

Rethinking IP Rights in Government Contracts

Association of Corporate Counsel - National Capital Region

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Introductions

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Setting the stage

- Maintaining U.S. technological superiority over near-peer adversaries requires DoD collaboration with innovative companies that are neither accustomed to nor dependent on doing business with the federal government
- Allocation of IP rights is a critical consideration for all parties
 - Industry needs to ensure working with DoD does not give government rights incommensurate with payment and guard against risk that competitors will obtain access to proprietary information
 - DoD needs to ensure it obtains adequate rights to fully realize the value of its investment and can preserve the ability to obtain future competition and reasonable prices throughout the lifecycle of an acquisition

Two sources of difficulty

- Some issues are rooted in the default legal regime designed to allocate IP under traditional contract arrangements
- Others are rooted in contracting professionals' (industry and government) willingness and ability to utilize available flexibility
- Often a combination of both

Patent Rights – Basic Framework

- Compared to rights in technical data and computer software, patent rights provide a relatively simple example of the problem
- The default patent rights allocation is established by the Bayh-Dole Act and mandatory for DoD procurement contracts; in general:
 - Contractor retains ownership of “subject inventions” (only inventions “made” during contract performance)
 - Government obtains license in subject inventions, subject to disclosure obligations, march-in rights, U.S. manufacture preference, etc.
- The license terms are set by mandatory FAR (or agency supplement) clauses, and can be unpalatable to many commercial entities
- The only ways to negotiate tailored patent rights are to abandon the procurement vehicle for an Other Transaction or other instrument exempt from Bayh Dole, or to exclude the “making” of the invention from the scope of work
- Even if viable, government and industry contracting personnel are not usually trained or experienced negotiating patent rights licenses from scratch

Authorization & Consent

- Patents and copyrights are not IP tools for exclusivity in USG contracting
- USG expressly waived its sovereign immunity and consented to be sued for
 - Patent infringement under 28 U.S.C. § 1498(a)
 - Copyright infringement under 28 U.S.C. § 1498(b)
- Use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States. See FAR 52.227-1.
- Patent and/or copyright owner's remedy is
 - By action against the United States
 - In the United States Court of Federal Claims
 - For the recovery of reasonable and entire compensation for such use and manufacture
 - Not an ability to enjoin or otherwise prevent or stop infringement of the patent
 - Copyright damages for recovery of reasonable and entire compensation for such infringement, including the minimum Copyright Act statutory damages
 - Note: some agencies provide streamlined, non-judicial, "administrative claim" procedures (e.g., DFARS 227.70)

Patent Rights → Data Rights

- Whereas patent rights largely rest on existing patent law, copyright and trade secret issues are bundled into concept of “data rights”
- The data rights framework governs allocation of rights in technical data and computer software
- As with patent rights regime, the contractor retains ownership
- The primary concern is the scope of the government’s license rights in data and software, particularly the government’s ability to disclose data and software to competitors

DFARS Data Rights (1)

The DFARS approach assigns pre-established license rights to technical data and computer software

- If government funding is used exclusively during development, government takes unlimited rights (broad enough to permit distribution to competitors)
- If government funding is excluded from development, government receives very limited rights (~internal use; release outside USG for only limited activities)
- If government funding is mixed with private funding, government receives intermediate “government purpose” rights (still permitting distribution for competition)

Two primary exceptions to the allocation based on source of development funding

- Government obtains broad, unlimited rights in certain categories of information, such as: “Form, Fit and Function” data or “OMIT” data necessary for “operations, maintenance, installation, or training”
- For commercial computer software, government takes the same deliverables and license rights as a commercial customer would

DFARS Data Rights (2)

Source of funding rule can be dissatisfying to all involved

- Rights packages are assigned at the lowest segregable level, which can result in unconnected “swiss cheese” license package
- Industry may protect IP by shielding key “segregable” components from DoD funding until “development” is complete
- As a result, DoD may lack sufficient rights in key component of a weapons system to obtain adequate competition for upgrades and maintenance in throughout acquisition lifecycle
- Industry fears that DoD may share proprietary information with possible competitors, arguing that government purpose rights are based on a small amount of direct development government funding

Source of funding framework overlooks the parties’ actual interests:

