



Partnering for Success: A Cross-Practice Series on Top Legal Considerations for Government Contractors

Part 4: Protecting IP in Government Contracts and Subcontracts

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Seyfarth Shaw LLP

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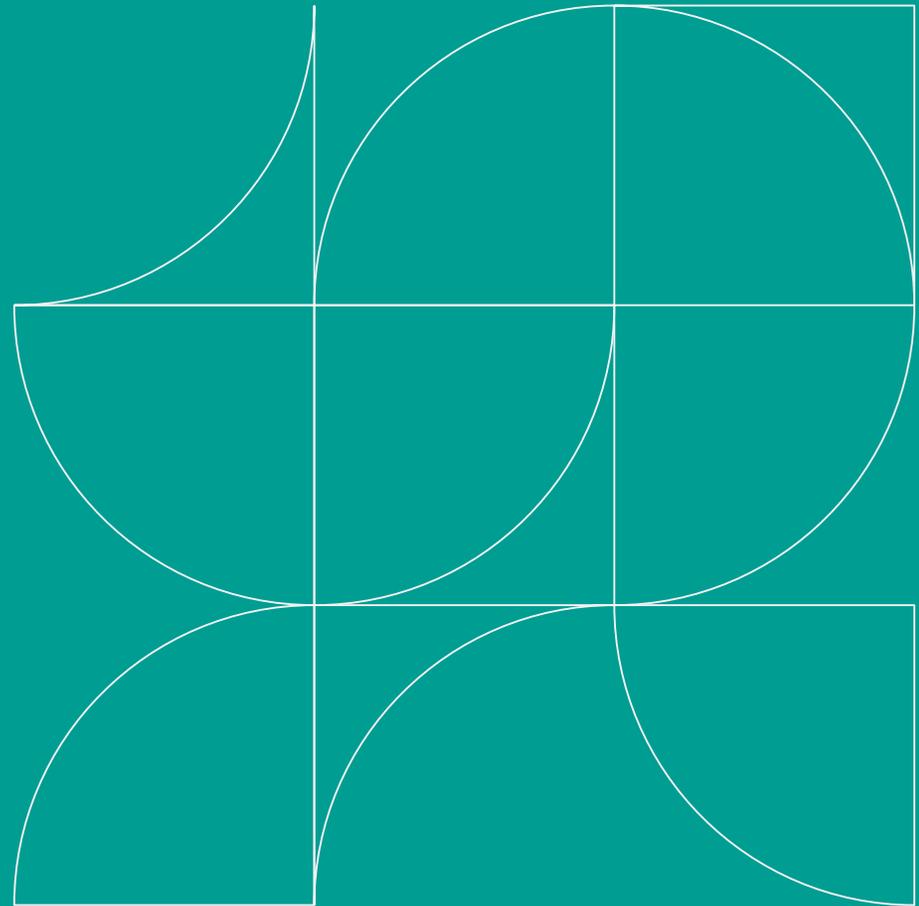


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Agenda

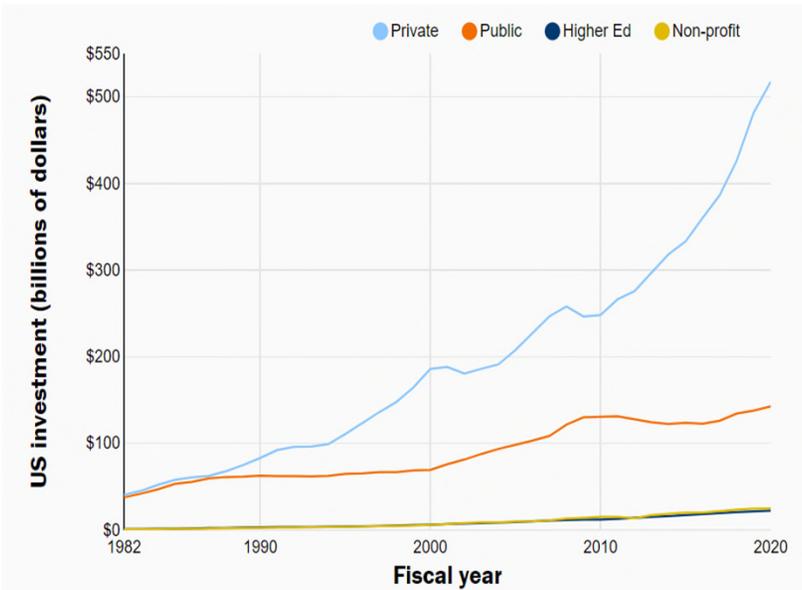
- 01** How does the government acquire the right to use IP?
- 02** What types of IP are implicated in government transactions?
- 03** How can owners protect their IP from the government?

