulations provide a default in the absence of negotiation. As explained elsewhere herein, additional procedural requirements need to be met by the contractor to avoid the regulatory default presumption of development by government funding. In the case of an item, component, process, or software that is developed exclusively at government expense, the government is entitled to unlimited rights in any corresponding technical data or software. Alternatively, when an item, component, process, or software is developed exclusively at private expense, the government is entitled to limited rights in any corresponding technical data or restricted rights in any corresponding software.[18] Finally, in the case of an item, component, process, or software developed with a combination of private funds and government funds, the government is entitled to government purpose rights in any corresponding technical data or software.[19] Note that government purpose rights automatically broaden to unlimited rights five years after delivery, absent negotiation of a different time period.[20]

Noncommercial Item License Rights to the Government

While the DFARS provides the details,[21] generally speaking, unlimited rights means that the government can use, modify, disclose the technical data or software for any purpose, and authorize others to do so. Government purpose rights provide similar rights for such activities within the government, but limit the authorized purposes for nongovernment parties to be some activity in which the government is involved. This includes any U.S. government action or contracted activity. Note that foreign military sales contracts involving the U.S. government's selling products to foreign governments qualify as a U.S. government action. By requiring some U.S. government involvement, non-government-related commercial markets are protected. However, the default is that after five years, government purpose rights automatically expire and the applicable technical data or software automatically becomes subject to an unlimited rights license.

Limited rights and restricted rights are somewhat similar, but limited rights are used only in connection with technical data, and restricted rights are used only in

connection with software. In short, limited rights enable use, modification, and release within the government. The government cannot disclose the technical data outside the government, except under specific purposes, such as emergency repair, subject to restrictions on further disclosure and with notification to the originator or to a covered government support contractor.[22] Restricted rights limit the government to use of the software on only one computer at a time, the one copy transferable to another government agency, with backup copies permitted. Modifications are permitted, but the modifications remain subject to the same terms. Other contractors performing service contracts may be permitted access to the restricted rights software to respond to urgent tactical situations under certain circumstances. The government may also permit covered government support contractors to use and modify the software.[23]

An important license right alternative found in the DFARS is the category of Specifically Negotiated License Rights.[24] These are, as the title indicates, negotiated rights and do not require a specific funding type. They can be used to tailor rights to meet a government procurement need while seeking to preserve additional competitive advantage for the contractor. For example, a contractor may benefit by limiting government use of technical data to use only on a specific program or for use with a specific product, instead of for any government purpose. An additional benefit of this type of license right is avoiding later disputes as to the nature of the funding used to develop the corresponding item, component, process, or software to which specifically negotiated rights have been negotiated by the parties in advance. Creativity is the license scope is not required. For example, the rights granted in a specifically negotiated rights license could be, but are not required to be, identical to those set forth as the scope of rights granted as limited rights or restricted rights. Use of the Specifically Negotiated License category removes the (exclusively private) funding requirement inherent in limited rights or restricted rights.

Noncommercial Item Doctrine of Segregability

The analysis and corresponding license rights are applied at the lowest segregable level. This means that seldom would the analysis focus on a particular overall contract deliverable item or software program. Instead, the lowest level of segregation, such as a subcomponent or part, can be used to determine when completion of development for that subcomponent or part has occurred, as well as the applicable funding. This means that the rights granted to the government in the corresponding technical data may vary across all the parts of an overall assembled end item. This can be used strategically by a contractor to prevent the government from having sufficient rights in a complete package of technical data to share the full package with competitors of the contractor. For example, the government may have unlimited rights or government purpose rights in technical data of many components for which it funded development. However, for those components that were exclusively privately funded, the government would typically not receive more than limited rights in corresponding technical data, which prevents the government from distributing the technical data in most situations.[25]

Likewise with software, for example, in source code form, development of a subroutine may have been exclusively funded at private expense. If such a subroutine

were delivered under contract to the government, it would typically be provided to the government with restricted rights. If the government funded the entire development of another subroutine, the government would typically receive unlimited rights in any such delivered subroutine. Other subroutines developed by a combination of private and government funding are typically provided to the government with a government purpose rights license. Therefore, one or more of the subroutines that collectively make up a functioning software computer program may be provided to the government with a different level of rights. The government is typically prohibited from providing to others outside the government, software to which it only has restricted rights.[26]

In some cases, instead of the subroutine level, each line of source code may be segregable, particularly where the intended purposes of the lines of code are known, facilitating the analysis at the source line of code level.

