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# Protecting IP Under DOD Contracts - A Practical Guide

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# Two Main Concepts

- Rights to inventions conceived or first reduced to practice under U.S. DoD contracts
- Rights to “Trade Secrets” (Technical Data and Computer Software) developed or modified under U.S. DoD contracts

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# TYPES OF INTELLECTUAL PROPERTY

- **Patents**
  - Partial right to exclude in exchange for public disclosure
- **Trade Secrets**
  - Keep commercially valuable information from competitors (if you can do so effectively)
- **Copyrights**
  - Protect the expression of your ideas
- **Trademarks**
  - Protect your goodwill and identity in the marketplace

# Patent Rights in DOD Contracts

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# PATENT RIGHTS UNDER DOD FUNDING ARRANGEMENTS

- Is it a grant, contract, or...?
  - Bayh-Dole (35 U.S.C. 200-212) applies to “Funding Agreements”: Contracts, Grants and Cooperative Agreements. Definition does not include CRADAs and OTs.
  - A Contractor’s patent rights are governed by Part 27 of the Federal Acquisition Regulation (FAR) and Part 227 of its DoD Supplement (DFARS) and the Patent Rights Clauses (FAR 52.227-11; DFARS 252.227-7038 (Large Businesses)).
  - A Grantee’s or Funding Recipient’s Patent Rights are governed by Title 37 of the Code of Federal Regulations and the Patent Rights clause (37 C.F.R. 401.14) (plus any agency amendments or additions).

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# Key Terms

- DFARS 252.227-7038:
  - “Invention” means—
    - (1) Any invention or discovery that is or may be patentable or otherwise protectable under Title 35 of the United States Code; or
    - (2) Any variety of plant that is or may be protectable under the Plant Variety Protection Act (7 U.S.C. 2321, et seq.).
  - “Made”—
    - (1) When used in relation to any invention other than a plant variety, means the conception or first actual reduction to practice of the invention; or
    - (2) When used in relation to a plant variety, means that the Contractor has at least tentatively determined that the variety has been reproduced with recognized characteristics
  - “Subject invention” means any invention of the Contractor made in the performance of work under this contract.

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# Key Concepts

- A contractor may elect to retain title to subject inventions under DOD contracts
- A contractor has certain obligations under the patent rights clauses:
  - Report “subject inventions”
  - Elect title to such inventions
  - Timely file patent applications
  - Provide Confirmatory Licenses to the Government
  - Demonstrate the inclusion of the Government Support Clause in any resultant patents
  - File certain reports

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# Disclosure

- Contractor is required to disclose, in writing, each subject invention to the Contracting Officer within 2 months after the inventor discloses it in writing to Contractor personnel responsible for patent matters
  - FAR 52.227-11: 2 months after inventor discloses it in writing to Contractor personnel responsible for patent matters
  - DFARS 252.227-7038: Same as FAR clause but allows for 6 months after the Contractor first becomes aware that a subject invention has been made, whichever is earlier
  - DFARS includes presumption in favor of extensions of time for disclosure and election of title



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# Election of Title

- The Contractor shall elect in writing whether or not to retain ownership of any subject invention
  - FAR 52.227-11: 2 years after disclosure to the agency (or no more than 60 days prior to 1-year “statutory period” if there is publication, sale or public use)
  - DFARS 252.227-7038: at time of disclosure or within 8 months of disclosure as to those countries (including the U.S.) in which the Contractor will retain ownership
  - DFARS includes presumption in favor of extensions for election of title

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# Filing of Patent Application

- FAR 52.227-11 and DFARS 252.227-7038:
  - Contractor must file a *provisional or nonprovisional application* within 1 year after election of title (exception for sale, public use or publication).
  - A provisional application must be followed by a nonprovisional within 10 months of initial application. All U.S. nonprovisional patent applications and the patents must identify U.S. Government and contract vehicle which is source of funding.
  - Foreign filings must be within 10 months of first application.
  - DFARS includes presumption in favor of granting extension.
  - BAYH-DOLE 2018 AMENDMENT: Automatic one-year extension for filing a nonprovisional application (following the filing of a provisional) except if agency gives notice within 60 days of receiving request.

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# Utilization Reports

- FAR 52.227-11 and DFARS 252.227-7038 require no less than annual reports on utilization of subject inventions being made by Contractor, licensees or assignees. These include status of development, date of first commercial sale or use, gross royalties and other data specified by agency.

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# What is iEdison (iEdison.gov)?