- Rights allocated at the lowest segregable level, but DoD must live with and maintain the full product
- Rights allocated based on timing of prior funding, but parties are often more interested in future value, implications, and competitive posture

DFARS Data Rights (3)

- The DFARS gives significant flexibility to move beyond the default or standard licenses and engage in meaningful negotiation. *E.g.:*
 - Specifically Negotiated License Rights (SNLR)
 - Up-front negotiation of maintenance options
 - Creative use of “segregability”, deliverables, etc.
 - Modular Open Systems Architecture (MOSA)
- Other Transactions provide additional flexibility
- But, ultimately the ability to utilize these tools is limited by the ability and willingness of program and contracting personnel to engage with these more demanding allocation techniques

Reform Measures: Expectations & Guidance

- In past years Congress and DoD leadership have provided significant authority, guidance, and encouragement to contracting professionals to enable broad use of Other Transactions to facilitate more flexible contracting methods
- Across DoD there seems to be a consistent theme of breaking institutional barriers and untested cultural norms in order to better engage with industry and harness U.S. innovation
- Air Force in particular is increasing use of SBIR and other programs to engage with small and nontraditional contractors
- Army issues new IP policy & guidance, with the Air Force issuing a “Data Rights Guidebook” for use by the field, and establishing a “Smart IP Cadre” of SMEs to improve performance

Reform Measures: Dialog

2016 NDAA established panel of government and industry experts to make recommendations for reform of DoD's IP framework

- Unanimously agreed more workforce training needed
- Acknowledge concerns with the source of development funding model for DFARS rights allocation, but could not agree on viable alternative
 - Perhaps – *the source of funding rule is the worst mechanism to allocate rights in IP . . . except for all the others*
 - Recommends earlier industry involvement in the DFARS revision *drafting* process

Reform Measures: Workforce Training

2018 NDAA (see 10 U.S.C. § 2322) directs DoD to establish –

- A policy on IP acquisition, licensing, and management
 - See DoD Instruction 5010.44 “[IP] Acquisition and Licensing” (10/16/2019)
- A cadre of IP experts:

Cadre of Intellectual Property Experts.—(1) The Secretary of Defense, acting through the Under Secretary of Defense for Acquisition and Sustainment, shall establish a cadre of personnel who are experts in intellectual property matters. The purpose of the cadre is to ensure a consistent, strategic, and highly knowledgeable approach to acquiring or licensing intellectual property by providing expert advice, assistance, and resources to the acquisition workforce on intellectual property matters, including acquiring or licensing intellectual property.

Discussion Materials

OMIT Technical Data – And Other DoD Special Cases

- DFARS 252.227-7013, **Rights in Technical Data--Noncommercial Items**
 - See also DFARS 252.227-7015, **Rights in Technical Data – Commercial Items**
- The Government shall have Unlimited Rights in Technical Data that are “necessary for . . . operation, maintenance, [installation,] or training purposes (other than detailed manufacturing or process data)” - per 7013(b)(1)(v)
- Paragraph (b)(1) includes eight other types of technical data to which the Government shall have Unlimited Rights, such as Form, Fit, Function data - per 7013(b)(1)(iv)
- These are derived from the DoD tech data statutory scheme (10 U.S.C. § 2320) providing categories of “exceptions” to restrictions on the Government right to release *privately-developed* data outside the USG:
 - Unlimited release of specialized “data types” – such as OMIT data, and “Form, Fit, and Function data”
 - Limited release (w/notice and nondisclosure agreements) of data that is “necessary” for certain important, specialized, USG activities, such as—
 - “emergency repair and overhaul”
 - “interface” data necessary for “segregation” or “reintegration” activities (e.g., a “black box” approach)
 - To “covered Gov’t support contractors” providing advice/assistance directly to USG for program mgmt/oversight
 - Another “new” category: USG gets “government purpose rights” in “major system interfaces”