Different types of software, such as source code, object code, design details, algorithms, processes, flowcharts, formulae, etc., are typically applicable to the same intended purpose. This can make the segregability analysis more complex and provide opportunities to a contractor not having finished development of object code. Since there is not substantial case law in this area and the regulation can be viewed from different perspectives, it is best to be aware of the issue of segregability at every step of the software process.

For example, at an executable software level, it is a good idea to maintain segregability of compiled code having different license rights if it is important to avoid a determination of mixed funding. Not doing so and compiling a subroutine developed by exclusively private funding with a subroutine developed at least in part by government funds may result in a determination that development of the compiled code is considered to have been mixed funded, which would typically result in a determination of a government purpose rights license in such a deliverable. As previously discussed, government purpose rights enable the government to freely use internally and share the executable code with any outside party acting on the government's behalf. Conversely, compiling code separately to avoid mixing exclusively privately funded code with other code types, even in executable form, better protects the contractor's investment. Practically speaking, this can be done by use of a strategy relying on use of an installation program delivered to the government to enable a combination of the restricted rights code with other code types after delivery, but the resulting combined code at that time would be subject to the most restrictive limitations, that is, the restricted rights license detailed earlier. In short, the contractor's not doing the combining for the purposes of delivery avoids the mixed funding status. That the government later combines the code, such as via an installation program, does not trigger the mixed funding status; hence, the more restrictive license applies to the government-combined code.

Noncommercial Item Assertions Table

Procedurally, when the government will receive other than unlimited rights in noncommercial technical data or noncommercial software specified for delivery under the contract, the contractor must specify such technical data or software in an

assertions table,[27] specifying the rights to be provided and the basis for such rights (e.g., funding source). This assertions table is subject to agreement by the government and should first be presented in a proposal, with its becoming an official part of the contract at contract award. In response to any contract modifications or anticipated changes in the technical approach that may trigger changes to the assertions table, any assertions table changes should be negotiated with the government before adopting the different technical approach or agreement to the contract modification. The prime contractor and higher-tier contractors are responsible for presenting to the government any assertions of their own and any assertions identified by their subcontractors. Documentation of the completion of development and funding source are important records to retain for many years. The government, in recent years, has shown greater interests in challenging the content of the assertions table, likely necessitating access to such records.

Marking

Marking is another critical procedural activity. Absent a restrictive marking on items delivered to the government, the government is entitled to assume that it has unlimited rights in the technical data or software. DFARS at 252.227-7013 and 252.227-7014 specify the markings in DoD contracts that should be used in connection with the relevant noncommercial technical data and software rights granted to the government.

Also important is that the government is, in some cases, taking the position that inadvertent access by the government to technical data or software is sufficient to qualify as delivery, allegedly enabling the government to act as though it may proceed according to the marked license rights, with unlimited rights allegedly having been granted to the government in unmarked technical data or software. It has not been established that the government is entitled to such rights absent an official contract delivery. However, government requests to access e-rooms, and other collaborative efforts giving government access to nondelivered technical data, software, or any type of documents, need to be carefully considered and established only with procedures and monitoring to ensure that excessive rights are not inadvertently granted to the government. A similar problem can occur with others, like a subcontractor or prime contractor, having access to such collaborative tools and unmarked data, as nondisclosure agreements typically require marking of data to avoid a determination that the document is not freely disclosable or useable.

Deferred Ordering

An increasingly common provision in government contracts is DFARS 252.227-7027, also known as the deferred ordering clause. In short, deferred ordering with the DoD involves a potential obligation to supply *any* technical data or software generated in the performance of the contract to the government.[28] The government may request this up to three years after acceptance of all items to be delivered under the contract. The contractor may be compensated for converting the technical data or software

into the prescribed form, for reproduction and for delivery. However, the government is entitled to receipt of these items under the default license level as determined by funding of development of the underlying items, components, processes or software, subject to the segregability concepts discussed above.