How (and Why) the Government Acquires Licenses



Government Licenses – General Background

- In 1982, private (\$40.7 billion) and public (\$37.8 billion) sectors made comparable R&D investments.
- In 2020, the **private sector** invested **\$517.4 billion** and the **public sector** invested the **\$142.8 billion** in R&D.
- On April 1, 1984, when the Federal Acquisition Regulation (“FAR”) went into effect, private R&D investment had not yet outpaced the government’s.
- As more IP belongs to private owners, more privately-developed technology will appear in government contract deliverables.
 - In the commercial marketplace, IP is protected under patent, copyright, trademark, and trade secret legal regimes that protect owners from unauthorized use.
 - In the government marketplace, laws and implementing regulations govern how the government acquires licenses to use IP in connection with funding instruments.



Washington, DC: National Center for Science and
Engineering Statistics of the National Science
Foundation.

BROOKINGS

Data Source: Darrell M. West, *R&D for the public good: Ways to strengthen societal innovation in the United States*, The Brookings Institution (Oct. 10, 2022), <https://www.brookings.edu/research/rd-for-the-public-good-ways-to-strengthen-societal-innovation-in-the-united-states/>.

Common Types of Federal Funding Instruments

Contracts

- Used to acquire property or services for the government's benefit.
- Relevant Regulations:
 - **Patents:**
 - FAR Subpart 27.3
 - **Copyrights:**
 - FAR Subpart 27.4; DFARS Subpart 227.71; DFARS Subpart 227.72

Grants

- Used to transfer a thing of value to the grant recipient to carry out a public purpose.
- Relevant Regulations:
 - **Patents:**
 - 37 CFR Part 401
 - **Copyrights:**
 - 2 CFR § 200.315

Cooperative Agreements

- Used to transfer a thing of value to the grant recipient to carry out a public purpose ***and*** substantial involvement is expected between the government and the recipient when carrying out the activity.
- E.g. –
 - CRADAs
 - OTAs

Definitions derived from the Federal Grants and Cooperative Agreements Act (31 U.S.C. §§ 6301 *et seq.*).

Government Licenses: Deeper Dive – Contracts

- The government receives a license, not ownership, to use IP in a contract deliverable.
- The scope of that license typically depends on who funded the development.

Private \$\$ ←	Funding for intellectual property development	→ Government \$\$
100% Private	Mixed	100% Government
Limited rights or restricted rights	Government purpose rights	Unlimited rights
← Less rights	Government rights	→ More rights
<p>If IP is developed solely at the expense of a contractor, the government is entitled only to limited or restricted rights for that product. The government can share IP with other government entities for most purposes except manufacturing, but generally not with third parties.</p>	<p>If IP is developed at the expense of both the contractor and the government, the government is entitled to Government Purpose Rights. DOD can share IP with third parties, but not for commercial purposes.</p>	<p>If IP is developed solely at the government's expense, the government is entitled to unlimited rights. There are no restrictions on use of the IP; DOD may share the IP with anyone for any reason.</p>

Source: GAO analysis of Department of Defense (DOD) documentation. | GAO-22-104752

Note: Table does not represent every license right available to DOD within federal acquisition regulations. "Limited rights" refer to those rights in technical data, and "Restricted rights" refer to those rights in noncommercial software.