10 U.S.C. 2320 - Rights In Technical Data

- Sets forth default license rights to USG in technical data, as well as requirements on both DoD and contractors, via DoD promulgated regulations
- Selected examples
 - (a)(2)(H) A contractor or subcontractor (or a prospective contractor or subcontractor) may not be required, as a condition of being responsive to a solicitation or as a condition for the award of a contract—
 - (i) to sell or otherwise relinquish to the United States any rights in technical data except— (I) rights in technical data described in subparagraph (A) for which a use or release restriction has been erroneously asserted by a contractor or subcontractor; (II) rights in technical data described in subparagraph (C); or (III) under the conditions described in subparagraph (D); or
 - (ii) to refrain from offering to use, or from using, an item or process to which the contractor is entitled to restrict rights in data under subparagraph (B).
 - (a)(1) ... Such regulations may not impair any right of the United States or of any contractor or subcontractor with respect to patents or copyrights or any other right in technical data otherwise established by law. Such regulations also may not impair the right of a contractor or subcontractor to receive from a third party a fee or royalty for the use of technical data pertaining to an item or process developed exclusively at private expense by the contractor or subcontractor, except as otherwise specifically provided by law.
 - Required rights grants and mandatory exceptions/provisions

10 U.S.C. 2320 – Rights In Technical Data

- Structure of para (a)(2)
 - (A) Development of item or process **exclusively with federal funds** —Unlimited Rights to (i) use technical data pertaining to item or process or (ii) release or disclose the technical data to persons outside the government or permit the use of the technical data by such persons. (other than item or process developed under a contract/subcontract to which Small Business Innovation Research (SBIR) regulations apply)
 - (B) Development of item or process **exclusively at private expense.**— Contractor or subcontractor may restrict the right of the United States to release or disclose technical data pertaining to the item or process to persons outside the government or permit the use of the technical data by such persons.
 - (C) Exception to subparagraph (b) —Subparagraph (B) does not apply to technical data that...(ii) relates to form, fit, or function; or (iii) is necessary for operation, maintenance, installation, or training (other than detailed manufacturing or process data, including such data pertaining to a major system component); ...
 - (D) Exception to subparagraph (b).—Notwithstanding subparagraph (B), the United States may release or disclose technical data to persons outside the Government, or permit the use of technical data by such persons, if— [See next slide]
 - (E) Development of item or process with **mixed funding**
 - (F) Interfaces developed with mixed funding
 - (G) Major system interfaces developed exclusively at private expense or with mixed funding.
 - (H) A contractor or subcontractor (or a prospective contractor or subcontractor) may not be required, as a condition of being responsive to a solicitation or as a condition for the award of a contract—
 - (I) The Secretary of Defense may— (i) negotiate, (ii) agree to restrict rights otherwise provided, (iii) permit contractor or subcontractor to license third party directly

2020 DoD Legislative Proposal to 10 U.S.C. 2320

- (a)(2)(D) Exception to subparagraph (b).—Notwithstanding subparagraph (B), the United States may release or disclose technical data to persons outside the Government, or permit the use of technical data by such persons, if—
 - (i) such release, disclosure, or use—
 - (I) is necessary for emergency repair and overhaul;
 - (II) is a release, disclosure, or use of technical data pertaining to an interface between an item or process and other items or processes necessary for the segregation of an item or process from, or the reintegration of that item or process (or a physically or functionally equivalent item or process) with, other items or processes; ~~or~~
 - (III) is a release or disclosure of technical data (other than detailed manufacturing or process data) to, or use of such data by, a foreign government that is in the interest of the United States and is required for evaluational or informational purposes; or
 - (IV) is a release, disclosure, or use of detailed manufacturing or process data necessary for operation, maintenance (including depot-level maintenance, repair, and overhaul), installation, training, airworthiness determinations, testing and evaluation, or accident or incident investigations;
 - (ii) such release, disclosure, or use is made subject to a prohibition that the person to whom the data is released or disclosed may not further release, disclose, or use such data; and
 - (iii) the contractor or subcontractor asserting the restriction is notified of such release, disclosure, or use.