Due to the unilateral ability of the government to vastly increase the required deliverables under a contract subject to deferred ordering, several additional precautions are often warranted. Negotiating the deferred ordering clause out or limiting its scope is the first and most desirable option. Pricing for the risk and loss of proprietary nature of many internal tools and processes should a deferred ordering clause require delivery of associated technical data or software needs to be considered and can be an effective method of negotiating the applicability of the clause. To the extent the clause remains in, planning to understand what existing intellectual property could be compromised by anticipated technical data or software generation under the contract, and monitoring adherence to the plan, can help mitigate the risk. Should a deferred ordering request be received, an update to the assertions table is likely in order. Upon mutual agreement to the table, ensuring any technical data or software to be delivered in response to the deferred ordering request are properly marked is critical to avoid unnecessary rights being granted to the government.

Beware the Prototype

Even when a contractor has taken all precautions and negotiated a favorable position regarding technical data and rights in software, it is important to be mindful of other ways in which the government can induce technology disclosure and sharing among competitors. Notably, absent a contractual provision, there are no restrictions on the government's use of hardware. In one case, the Air Force did not have sufficient rights to share technical data among competitors participating in a multiphase competitive procurement, but was able to share delivered prototypes from each contractor among all the contractors. A winning bidder of a later phase of the competition was able to freely reverse engineer and incorporate features of another's prototype.[29]

Inventions and Patents in Noncommercial Contract Effort

Quite apart from license determinations for noncommercial technical data and noncommercial software is the determination of rights in inventions. As previously discussed, rights to delivered technical data and software rights are typically governed by the type of funding source for development of the underlying item, component, process, or software. In contrast, the government's license rights to inventions and corresponding patent applications do not depend on delivery and are usually governed by the funding source of two distinct events. If the government funds either (1) the conception of the invention or (2) the first physical reduction to practice of the invention, the invention is considered a subject invention.[30] A subject invention is one in which the government obtains specific rights, as will be explained more below. Importantly, the patent law concept of constructive reduction to practice, such as by filing a patent application, does not apply in this analysis.

For any subject invention, the government typically receives a worldwide, paid-up, royalty-free license.[31] Provisions granting some rights in an invention to a party that funds an engineering effort resulting in conception of the invention are not particularly unusual in the commercial marketplace. However, what is unusual is the additional aspect of the DFARS that stipulates that government funding of the first physical reduction to practice of the invention also provides the government such a worldwide paid-up, royalty-free license, even if the government did not fund the conception. For example, a company can privately fund the conception of an invention, file a patent application and even obtain an issued patent. However, if the company did not actually, physically practice the invention, such as by building a prototype, or writing some software code in the case of software inventions, prior to doing so while on a government contract, the invention is likely considered a subject invention at the time of the government funding of the first physical reduction to practice of the invention.

Not appreciating the significance of the reach of the subject invention applicability to first physical reduction to practice is very unfortunate for those who believe that simply filing a patent application before accepting government funding is sufficient in order to fully protect their rights in the invention. Filing a patent application is considered a constructive reduction to practice for purposes of patent law, but this satisfaction of the patent law reduction to practice requirement is not be considered a first reduction to practice for purposes of the DFARS.

Conversely, should a contractor privately fund conception and first physical reduction to practice events apart from government contract efforts, subsequent government funding can be used to conduct extensive engineering efforts, with the government receiving no rights in the invention.

Regardless of the government agency, timely and proper notifications[32] by the contractor to the government of any event triggering a subject invention are critical. In one case, a contractor made the government aware of the invention via briefings and reporting, but failed to complete and submit the proper form. In that case, the court sided with the government in its claim that the government was entitled to title to the invention, with no license or other rights in the invention remaining with the contractor.[33]

Rights in inventions are treated separately from rights in any corresponding technical data or software. The government's having rights in a subject invention does not provide the government rights in any associated technical data or software. Likewise, the government's having rights in technical data or software does not give the government a license or ownership to any inventions reflected or inherent in the technical data or software or any underlying item, component, or process.

Noncommercial Item Effort Impact

In order to sell a noncommercial item or service to the government, the provider of the item or service will likely be subject to many obligations not normally performed by many companies, such as specific accounting, disclosure, and license grant obligations. As an example of such obligations, FAR 12.504[34] provides a list of many statutory provisions exempted from commercial item procurements.[35]

Private Funding and Government Funding

As an example of restrictions on a contractor performing noncommercial item development work for the government, the contractor's cost accounting principles are subject to additional regulation. The cost accounting principles are relevant to IP rights in that designation of funding as private funding can relate to license rights provided to the government, as discussed above.

