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# Critical Steps For Protecting Your Intellectual Property Under Government Agreements

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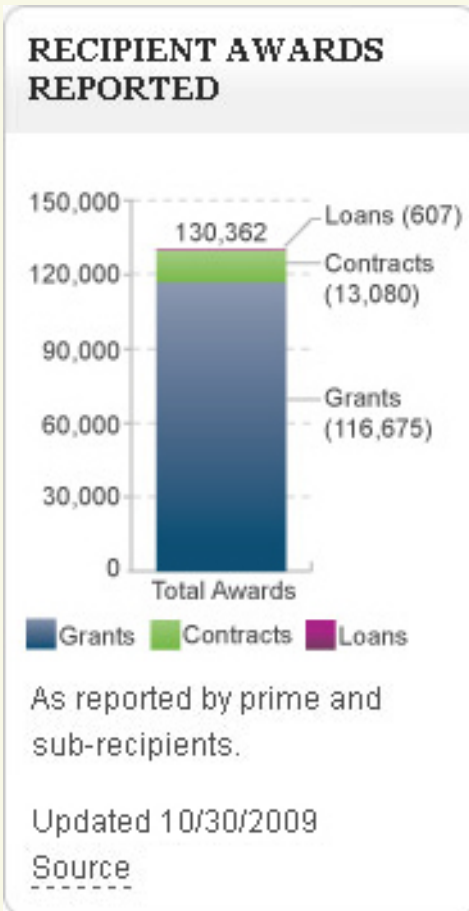
# Overview

- Government R&D in 2009
- Identifying Intellectual Property Issues
- Bayh-Dole Act
- Authorization and Consent
- Patent & Data Rights in Procurement Contracts
- Other Types for Government R&D Agreements

# Government R&D in 2009

- Legal framework governing IP rights largely unchanged
  - Trend toward greater gov't rights to technical data, including under non-FAR agreements
  - Trend toward greater openness under Freedom of Information Act
- Changes arising from Recovery Act
  - Unprecedented R&D funding levels, particularly at DOE
  - Shift in emphasis to grants & loan guarantees
  - Host of newcomers to federal space