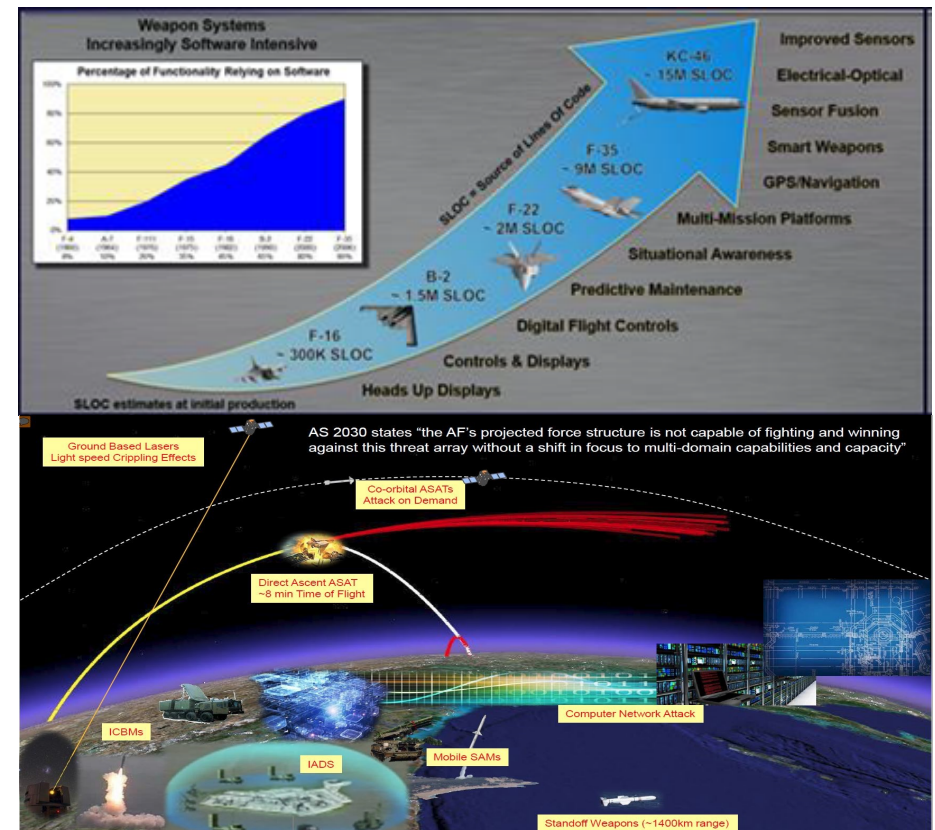
Importance of Data - USAF moving from a Hardware Company to a Software Company



China's J-31



U.S F-35



Data Rights Assertions Format

DFARS 252.227-7017

252.227-7017 Identification and Assertion of Use, Release, or Disclosure Restrictions.

.....
The Offeror asserts for itself, or the persons identified below, that the Government's rights to use, release, or disclose the following technical data should be restricted—

Technical Data to be Furnished With Restrictions*	Basis for Assertion**	Asserted Rights Category***	Name of Person Asserting Restrictions****
(LIST)	(LIST)	(LIST)	(LIST)

*If the assertion is applicable to items, components, or processes developed at private expense, identify both the data and each such item, component, or process.

**Generally, the development of an item, component, or process at private expense, either exclusively or partially, is the only basis for asserting restrictions on the Government's rights to use, release, or disclose technical data pertaining to such items, components, or processes. Indicate whether development was exclusively or partially at private expense. If development was not at private expense, enter the specific reason for asserting that the Government's rights should be restricted.

***Enter asserted rights category (e.g., government purpose license rights from a prior contract, rights in SBIR data generated under another contract, limited or government purpose rights under this or a prior contract, or specifically negotiated licenses).