As of 2011, the government appears to be changing some long-held provisions of some agencies regarding designation of various funds as private funding. Specifically, in 10 U.S.C. 2320, an amendment enacted in January 2011 sought to designate funds for independent research and development and bid and proposal costs as federal funds in some circumstances. Implementing regulations appear to have been delayed, with further legislative changes expected. Importantly, any contractor interacting with the government should understand the nature in which any government funds or reimbursements may impact the contractor's IP rights, even when not on a contract.

Furthermore, once on a government contract, it is noteworthy that use of private funding for purposes of influencing rights while performing work on the contract may be prohibited, if pertaining to a task specifically called for by the contract. Case law in this area has been evolving, but a recent decision by the Court of Appeals for the Federal Circuit[36] addressed an area that previously had involved substantially different standards between outcomes of the preceding decision at a lower court and a different case addressing a similar issue.[37] In short, advice of counsel is likely required should a contractor be using noncontract funds while on a government contract, as a determination of correct cost designation may be dependent on several factors, including a contractor's disclosed or established cost accounting practices. However, general guidance provided by the recent court decision is that the current standard is one in which a privately funded effort may be conducted simultaneously with a government funded contract if the government contract does not "specifically require" the development activity.[38]

Reuse Prohibitions

In view of the many benefits and advancements that can occur on government programs, contractors will often want to reuse, in whole or in part, technical data, software or inventions associated with a government program. The most common impediment to doing so is the contractor not having sufficient rights to the intellectual property corresponding to the complete product. For example, work done by a different contractor (whether a prime or subcontractor) does not automatically result in rights for use on other programs. By way of illustration, a prime contractor on a government effort may receive software and technical data from a subcontractor. While the prime contractor typically will have sufficient rights to use the software and technical data for purposes of performing on the contract under which it was received, those rights seldom extend to any other activity, absent a separately negotiated license or assignment.

Contractors should be aware that some government programs require that information about the program not be publicly disclosed. Should the government

solicitation include the DFARS 252.204-7000 clause titled "Disclosure of Information," the contractor should be aware of potentially broad restrictions applicable to activity associated with the program. It is advisable to negotiate the applicability of this clause to either specific topics or deliverables, so as to limit its impact on the contractor's ability to elsewhere utilize information or lessons learned on the government effort. Distribution statements will often be a required legend on technical materials generated on such a program, providing a limited preapproved scope of distribution with a point of contact listed for requests for permission to distribute more broadly.

Contracts that involve classified subject matter involve many specialized issues. *Classified* in this case refers to programs having information designated by commonly known terms, such as *top secret, secret,* or *confidential*. IP rights issues on classified programs require consultation with counsel.

Other potential factors to be aware of that may impact a contractor's ability to reuse IP created or associated with government programs can include restrictions previously negotiated in earlier contracts involving the IP. Also, depending on the desired reuse, export control prohibitions and, in some cases, restrictions under the International Traffic in Arms Regulations (ITAR), may also apply.

Treatment of Subcontractors

When the government funds development of noncommercial items, prime contractors and any higher-tier subcontractors or suppliers are prohibited from using their power to award contracts as economic leverage to obtain rights in technical data or software from their subcontractors or suppliers. This is very different from commercial market practices, but recognizes the use of taxpayer dollars and helps smaller companies retain rights to IP associated with their product.

Because rights to IP funded by the government can be important to later projects, including projects not involving the government, retention of IP rights by subcontractors is an important consideration as a contractor considers what work it wants to perform and what work, if any, it wants to subcontract out. If other uses for the technology outside of the specific contract opportunity with the government are known well in advance of the specific government contract solicitation, various teaming agreements and license agreements can be put in place, as the prime contractor is not then in a position of power to award the government-funded subcontract.

Outsourcing of Government Work

A relatively recent trend is the use of nongovernment employees to do the work of government. This has been accomplished by the government's hiring companies, known as covered government support contractors, having skilled employees to aid in everything from competitive proposal evaluation, to acquisition program management, and creation and administration of test programs.[39] Until recently, the law did not provide for the level of sharing outside the government required to enable these

activities by nongovernment personnel, so in government programs requiring such staffing, the government was usually seeking to negotiate while contracting with sellers, an ability to provide these nongovernment workers/companies with access to the necessary, seller-owned IP to do their jobs. Recently, Congress passed a law that essentially provides the government with an ability to share this information with nongovernment workers and support contractors, provided a nondisclosure agreement is used.[40] The risks and additional parties that may obtain possession of technical data or software should be weighed by a contractor in exploring potential points of negotiation in any such contract with the government nondisclosure agreement to mitigate risks inherent with broad distribution.