- **Note:** Congress established an advisory panel to review data rights restrictions and regulations (the "Section 813 Panel"), which published its final report in November 2018. The Section 813 Panel identified persistent "tension points of disagreement" between the private sector and DOD resulting from diametrically opposite perspectives on IP:
 - A private entity may see IP as a **capital asset** representing a **significant investment** and a source of **market competitiveness** and **future revenue**;
 - DOD may see IP as **anti-competitive** because the government is forced to contract with the IP owner for **follow-on sustainment and repair services**, disincentivizing quality performance and competitive pricing.

Standard Contract Clauses – Defined Terms

Noncommercial Technical Data

- Recorded information of a scientific or technical nature, but does not include computer software or financial, administrative, cost or pricing, or management data or other information incidental to contract administration.
 - FAR 52.227-14; DFARS 252.227-7013

Noncommercial Computer Software

- Computer programs, source code, source code listings, object code listings, design details, algorithms, processes, flow charts, formulas, and related material that would enable the software to be reproduced, recreated, or recompiled, but does not include computer databases or computer software documentation.
 - FAR 52.227-14; DFARS 252.227-7014

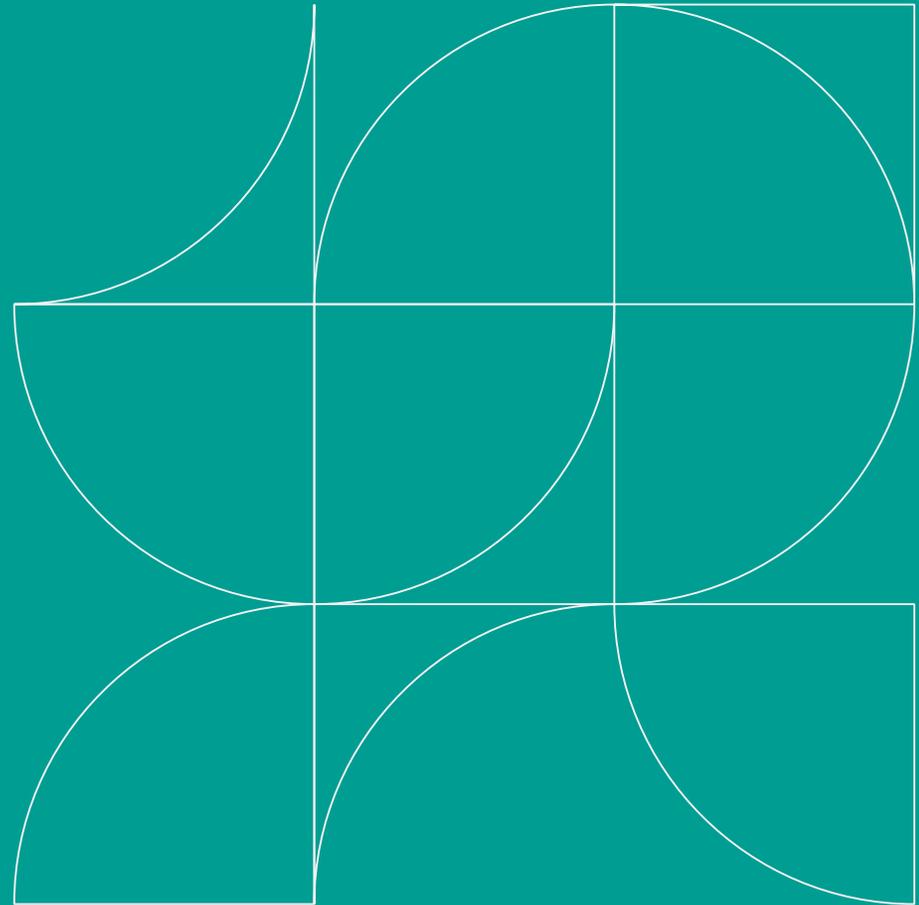
Commercial Technical Data

- Technical data pertaining to commercial products, commercial services, or commercial processes.
 - FAR 52.227-14; DFARS 252.227-7015