****Corporation, individual, or other person, as appropriate.

Date _____
Printed Name and Title _____
Signature _____

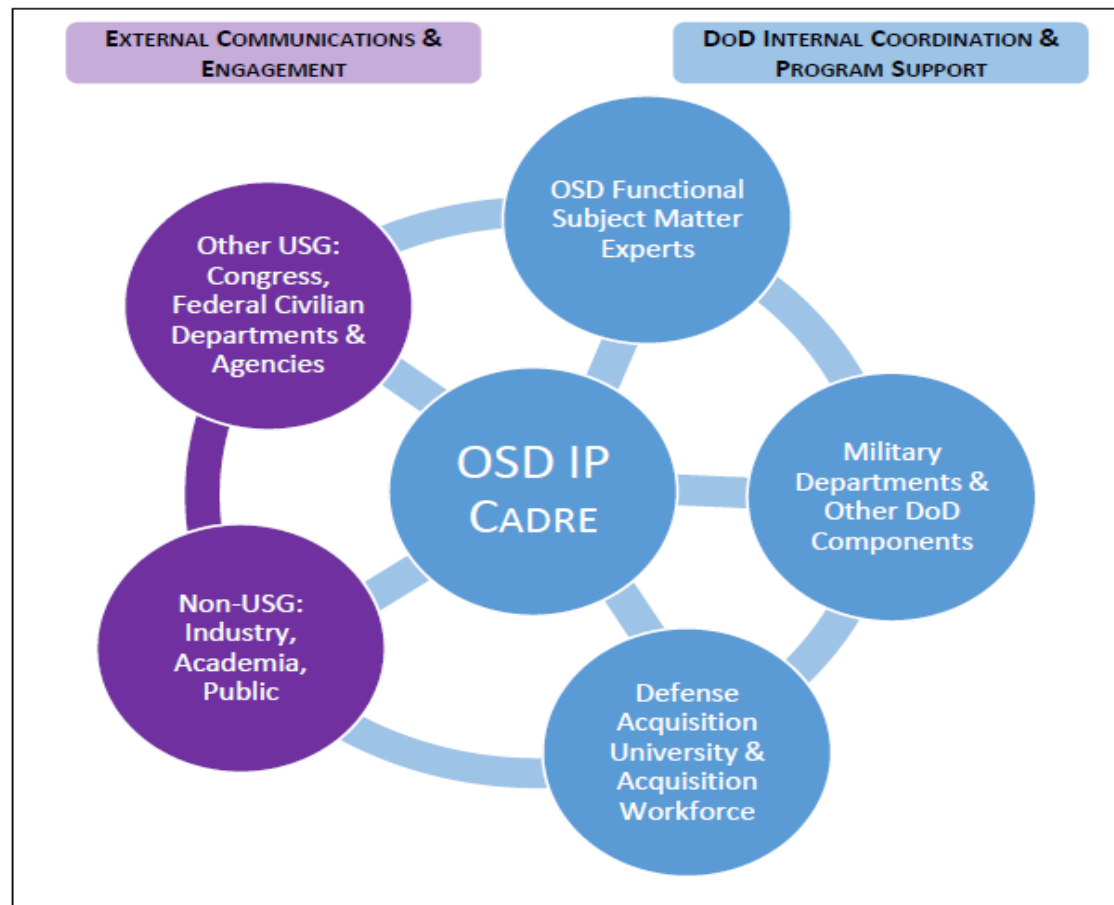
Air Force Recent Data Rights Litigation

- **GAO Protest B-416027; B-416027.2: Matter of Sikorsky Aircraft Corporation – RFP for UH-1N Replacement.**
 - In the RFP, Air Force included H clauses requesting, among other things, delivery of technical data and noncommercial computer software required for operation, maintenance, installation, and training (OMIT).
 - There were 7 Protest Grounds. One noteworthy protest ground was that Sikorsky read the H clauses as not requiring delivery of software code, because it would require them to relinquish its proprietary rights.
 - **GAO conclusion:** Use rights and delivery rights are legally distinct concepts. Air Force can require delivery of source code developed at private expense irrespective of the license rights it obtains in the code.
- **Non-Conforming Markings to Data Delivered Under the F-15 EPAWSS Electronic Warfare Contract**
 - Defense Contractor filed with the ASBCA appealing the Contracting Officer's Final Decision (COFD) denying the Contractor's assertion they have the right to affix a proprietary marking to data being delivered with unlimited rights under the F-15 EPAWWS Technology Maturation & Risk Reduction (TMRR) and Engineering & Manufacturing Development (EMD) Contracts.
 - Boeing filed a summary judgement motion with ASBCA.
 - **ASBCA Ruling:** ASBCA ruled in Air Force's favor that the proprietary markings were nonconforming. Boeing filed an appeal with the Federal Circuit. Oral Arguments are expected to be held in Nov '20.