IP Owner's Rights Relative to Government Activity

The discussion above primarily focuses on various IP issues when doing work for the government.[41] However, IP rights holders, whether working with the government or not, may at some point believe their IP rights are infringed by the actions of others interacting with the government or by the government directly. Briefly, the type of IP right at issue is important.

While the government does not have an ability to authorize itself or others acting on its behalf to infringe rights in technical data or software, it often does have such authority relative to patents and copyrights. This doctrine, known as Authorization and Consent,[42] often comes as a surprise to patent holders. In short, a patent is often ineffective in preventing anyone else from practicing your invention for the benefit of the government. Although the invention may be practiced, a patent holder is entitled to compensation. However, the patent holder is typically unable to use litigation against any commercial company infringing the patent on behalf of the government. Where Authorization and Consent applies, the patent holder must pursue compensation against the government, either through the government agency benefiting from the infringement or through the U.S. Court of Federal Claims.[43]

Conclusion

In summary, planning early, knowing what assets are at stake, and being aware of the various IP provisions can pay huge dividends in having a successful interaction with the government and sustainable, long-term business model. Knowledge of the specific regulatory provisions and proposed or current contractual provisions is essential and often may require advice of counsel.

Notes

[1]As one example of a way to locate and learn about government needs, the government has established the www.fbo.gov web site to enable searching for opportunities to work with the government.

[2]FAR 2.101 (2010)

[3]Id.

[4]Id.

[5]Id.

[6]While not addressed explicitly herein, copyright law also applies in working with the government, as it does in any nongovernment, commercial transaction. Consultation of the applicable contract and regulations is advisable regarding any required copyright license or ownership grants to the government. Typically, the copyright license grant will parallel the scope of activities permitted under the technical data rights or rights in software granted to the government.

[7]Because regulations are updated periodically, it is important to verify the applicable regulation in both number and date. A contract typically includes specific reference to both. Note that in late 2010, the DoD proposed a draft update of many of the DFARS Part 227 clauses cited herein. This draft was not implemented as of mid-2011.

[8]DFARS 252.227-7013 and 252.227-7014 (MAR 2011) (48 CFR 252.227-7013 and 48 CFR 252.227-7014) Some programs at some agencies are designated for Small Business Innovative Research (SBIR) status. SBIR programs typically have three phases, during which the SBIR data rights may apply. DFARS 252.227-7018 details the DoD approach to rights in noncommercial technical data and software when implementing the SBIR program.

[9]DFARS 252.227-7013 and 252.227-7014 (MAR 2011).

[10]The basis of the current definition of *developed* in connection with rights in technical data was first set forth in *In re Bell Helicopter Textron,* 85-3 B.C.A (CCH) para. 18,415 (1985).

[11]DFARS 252.227-7013(a)(7) (MAR 2011). Also, the patent laws are found at 35 USC.

[12]*Dowty Decoto v. Dept. of Navy*, 883 F.2d 774 (1989).

[13]The court opinion includes mention of receipts from the contractor at the time of performance of the contract that were stating "a completely new design was developed." However, the court did not find this determinative, looking instead to the definition of *developed*. 883 F.2d at 780. While outside the scope of this article, the definition of *developed* at the time of this case was in a precursor of the regulatory structure that now includes the FAR and DFARS discussed herein.

[14]DFARS 252.227-7014(a)(3) and (7) (MAR 2011).

[15]DFARS 252.227-7014(a)(4) (MAR 2011).

[16]DFARS 252.227-7014(a)(7)(ii) (MAR 2011).

[17]Ralph C. Nash, Jr. & Leonard Rawicz, *Intellectual Property in Government Contracts,* 6th ed. (Chicago: CCH Inc., 2008), 768.

[18]It is noteworthy that computer software documentation required to be delivered is provided with unlimited rights to the government, regardless of funding source. Computer software documentation means owner's manuals, user's manuals, installation instructions, operating instructions, and other similar items, regardless of storage medium, that explain the capabilities of the computer software or provide instructions for using the software. DFARS 252.227-7014 (a)(5) and (b)(1)(ii) (MAR 2011).

[19]DFARS 252.227-7013 and 252.227-7014 (MAR 2011).