# Government R&D in 2009



## Recipient Reported Data:

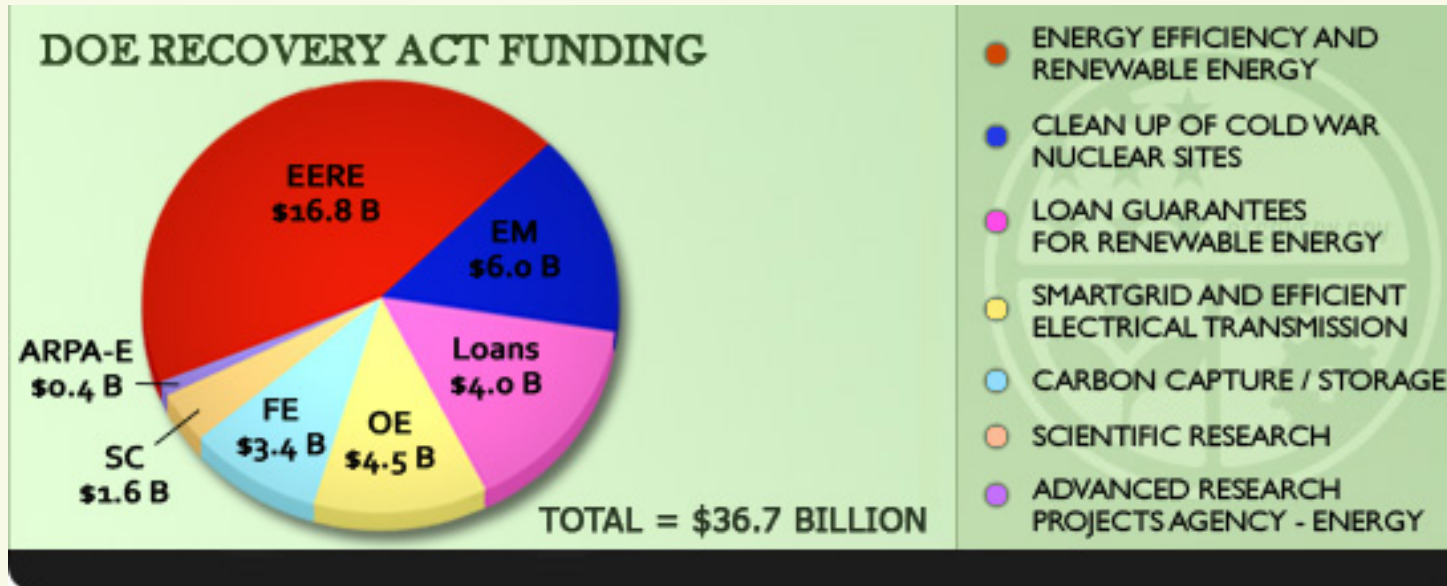
Contracts      \$17,650,625,006

Grants          \$139,645,168,594

Loans            \$1,680,827,295

as of 10/30/2009

# Government R&D in 2009



**\$16.8 B** through the Office of Energy Efficiency and Renewable Energy (EERE)

**\$6.0 B** through the Office of Environmental Management (EM)

**\$4.5 B** through the Office of Electricity Delivery & Energy Reliability (OE)

**\$4.0 B** through the Loan Guarantee Program Office (LGPO)

**\$3.4 B** through the Office of Fossil Energy (FE)

**\$1.6 B** through the Office of Science (SC)

**\$400 M** through the Advanced Research Projects Agency - Energy (ARPA-E)

# Government Contract Principles Affecting IP

- Federal funds always come with strings
- IP rights vary by type of funding agreement (e.g. contract, grant/cooperative agreement, CRADA, OT)
- Sovereign immunity is a powerful shield
  - Must be expressly waived by statute
  - Limits both causes of action and venue
  - Traditional IP remedies are not available against the Government
  - Injunctive relief is generally not available

# Identifying IP Issues – Solicitation Review

- It is absolutely critical that you have a process in place for proactively managing your IP
- No substitute for reading the solicitation (see Tab A checklist)
- You can't assume what is sufficient commercially is proper for a government agreement
- The Government has some flexibility in negotiating IP rights

# Identifying IP Issues – M&A Diligence

- IP frequently is overlooked in Government contracts diligence
- Baseline of IP that was developed at private expense is critical
- Look for Bayh-Dole Act compliance
- May have given away IP unless appropriately marked when delivered to the Government



# Technology Transfer Purposes

- Encourage small business and non-profit organization participation in federal R&D
- Promote collaboration between non-profit and commercial organizations
- Ensure the Government retains sufficient rights to meet its needs
- Protect the public from nonuse or unreasonable use of inventions developed with Government funds

# Bayh-Dole Act Elements

- Bayh-Dole University and Small Business Patent Procedures Act of 1980 (codified at 35 U.S.C. 200-212)
- Covered parties
  - Before 1983, universities, non-profits & small businesses
  - After 1983 Presidential Memorandum, all private parties (note: statutory exceptions to policy for DOE and NASA)
- Covered Agreements
  - Grants, cooperative agreements, and procurement contracts
- Subject Invention
  - Any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement

# Bayh-Dole Act Elements (*cont'd*)

- **Government License**
  - Nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States any subject invention throughout the world
  
- **Notification of Invention**
  - Within 2 months or the Government has the right to seize title
  - InterAgency Edison (“iEdison”)

# Bayh-Dole Act Elements *(cont'd)*

- Written Election to Retain Title
  - Within 2 years or the Government has the right to seize title
- File Patent Applications
  - The Government may take title in countries where private party does not file
- Preference for United States Industry
  - Exclusive licensee must agree to manufacture goods substantially in the U.S.