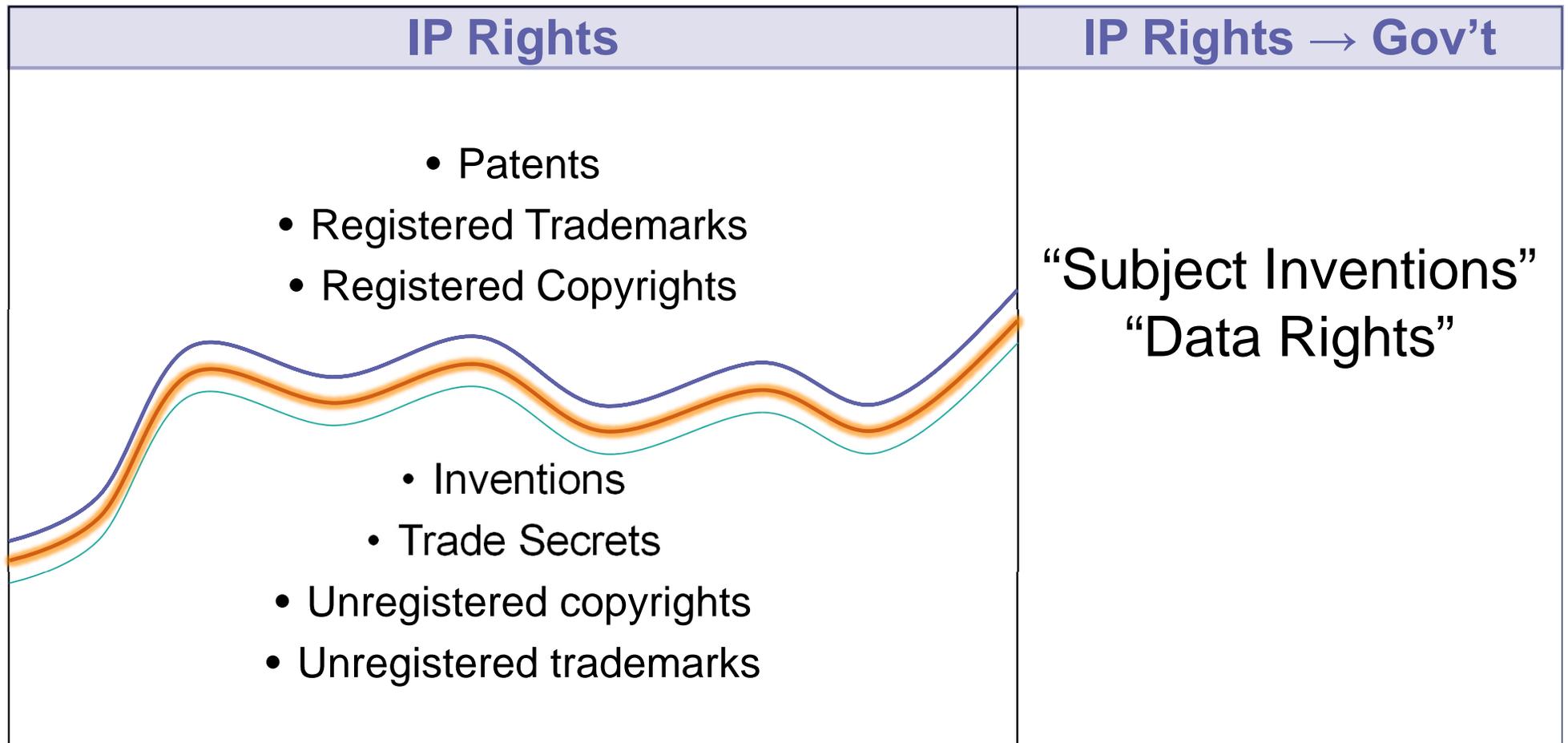
Government Licenses: *Deeper Dive – Contracts (con't)*