[20]DFARS 252.227-7013(b)(2) and DFARS 252.227-7014(b)(2) (MAR 2011). Note that the five-year period is negotiable up until time of delivery of the technical data or software. In some cases, the period has been negotiated to be permanent, meaning the government purpose rights do not later change to unlimited rights.

[21]DFARS 252.227-7013 and 252.227-7014 (MAR 2011).

[22]DFARS 252.227-7013(a)(5) and (a)(14)(i)(B)(1) (MAR 2011).

[23]DFARS 252.227-7014(a)(6) and (a)(15)(vii) (MAR 2011).

[24]DFARS 252.227-7013(b)(4) and DFARS 252.227-7014(b)(4) (MAR 2011).

[25]See DFARS 252.227-7013(a)(14) (MAR 2011) for details on the scope of limited rights to the DoD.

[26]See DFARS 252.227-7014(a)(15) (MAR 2011) for details on the scope of restricted rights to the DoD.

[27]See DFARS 252.227-7017 (JAN 2011).

[28]FAR 52.227-16 (1987).

[29]*Night Vision Corp. v. U.S.*, 469 F.3d 1369 (Fed. Cir. 2006).

[30]DFARS 252.227-7038(a) (DEC 2007).

[31]DFARS 252.227-7038(d)(2) (DEC 2007). When contracting with the DoD, the DFARS typically provides that the contractor retains title and grants a license to the government. Non-DoD contracts with other government agencies typically use FAR 52.227-11 regarding patent rights. However, if the contract is with the Department of Energy or NASA, the default in their regulatory supplements to the FAR is that the contractor does not retain title of the invention, but instead receives a license to the subject invention. In such a case, the government takes title to the subject invention.

[32]See, for example, DFARS 252.227-7038 (DEC 2007) and DFARS 252.227-7039 (APR 1990).

[33]*Campbell Plastics Eng. & Mfg. v. Brownlee*, 389 F.3d 1243 (Fed. Cir. 2004).

[34]Also known as 48 CFR 12.504 (2010).

[35]10 U.S.C. 2631, Transportation of Supplies by Sea (except for the types of subcontracts listed at 47.504(d)); 15 U.S.C. 644(d), Requirements Relative to Labor Surplus Areas under the Small Business Act (see Subpart 19.2); 41 U.S.C. 43, Walsh-Healey Act (see Subpart 22.6); 41 U.S.C. 253d, Validation of Proprietary Data Restrictions (see Subpart 27.4); 41 U.S.C. 254(a) and 10 U.S.C. 2306(b), Contingent Fees (see Subpart 3.4); 41 U.S.C. 254d(c) and 10 U.S.C. 2313(c), Examination of Records of Contractor, when a subcontractor is not required to provide cost or pricing data (see 15.209(b)), unless using funds appropriated or otherwise made available by the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5); 41 U.S.C. 416(a)(6), Minimum Response Time for Offers under Office of Federal Procurement Policy Act (see Subpart 5.2); 41 U.S.C. 418a, Rights in Technical Data (see Subpart 27.4); 41 U.S.C. 701, et seq., Drug-Free Workplace Act of 1988 (see Subpart 23.5); 46 U.S.C. App. 1241 (b), Transportation in American Vessels of Government Personnel and Certain Cargo (see Subpart 47.5) (except for the types of subcontracts listed at 47.504(d)); 49 U.S.C. 40118, Fly American provisions (see Subpart 47.4); Section 806(a)(3) of Pub. L. 102-190, as amended by Sections 2091 and 8105 of Pub. L. 103-355, Payment Protections for Subcontractors and Suppliers (see 28.106-6).

[36]*ATK Thiokol v. U.S.*, 598 F.3d 1329 (Fed. Cir. 2010).

[37]*U.S. v. Newport News Shipbuilding*, 276 F. Supp. 2d 539 (E.D. Va. 2003).

[38]598 F.3d at 1332.

[39]While not the subject of this book, companies exploring pursuit of this type of work should weigh, with advice of counsel, the impact on an ability to sell other goods and services to the government, as companies having access to proprietary information of others are typically prohibited from offering similar products or services. See, for example, 10 USC 2320(f)(1) (JAN 2011). This area of the law is often known as organizational conflict of interest (OCI).

[40]10 USC 2320(f) (2010). See implementing regulations including DFARS 252.227-7013 (MAR 2011) and DFARS 252.227-7014 (MAR 2011)

[41]Using the DoD as the illustrative agency.

[42]28 USC 1498 (1998).

[43]Ibid.