- Interagency Edison – contractors and grantees report government-funded subject inventions, patents, and utilization data via the web to the government agency that funded the award
- More than 30 U.S. federal funding agency offices use iEdison (including NIH, DOE, and DARPA)
- Bayh-Dole Act reporting obligations
  - 2018 changes: disclosures, election of title, close-out reports, and all compliance documents now “***shall***” be electronically filed in iEdison. 37 C.F.R. 401.16(a), (b), & (c)
  - Not yet in FAR/DFARS – but most likely will be soon

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# Domestic Manufacturing Obligation (FAR 52.227-11(g); DFARS 252.227-7038(g))

- Notwithstanding any other provision of this clause, ***neither the Contractor nor any assignee*** shall grant to any person the ***exclusive right to use or sell any subject invention in the United States unless the person agrees that any products embodying the subject invention or produced through the use of the subject invention will be manufactured substantially in the United States.*** However, in individual cases, the requirement for such an agreement may be ***waived*** by the agency upon a showing by the Contractor or its assignee that [1] reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or [2] that under the circumstances domestic manufacture is not commercially feasible.

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# Not Always Limited to Exclusive Licensees

- Can extend to non-exclusive licensees or manufacturer itself –pay close attention to award terms

***“U.S. Competitiveness. The Recipient agrees that any products embodying any elected subject invention or produced through the use of any elected subject invention will be manufactured substantially in the United States for any use or sale in the United States, unless the Recipient can show to the satisfaction of DOE that it is not commercially feasible to do so.”***

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# Waivers Can Come with a Bite

Example:

*“In the event that the agency agrees to foreign manufacture for U.S. use or sales, there will be a requirement that the Government’s support of the technology be recognized in some appropriate manner, e.g., recoupment of the Government investment, etc.”*

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# DOD'S RIGHTS TO SUBJECT INVENTIONS

- Minimum license rights if recipient takes title
- Declaration of “Exceptional Circumstances” granting right to title or restrictions on right to title
- ***Rights to title if recipient fails to act***
- Revocation rights
- March-in rights



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# Government License Rights

- If contractor retains ownership of a subject invention, Government gets a non-exclusive, nontransferable, irrevocable paid-up license to practice or have practiced for or on behalf of the United States any subject invention throughout the world
- Government entitled to a confirmatory license

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# Government Rights To Title Based on Failure of Contractor to Act

- The Government may request assignment of title to any subject invention if the contractor fails to disclose, elect title to, or file a patent application in the subject invention within the times prescribed by the clause
- Currently, FAR and DFARS clauses provide safe harbor in that the Government must act within 60 days after it learns of the failure to disclose – 37 C.F.R. 401.14 2018 amendments remove the 60 day provision
- The filing of a late patent application prior to Government's demand nullifies Government's right to demand assignment of title

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# Forfeiture of Title Due to Failure to Act

- Assignment of title due to failure to timely disclose leaves contractor with *no* rights
- Assignment of title due to failure to timely elect title or file a patent application leaves contractor with non-exclusive royalty-free license throughout the world which is transferable only with written approval of the agency

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# Revocation Rights

- Government may revoke or modify a contractor's license in the event it does not elect title or forfeits title "to the extent necessary to achieve expeditious practical application of the subject invention" where a third party applies for an exclusive license under 37 CFR Part 404
- Contractor has right to 30 day show cause notice and certain appeal rights

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# March-In Rights

- Government has right to require Contractor (or assignee or exclusive licensee) to grant a license (which could be exclusive) in any field of use to an applicant, upon terms that are reasonable under the circumstances
  - If Contractor refuses, Government can grant the license itself
- Conditioned on determination of:
  - (1) no expectation of practical application of invention in field of use;
  - (2) necessary to alleviate health or safety needs;
  - (3) necessary to meet requirements for public use; or
  - (4) contractor has breached domestic manufacturing obligation

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# March-In Rights (cont'd)

- Right to appeal through agency and U.S. Court of Federal Claims
- Requires written notice, determination by head of agency, right to present written opposition, and fact-finding hearing
- **NO MARCH-IN RIGHTS HAVE EVER BEEN EXERCISED –**  
but lots of discussion

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# A Couple of Additional Quirks – DFARS 252.227-7038

- Government has right to examine records relating to conception and first reduction to practice to determine whether inventions are subject inventions and contractor has complied with all mandatory procedures
- Government has the right to withhold payment in a reserve not exceeding \$50K or 5% of contract value (whichever is less) if the contractor has failed to abide by provisions of the clause