# Bayh-Dole Act Elements (*cont'd*)

- March-in rights
  - Compulsory license to a third party
  - Not taking effective steps to achieve practical application of invention within a reasonable time
  - Not reasonably satisfying national health or safety needs
  - Not reasonably satisfying regulatory requirements for public use
  - Permission not requested for licensing under U.S. Preference
- Bayh-Dole Act examples



# Authorization & Consent

- The Government may use or have used on its behalf any U.S. patent
- The patent holder is to be compensated exclusively with a reasonable royalty
- A patent holder not satisfied with the agency's resolution of its infringement claim has an exclusive remedy -- suit in the U.S. Court of Federal Claims 28 U.S.C. § 1498
  - Exclusive remedy also applies when a private third party acting on the Government's behalf is the infringer
  - Affirmative defense: (1) authorization and consent; (2) for the Gov't; & (3) use falls within the scope of Gov't program

# Authorization & Consent (*cont'd*)

- *Madey v. Duke University*, 413 F.Supp.2d 601 (M.D.N.C. 2006)
  - Dr. Madey, an electromagnetic radiation scientist, filed a patent infringement lawsuit against former employer Duke University
  - Duke sought Summary Judgment based on two affirmative defenses:
    - Government license under Bayh Dole Act
    - authorization and consent based on Government grants
  - Motion for Summary Judgment denied
    - No private right of action under Bayh-Dole Act
    - Factual issues as to whether use of patents fell within the scope of “authorization and consent”

# Patent and Data Rights

- Patent Rights in Procurement Contracts
- Allocation of Data Rights
- Mark It or Lose It
- Commercial Computer Software & Data
- Variations
  - Small Business Innovative Research (SBIR) Rights
  - Agency-Specific Regulations
- Subcontractor Rights



# Procurement Contracts

- The Armed Services Procurement Act of 1947, 10 U.S.C. § 2302 *et seq.*
- Federal Property and Administrative Services Act of 1949, 40 U.S.C. § 471 *et seq.* and 41 U.S.C. § 251 *et seq.*
- A procurement contract is properly used when: (1) the principal purpose of the instrument is to acquire (by purchase, lease, or barter) property or services for the direct benefit or use of the United States Government; or (2) the agency decides in a specific instances that the use of a procurement contract is appropriate. 31 U.S.C. § 6303

# Procurement Contract Regulations

- Federal Acquisition Regulation ("FAR") clauses: (1) grant patents to either the government or the contractor; (2) provide restricted, limited, or unlimited data rights to the government; and (3) give a very cursory treatment of copyright
  - FAR 52.227-11, Patent Rights -- Retention by the Contractor
  - FAR 52.227-13, Patent Rights -- Ownership by the Government
  - FAR 52.227-14, Rights in Data – General
  - FAR 52.227-19, Commercial Computer Software License
- Revised in December 2007

# Patent Rights in Procurement Contracts

- FAR 52.227-11, Patent Rights -- Retention by the Contractor
- Implements Bayh-Dole Act
- Allocation of Rights
  - Contractor may retain ownership
  - Government obtains license
- Elements
  - Disclosure of subject inventions
  - Election to Retain Title
  - File Patent Application
  - Reporting on Utilization



# Patent Rights in Procurement Contracts (cont'd)

- Government's Right to Title
  - Contractor shall assign title to the Gov't upon written requested if contractor:
    - Fails to Disclose Subject Invention
    - Fails to Elect to Retain Title
    - Fails to File Patent Applications
  - Contractor retains a non-exclusive royalty-free license throughout the world, **unless contractor fails to timely disclose**
- Domestic Manufacturing Preference
- March-In Rights

# What is Data?

- Data means recorded information, regardless of form or the media on which it may be recorded. The term includes technical data and computer software. It does not include information incidental to contract administration. *cf.* Defense FAR Supplement
- Key questions:
  - What data is being delivered to the Government?
  - What rights are being acquired by the Government?