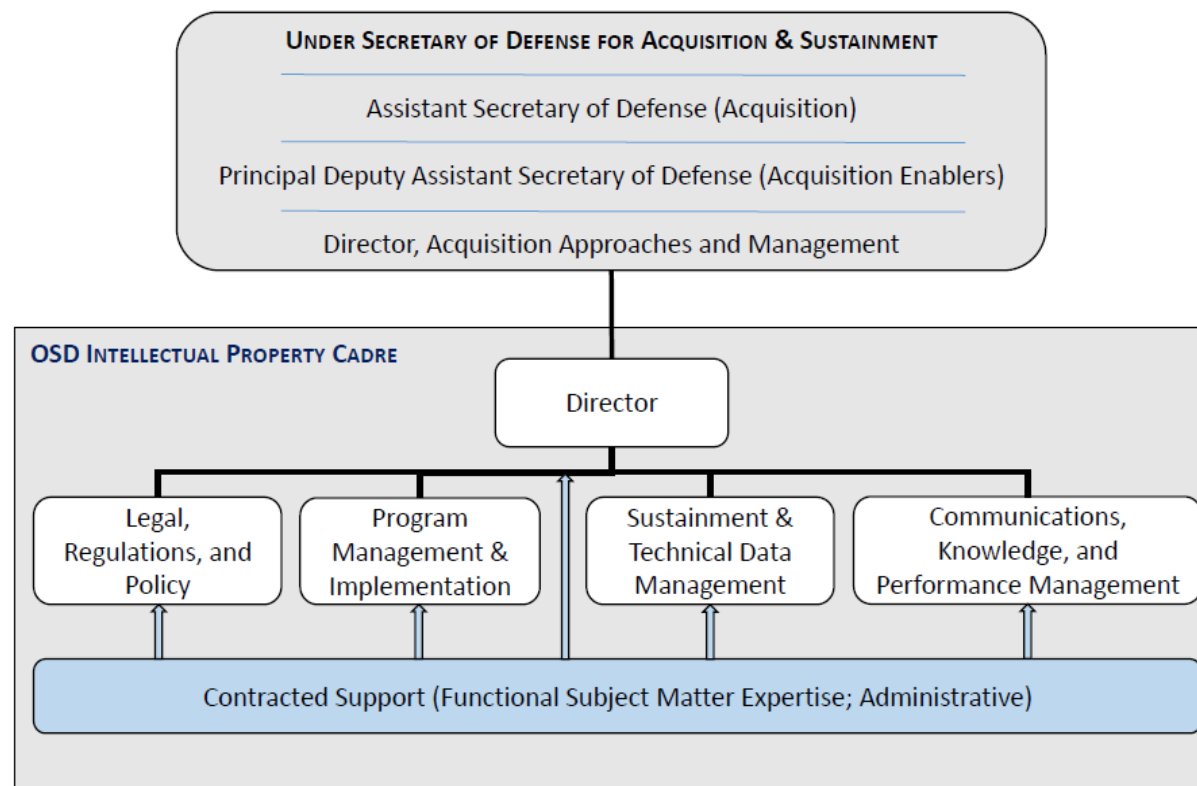
DoD IP Policy – Core Principles (DoDI 5010.44, ¶ 1.2.b)

- (1) Integrate IP planning fully into acquisition strategies and product support strategies to protect core DoD interests over the entire life cycle. Seek to acquire only those IP deliverables and license rights necessary to accomplish these strategies, bearing in mind the long-term effect on cost, competition, and affordability.
- (2) Ensure acquisition professionals have relevant knowledge of how IP matters relate to their official duties. Cross-functional input and coordination is critical to planning and life-cycle objectives.
- (3) Negotiate specialized provisions for IP deliverables and associated license rights whenever doing so will more effectively balance DoD and industry interests than the standard or customary license rights. This is most effective early in the life cycle, when competition is more likely.
- (4) Communicate clearly and effectively with industry regarding planning, expectations and objectives for system upgrade and sustainment. Avoid requirements and strategies that limit the DoD's options in accessing vital technology and commercial solutions available from industry.
- (5) Respect and protect IP resulting from technology development investments by both the private sector and the U.S. Government.
- (6) Clearly identify and match data deliverables with the license rights in those deliverables. Data or software deliverables are of no value unless and until the license rights to use it are attached, and the U.S. Government actually obtains and accepts those deliverables.