- **Key Documents (Department of Defense Contracts)**
 - *Statement of Work*: defines the task/deliverable funded in the amount provided under the corresponding Contract Line Item Number (“CLIN”), which specifies time and place of delivery.
 - For deliverables that include data, the solicitation must also include DD Form 1423, *Contract Data Requirements List* (“CDRL”):
 - The CDRL is the delivery mechanism for data that itemizes the government’s data requirements, delivery timing, and data format.
 - The CDRL will reference a *Data Item Description* (“DID”), another document that specifically defines the data content, format, and intended use.
 - Potential contractors must **assert** for itself, and for subcontractors/suppliers, all known **technical data** or **computer software** delivered with **restrictions** on use, release, or disclosure, in its proposal.

IP Rights Typically Associated with Common Transactions with the United States



Common IP Rights



IP Protections: “Subject Inventions”

Subject Inventions

- Any invention conceived **OR** first actually reduced to practice in the performance of work under a government funding agreement
 - 99.9% done pre-contract? Does not matter if RTP is under the government contract.
- If invention is a Subject Invention, *generally*,
 - Contractor may “elect” title (ownership)
 - Government receives nonexclusive, nontransferable, irrevocable, royalty-free license to practice the invention or have it practiced on its behalf.
 - Cannot sell to public unless exercising “march-in” rights
- However, Government can elect title in certain cases:
 - Contractor fails to elect title → Contractor gets non-exclusive license
 - Contractor fails to file for a patent on the invention after election → Contractor gets non-exclusive license
 - Contractor fails to disclose the invention → Contractor loses all rights
 - ...and certain clauses grant title to the Government no matter what.

Source: Bayh-Dole Act (35 U.S.C. §§ 200-212)

- 37 CFR Part 401
- FAR Subpart 27.3 and FAR 52.227-11
- DFARS 252.227-7038

IP Protections: “Data Rights” –

Technical Data & Computer Software

Data Rights

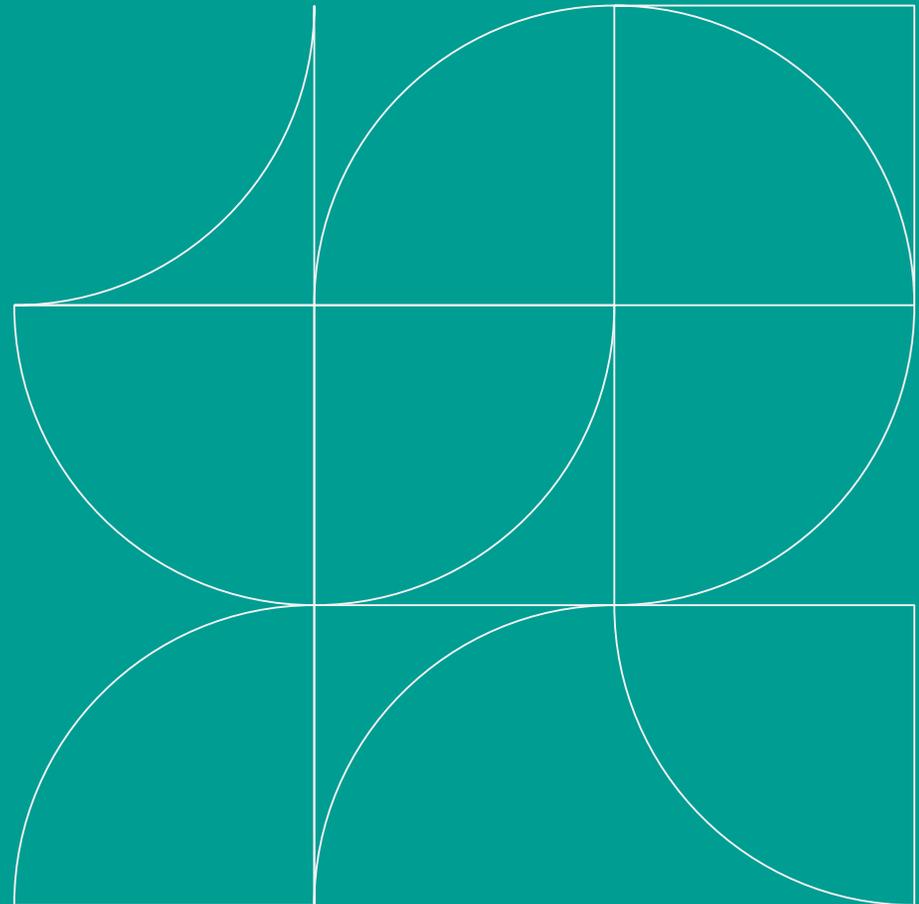
- **Technical Data:**
 - **Recorded Scientific or Technical Information**
 - Amalgamation of copyright and trade secret legal concepts
 - Recorded: Any medium and any form
 - Scientific or technical information: manufacturing or process data, procedures, manuals, specifications, standards, scientific or technical reports, functionality, identifying characteristics, computer software documentation, computer databases, etc.
 - *Exclusions*: data incidental to contract administration like financial, pricing, or management information
- **Computer Software:**
 - Source Code
 - Object Code
 - Other Aspects of Software: non-code design details, algorithms, processes, flow charts, formulae, materials that enable the software to be reproduced, recreated, or recompiled