# Allocation of Data Rights

- Government obtains unlimited rights in
  - Data first produced in the performance of the contract
  - Form, fit, and function data delivered under the contract
  - Data delivered under this contract (except for restricted computer software) that constitute manuals or instructional and training material for **installation, operation, or routine maintenance and repair** of items, components, or processes delivered or furnished for use under this contract
  - All other data delivered under this contract unless provided otherwise for limited rights data or restricted computer software
- Unlimited rights means the right of the Government to use, disclose, reproduce, prepare derivative works, distribute copies to the public, and perform publicly and display publicly, in any manner and for any purpose, and to have or permit others to do so



# Allocation of Data Rights (cont'd)

- Data first produced under contract
  - Contractor may assert copyright to scientific and technical articles
  - Contractor may request copyright to other data
- Contractor shall not, without prior authorization, deliver data that was not first produced in the performance of contract
- Contractor may withhold from delivery limited rights data or restricted computer software and provide form, fit and function data instead
- If agency has a need for limited rights data or computer software, it shall include
  - FAR 52.227-14, Alternate II, required for delivery of limited rights data
  - FAR 52.227-14, Alternate III, required for delivery of restricted computer software
- Mark It or Lose It (... and then Prove It)

## ... And Prove It

- Contracting officer may require written justification of markings
- Contractor must provide justification substantiating propriety of markings within 60 days
- Special Clauses used by Army's Aviation and Missile Command to establish IP baseline:

The purpose of this section is to simplify or eliminate the need for the Government to challenge any claim that the contractor might make that the deliverable technical data may be submitted with limited rights or computer software submitted with restricted rights. This is accomplished by requiring the contractor to submit baseline documentation for the designs of the related items, components, processes, or computer software (ICPS). The baseline documentation shall consist of drawings, specifications, engineering notes, sketches, version description documents, source code listings, software test plans, software test procedures, software test report

...





# Commercial Items

- The agency shall acquire only those rights in technical data, and licenses for commercial computer software and commercial computer software documentation customarily provided to the public. FAR 12.211 & 12.212
- Standard commercial licenses must generally be tailored to accommodate Federal law and agency requirements
  - Indemnification
  - Disputes
  - Obligation of funds
  - National security consideration
- FAR 52.227-19, Commercial Computer Software License
  - May be used in lieu of standard or customary license
  - But, is inconsistent in many respect with such licenses
- Marking Requirement?

# Small Business Innovation Research Program

- Small Business Innovation Research Program (SBIR) (15 U.S.C. 638)
  - Three-phase program designed to promote R&D by Small Businesses
  - First two phases funded by agency extramural budget
  - SBIR Rights
    - Applies to data first produced under the SBIR contract
    - Government may only use data for government purposes and will not disclose the data outside the government (including or procurement purposes) for 4 years after
  - cf. FAR 52.227-20 and DFARS 252.227-7018

# Mark It or Lose It - SBIR

- *Night Vision Corp. v. United States*, 68 Fed.Cl. 368 (2005)
  - Night Vision alleged, *inter alia*, Air Force breached its SBIR contracts by disclosing proprietary technical data to competitor
  - Night Vision delivered prototype night vision goggles to Air Force without a restrictive legend on the goggles
  - Court held Night Vision failed to restrict Government's use and disclosure of SBIR data
    - Contractor may only restrict Government's use and disclosure by marking the deliverable with the appropriate legend
    - Government obtained complete unrestricted use of such data
    - Marking of related "technical drawings and documentation" insufficient to protect data



# Agency-Specific Regulations

- DoD FAR Supplement (DFARS), 48 C.F.R. § 252.227-7013 and 252.227-7014
  - Government purpose rights
  - **Special license rights**
    - Standard license rights may be modified as appropriate
    - But no lesser than limited/restricted rights
- Department of Energy regulations (DEAR), 48 C.F.R. § 927.300
  - DOE retains title to subject inventions under funding agreements with large, for-profit companies
  - Permits negotiation and waiver of its intellectual property rights

# Subcontractor Rights

- Prime contractor may not use subcontract award as leverage for obtaining rights in subcontractor's subject inventions or data
  - FAR 52.227-11(k)
  - DFARS 252.227-7013(k)
  - DFARS 252.227-7014(k)