Big Picture: The DoD-wide Intellectual Property Cadre

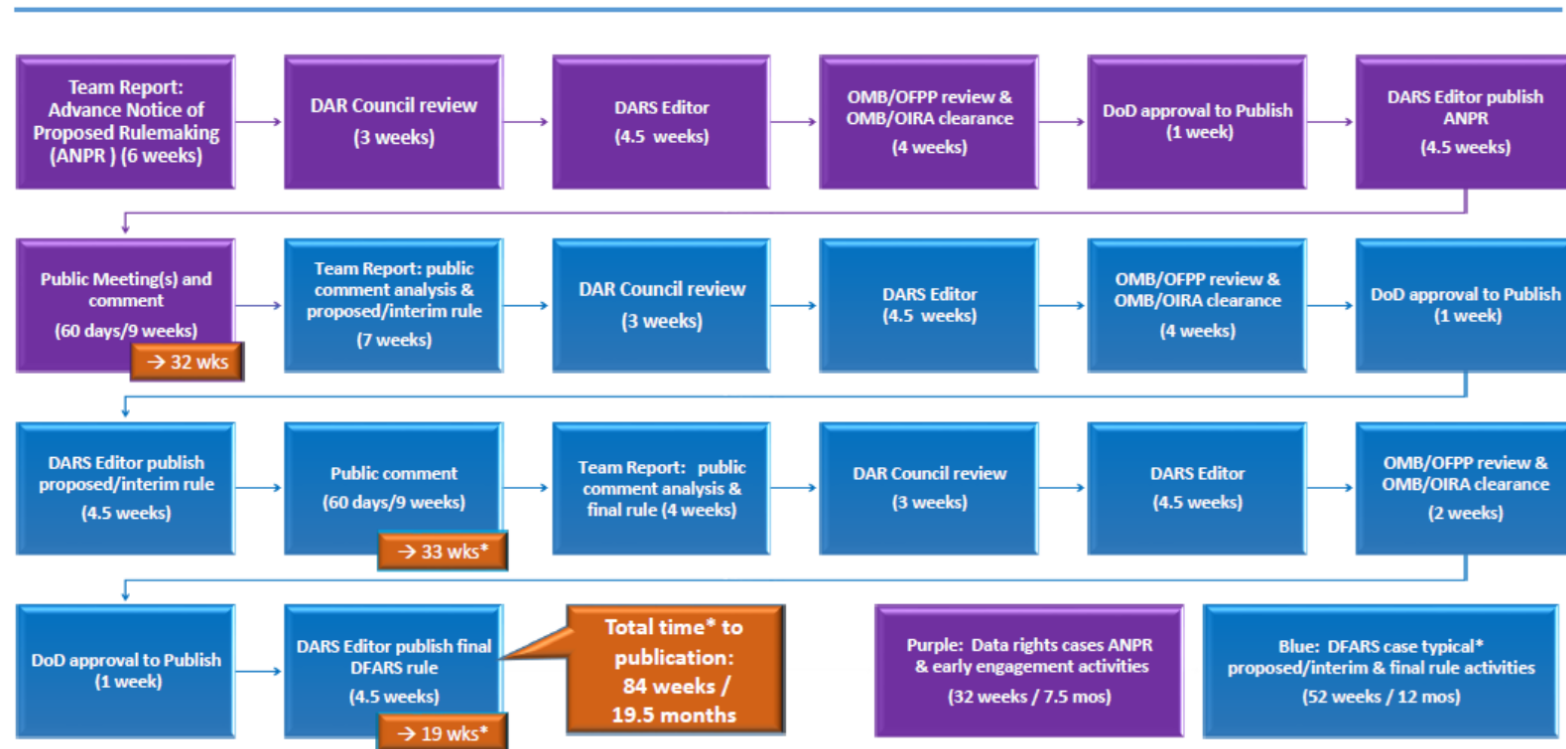


The New OSD Intellectual Property Cadre Office



DFARS Data Rights Cases Early Engagement Expanded Timeline

NOTE: Individual cases may have longer or shorter time lines, depending on the complexity of the case.



* It is not yet clear whether the early engagement activities will reduce the time required for some elements in later stages of rulemaking

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