**IP Protections:
“Data Rights” –
*Technical Data &
Computer Software***

Government Rights in Technical Data

- *Generally:*
 - Contractor retains ownership
 - Government gets a license
 - Scope of Government’s License depends on:
 - The contract language itself
 - The source of funding
 - The type of data
 - Compliance with administrative requirements

Protecting IP Rights from the Government



Contracts: Data Rights Challenges and Procedures

- FAR and DFARS establish a formal process for **data rights challenges**
 - FAR 52.227-14(e) “Unauthorized marking of data”
 - DFARS 252.227-7019 “Validation of Restrictive Markings – Software”
 - DFARS 252.227-7037 “Validation of Restrictive Markings on Technical Data”
- The government must have (1) **reasonable grounds** for disputing the contractor’s assertions **and** (2) determine that the assertions make it impracticable to procure an item competitively.
 - *This is required by law. See 10 U.S.C. § 3782; 41 U.S.C. § 4703*
- The contractor has **60 days** to justify the markings **in writing**.
 - If the contractor fails to respond or to provide written justification, the government has the right to **cancel** or **ignore** the markings.
 - If the CO disagrees with the contractor, the CO will issue a **final decision**.
 - The contractor’s submission does not need to be certified.
- The contractor then has **90 days** to file “suit in a court of competent jurisdiction.”
 - Board of Contract Appeals (Notice of Appeal)
 - Court of Federal Claims (Notice of Intent to File)

Data Rights Challenges and Procedures: *Deeper Dive – Segregability, Markings, and Subcontractors*

Doctrine of Segregability

- Data rights are determined at the lowest practicable level.
- For making assertions, contractors must:
 - Examine each subcomponent or subroutine, and
 - Identify segregable portions developed at private expense.

Markings

- If a contractor is entitled to assert limited or restricted rights, the contractor must mark its data with the exact words in legends that are specified in the clauses in the contract consistent with the assertions in the proposal.
- The legends are different for technical data and computer software and between DOD and civilian agencies.
 - Failure to mark correctly can result in losing a challenge.

Subcontractors

- Validation clauses apply to subcontractors.
- Subcontractors may directly appeal (sometimes).
 - This does not create privity of contract.

Other Avenues of Relief

Patents and Copyrights

- IP owners can seek monetary damages at the U.S. Court of Federal Claims in the event of government or contractor infringement of a patent or copyright.
 - See 28 U.S.C. § 1498

Trademarks

- IP owners can seek injunctive and monetary relief in a federal district court of general jurisdiction in the event of the government using or removing a trademark.
 - See 15 U.S.C. §§ 1114(1), 1125(a)(2)

Thank You

For more information please contact:

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