# Other Types of Agreements

- Grants and Cooperative Agreements
  - Authority: 31 USC 6301 *et seq.*
  - Purpose: Carry out a public purpose of support or stimulation authorized by law
  - IP Rights
    - Patent Rights
      - Subject to Bayh-Dole Act
    - Data Rights
      - Government obtains Government Purpose Rights
      - Requires release of “research data” under FOIA, not including trade secrets or confidential commercial information
  - See e.g., OMB Circulars A-102 & A-110; DoD Grants & Agreements Regulations; 10 CFR Part 600 (DOE)

# Other Types of Agreements

- Cooperative Research And Development Agreements
  - Authority: 15 USC 3710a
  - Purpose: Encourage transfer of commercially useful technologies from Federal laboratories to industry
  - IP Rights
    - Patent Rights
      - Not subject to Bayh-Dole Act
      - Allocation of rights addressed in Section 3710a
      - Government normally obtains Government Purpose Rights
    - Data Rights
      - Allocation of rights generally negotiable
      - 5-year FOIA exemption for CRADA-generated information

# Other Types of Agreements

- Other Transactions/Technology Investment Agreements
  - Authority: 10 USC 2371 (DoD)
  - Purpose: Facilitate research projects with non-traditional government contractors
  - IP Rights
    - Patent Rights
      - Not subject to Bayh-Dole Act
    - Data
      - Allocation of rights negotiable
      - 5-year FOIA exemption for proposals, business plans, technical information
  - See DoD Grant and Agreement Regulations, Part 37



# Freedom of Information Act

- New FOIA policy issued by Obama Administration
  - “In the face of doubt, openness prevails”
  - DoJ Guidance:
    - Agencies should not withhold information simply because there is a legal basis to do so
    - Agencies must consider partial disclosures if they cannot make full disclosures
  - DoJ will only defend a denial of a FOIA request when:
    - Agency reasonably foresees harm, or
    - Disclosure is prohibited by law
  - *Cf.* Prior DoJ Policy: DoJ would defend agency unless it lacked a sound legal basis for withholding

# Freedom of Information Act

- Recent FOIA Amendments
  - OPEN Government Act of 2007
    - Clarifies circumstances under which requestor may recover attorney fees and litigation costs
    - Adds reporting requirements
    - Prohibits agency from assessing fees if specified time limits are exceeded
    - Establishes Office of Government Information Services to review FOIA activities, recommend changes, and provide mediation services
  
- Recent cases

# Canadian Commercial Decision

- *Canadian Commercial Corp. v. Air Force*, 514 F.3d 37 (D.C. Cir. 2008)
  - Rejected AF argument that Congress did not intend for Exemption 4 to cover line item prices
  - Rejected AF argument based on FAR Part 15
    - FAR Part 15 requires disclosure of “unit prices” in post-award debriefings
    - BUT, debriefing shall not reveal information exempt from release under FOIA
  - Findings
    - Constituent and line item pricing could be used to underbid option-year work, thus competitive harm
    - Administrative record lacked evidence supporting AF arguments

# Recent Decisions

- *General Electric Company v. Dep't of the Air Force, Civil Action No. 01-1549 (CCB)*
  - Prohibited USAF from releasing “unit prices”
  - Addresses *Nat'l Parks* standard for FOIA Exemption 4
    - Actual competition
    - Likelihood of substantial competitive harm
  - Holding:
    - Actual competition includes competition over future contracts and contracts with other entities
    - No need to demonstrate precisely how the release of information would cause competitive harm
    - Disclosures permitting customers to negotiate more effectively and ratchet down prices can result in competitive harm
    - No need to demonstrate that other customers have comparable bargaining positions

# Recent Decisions

- *Boeing v. Dep't of the Air Force, Civil Action No. 05-365 (GK)*
  - Denied Boeing injunctive relief, thereby allowing USAF to release “unit prices”
  - Addresses *Nat'l Parks* standard for FOIA Exemption 4
  - Findings:
    - Boeing failed to show competitor could extrapolate future labor rates from its 2000-2004 wrap labor rates
    - Boeing agreed to release of 1996 to 1999 rates, which undercut argument that future labor rates could be extrapolated from past
    - USAF demonstrated that year-to-year fluctuation in rates followed no discernible pattern

# Questions?

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