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# Other Transaction Agreements

- DoD has two statutory authorities – Research OTAs and Prototype OTAs (10 U.S.C. 4021 and 4022)(formerly 2371, 2371b)
- Bayh-Dole Act and DFARS do not apply
- Other Transaction Guide (November 2018) (OUSD(A&S)) – Appendix F
- IP rights are fully negotiable under all types of OTs



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# Other Transaction Guide – IP Considerations

- Patents: Negotiate a patent rights clause necessary to accomplish program objectives and foster the Government’s interest while balancing the needs of the performer
- AO to determine “what represents a reasonable arrangement under the circumstances”
- Considerations:
  - The Government’s needs for patents and patent rights to use the developed technology
  - What other IP rights will be needed should the agreement provide for trade secret protection instead of patent protection

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# Patent Rights under 2371 – Research Projects

- The Technology Investment Agreement 32 CFR 37.105 (NOT THE ONLY VEHICLE)
- Suggest clause 401.14 but allows for negotiation
- Alternative to Government Purpose Rights: springing Government license rights following commercialization
- Flexible approaches for deadlines for disclosure and election of title
- Protection from disclosure while patent application is being filed
- March-in Rights may be contingent on Level of Funding
- Retains domestic mfg. preference with stinger – refund if violation + applicable to nonexclusive licenses

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# Patent Rights Under 2371b - Prototypes

- No regulations; DoD's OTA guide says virtually nothing
- The DPAP Guide (now rescinded) instructs DoD to begin with Bayh-Dole regulations
  - Preaches flexibility to address both commercialization and protection of Government's interest
  - Raises trade secret protection as viable alternative to patent protection

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# Patent Rights Under SBIR Contracts

- No difference in treatment

# Practical Tips – Managing Patent Rights

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# Reduction to Practice Following Government Funding

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# Maintain Records Documenting Conception and Reduction to Practice

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# Obtain Assignments from Employee/Inventors



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# Abide by Disclosure and Notice Obligations

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# Adhere to U.S. Manufacturing Requirements

# Data Rights in DOD Contracts

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# GOVERNMENT DATA RIGHTS

- “Data rights” = the Government’s nonexclusive license rights in Technical Data & Computer Software

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# TECHNICAL DATA

- “Technical Data” includes recorded information of a scientific or technical nature (including computer software documentation) relating to supplies procured by an agency
- Does not include computer software
- DFARS 252.227-7013

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# COMPUTER SOFTWARE

- “Computer software” includes executable code, source code, code listings, design details, processes, flow charts, and related material that would enable the software to be reproduced, recreated or recompiled, but excludes computer databases or computer software documentation
- DFARS 252.227-7014

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# DATA RIGHTS UNDER DFARS: THRESHOLD QUESTIONS

- Is it Technical Data or Computer Software?
- Who is paying for the development?
- What is being delivered?
- Is the product or software a commercial product?

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# DATA RIGHTS UNDER DFARS

## UNDERLYING PRINCIPLES (OR ARE THEY?)

- DoD never gets ownership
- Prohibition of expanded rights in IP developed at private expense
- No delivery; no rights
- Commercial development, license and sale always an option
- Presumption that commercial products are developed at private expense
- Government gets rights to FFF data and rights for OMIT



## Rights<sup>1</sup> in Noncommercial Computer Software (CS) and Technical Data (TD) Covering Noncommercial Items Under DFARS

| Rights Category <sup>2</sup>                  | Applicable to TD or CS? | Criteria for Applying Rights Category   | Permitted Uses within Government  | Permitted Uses outside Government <sup>3</sup>   |
|---|-------------------------|---|---|--|
| Unlimited Rights (UR)                         | Both TD and CS          | Development exclusively at Government expense; also any deliverable of certain types – regardless of funding including FFF and OMIT. <sup>5</sup> | Unlimited; no restrictions.   |  |
| Government Purpose Rights (GPR)               | Both TD and CS          | Development with mixed funding. <sup>4</sup> 10 U.S.C. 2320(a)(2)(F) and (G) extend GPR to interfaces.  | Unlimited; no restrictions.   | Only for “Government purposes”; no commercial use. (Five-year window)                                    |
| Limited Rights (LR)                           | TD only                 | Development exclusively at private expense. <sup>4</sup>  | Unlimited, except may not be used for manufacture.  | Emergency repair/ overhaul; evaluation by foreign government/use by government support contractors.      |
| Restricted Rights (RR)                        | CS only                 | Development exclusively at private expense. <sup>4</sup>  | Only one computer at a time; minimum backup copies; modification.   | Emergency repair/ overhaul; certain service/maintenance contracts/use by government support contractors. |
| SBIR Data Rights                              | Both TD and CS          | Development under an SBIR contract.   | LR in TD and RR in CS during the SBIR protection period – <b>20 years after date of award</b> <sup>6</sup>              |  |
| Specifically Negotiated License Rights (SNLR) | Both TD and CS          | Mutual agreement of the parties; use whenever the standard rights categories do not meet both parties’ needs.                                     | As negotiated by the parties; however, must not be less than LR in TD, and must not be less than RR in CS. <sup>7</sup> |  |

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1. Critical Need to Specify Deliverables. The standard clauses address rights but do *not* include delivery requirements. The contract must explicitly specify the content, format, and delivery medium for all IP deliverables that are necessary to meet DoD's needs. For TD, it is necessary to specify the level of detail and requirements for delivery in preferred electronic/digital formats. For CS, it is critical to specify requirements for both the executable code and the source code. Watch for deferred delivery (DFARS 252.227-7026) and deferred ordering (DFARS 252.227-7027) clauses.
  2. Mandatory Listing Requirements. All TD and CS to be delivered with less than UR *must* be identified in a list attached to the contract. Pre-award listing requirements are specified at DFARS 252.227-7017 and 252.227-7018(e) (SBIR Contracts); post-award requirements are at DFARS 252.227-7013(e) and 252.227-7014(e) and DFARS 252.227-7018(f) for SBIR contracts.

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3. Release Procedures/Restrictions. All authorized third-party recipients of TD/CS with other than UR must either sign the standard NDA from DFARS 227-7103-7 or receive the TD/CS under a contract containing DFARS 252.227-7025. Additional notice requirements exist for releases of LR data or RR software.
  4. Source of Development Funding at the “Lowest Practicable Level.” For TD, the determination is based on the funding for the development of the item, component, or process (ICP) to which that data pertains (versus the development of the technical data itself). For CS, the determination is based on the source of funding for that software. If the ICP or software is developed with mixed funding, the default GPR license may be inequitable if the Government has funded only a small portion of the overall development costs. This imbalance is resolved by determining the source of funding at the “lowest practicable level”; the deliverable ICP or software is divided into segregable components (e.g., subelements of ICPs, or sub-routines of CS), and the funding determination is made for each of the components individually. For TD, see DFARS 227.7103-4(b) and 252.227-7013(a)(6)-(9); for CS, see DFARS 227.7203-4(b) and 252.227-7014(a)(6)-(9).

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5. Unlimited Rights – Regardless of Funding Source. Paragraph (b)(1) of the DFARS 252.227-7013, -7014 and -7018 clauses establish numerous categories for which the Government is entitled to receive UR, regardless of which party funded the development of the underlying technology. FFF is “form, fit and function data.” OMIT is data “necessary for installation, operation, maintenance, or training purposes (other than detailed manufacturing or process data).” See 10 U.S.C. 2320(a)(2)(C).
  6. 2019 SBA Policy Directive provides protection from disclosure and nongovernmental use of all SBIR TD developed from work performed under an SBIR funding agreement for a period of 20 years from date of award.
  7. Minimum Rights. For TD, the minimum rights are established by statute (10 U.S.C. 2320) and are non-negotiable. For CS, the minimum rights are based solely on the DFARS, for which the parties could seek a deviation in circumstances in which DoD’s requirements can be satisfied with less than RR.

## Rights<sup>1,2</sup> in Commercial Computer Software<sup>3,4</sup> (CS) and Technical Data (TD) Covering Commercial Items under DFARS<sup>3,4</sup>

| Rights Category <sup>5</sup>                  | Applicable to TD or CS? | Criteria for Applying Rights Category   | Permitted Uses within Government  | Permitted Uses outside Government   |
|---|-------------------------|---|---|-------------------------------------|
| Unlimited Rights (UR)                         | TD only                 | Any TD of certain specified types or classes, regardless of commercial status. <sup>6</sup>                   | Unlimited; no restrictions.   |                                     |
| Standard DFARS “7015” Rights                  | TD only                 | Default rights category for all TD covering commercial items except those qualifying for UR as stated above.  | Unlimited, except may not be used for manufacture.  | Only for emergency repair overhaul. |
| Standard Commercial License                   | CS only                 | Default rights category for all commercial CS.  | As specified in the license customarily offered to the public, DoD must negotiate for any specialized needs.                                      |                                     |
| Specifically Negotiated License Rights (SNLR) | Both TD and CS          | Mutual agreement of the parties; should be used whenever the standard rights do not meet both parties’ needs. | As negotiated by the parties; however, by statute, the g\ Government cannot accept less than the minimum standard 7015 rights in TD. <sup>7</sup> |                                     |

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1. Critical Impact on IP Delivery Requirements. DoD policy is to acquire, in addition to lesser rights, only those IP deliverables that are customarily offered to the public. In many cases, this will be substantially different (e.g., less detailed TD; no source code for CS) than the deliverables DoD typically receives for noncommercial TD or CS. DoD must specifically negotiate for any additional IP deliverables that it requires.
  2. Key: Early Identification of Commercial Technologies. Because both the IP deliverables and the license rights are significantly affected when acquiring commercial technologies, it is critical to identify early in the acquisition process how these issues affect the acquisition strategy.
  3. Definitions. “Commercial product” is defined at FAR 2.101 (and 52.202-1), and “commercial computer software” is defined in FAR 2.101 (for Part 12 procurements) and DFARS 252.227-7014(a)(1) (for determining DOD’s data rights).

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4. Adapting/Modifying Commercial Items. Commercial items may be modified to meet DoD's requirements without losing their commercial status, as long as the adaptations qualify as "minor modifications" or modifications "of a type customarily available in the commercial marketplace." See FAR 2.101(c), and DFARS 252.227-7014(a)(1) and (12).
  5. DFARS Rights versus Standard Commercial Licenses. Rights in TD covering commercial items are specified at DFARS 252.227-7015; the default rights are similar to limited rights that apply to noncommercial TD. FAR 52.227-19 gives the Government "restricted rights" in commercial computer software and is to be used when "there is confusion as to whether the Government's needs are satisfied or whether a customary commercial license is consistent with Federal Laws." In the DFARS, there is no clause covering commercial CS; DoD takes the rights customarily offered to the public (often a "shrink-wrap" or "click-wrap" license) unless those rights do not meet DoD's minimum needs or violate federal procurement law. DFARS 227.7202-1(a). In all cases, a copy of the standard commercial license agreement or any SNLR must be attached to the contract.

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6. Unlimited Rights – Regardless of Commercial Status. DFARS 252.227-7015(b)(1) lists numerous categories of TD for which the Government is entitled to receive UR – regardless of the commercial status or source of funding for the technology. For example, “form, fit, and function” TD and TD necessary for operation, maintenance, installation, or training (other than detailed manufacturing or process data). The categories are based on 10 U.S.C. 2320(a)(2)(C).
7. Minimum Rights. For TD, the minimum rights are established by statute (10 U.S.C. 2320) and are non-negotiable.



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# Data Rights under OTAs – 2371 – Research Projects

- The TIA regs anticipate that no data will be delivered in most cases
- For data delivered, the regs prescribe “Government purpose” rights – i.e., cannot be used for “commercial purposes”
- The agency is given broad authority to negotiate a license to accomplish program objectives and protect the Government’s interests

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# Data Rights under OTAs – 2371b – Prototypes

- As with inventions, there are no regulations addressing data
- The DPAP OTA Prototype Guide recommend the DFARS clauses for data rights and adopted definitions of key terms from the DFARS and FAR
  - No special recognition for small businesses
- Although OTAs allow considerable flexibility, follow-on production contracts are likely and will be governed by the DFARS, so expect that terms may be consistent in the OTA

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# Data Rights Under 7371b – Prototypes

- The Guide floats the idea of springing broader rights to spur commercialization, if the Government's needs are unclear, or if the contractor is no longer performing

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# Data Rights Under SBIRs – the 2019 SBIR SBA Policy Directive

- The SBIR Protective Period – not less than 20 years from inception of Phase I Contract
- Technical Data – during protective period, equivalent of limited rights with exceptions accorded non-SBIR data developed at private expense. Post-PP – Government Purpose Rights
- Computer Software – during protective period, use in Government computers; modification, adaptation, or combination with other CS, archive & backup. Cannot be used for commercial, manufacturing or procurement purposes. Post-PP – Government Purpose Rights
- Unlimited Rights in FFF, OMIT, and unmarked data

# Practical Tips – Managing Data Rights

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# Rights vs. Deliverables

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# Carefully Track and Document Funding Associated with IP

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# Beware of Default Clauses



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# Take Advantage of Commercial Item Status

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# Be an Assertive Contractor/Subcontractor

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# Thank You!



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