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Intellectual Property in Government Contracts: Negotiating, Preserving and Enforcing IP Rights

WEDNESDAY, DECEMBER 18, 2019

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

David S. Bloch, Shareholder, **Greenberg Traurig**, San Francisco

Brian Lally, Assistant General Counsel for Technology Transfer and Intellectual Property, **U.S. Department of Energy**, Washington, D.C.

Paul F. McQuade, Shareholder, **Greenberg Traurig**, Washington, D.C

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INTELLECTUAL PROPERTY IN GOVERNMENT CONTRACTS: NEGOTIATING, PRESERVING, AND ENFORCING IP RIGHTS

David S. Bloch
Greenberg Traurig
blochd@gtlaw.com
415.590.5110

Brian Lally
U.S. Department of Energy
Brian.lally@hq.doe.gov
202.230.7592

Paul McQuade
Greenberg Traurig
mcquadep@gtlaw.com
202.331.3187

Outline of remarks

I. How the Government acquires IP rights

II. The role of Government contracts

III. Negotiating IP rights in Government contracts

IV. Practical strategies for preserving IP rights when contracting with the Government

V. Recent case law decisions

   A. *Appeals of the Boeing Co.* (ASBCA, Nov. 28, 2018)

   B. *Appeals of the Boeing Co.* (ASBCA, July 17, 2018)

   C. *Sikorsky Aircraft Corp.* (GAO, May 22, 2018)

VI. Government misuse and potential remedies

NOTE: The opinions expressed in this article do not represent the official positions of the authors' respective employers or former employers.

How the Government acquires IP

- Patents
  - Government personnel may invent patentable technologies
  - Government contractors may invent patentable technologies and copyrightable works
  - Government employees and contractors can develop inventions jointly
    - For most Agencies, the default rule under Bayh-Dole and E.O. 12,591 is that the contractor takes title and the Government obtains a paid-up Government purpose license
    - DOE and NASA presumptively take title, but usually waive that right in favor of Bayh-Dole-type rights

How the Government acquires IP

- Copyrights
  - Government works (*i.e.*, works created by federal employees in the course of their employment) generally are not eligible for copyright. 17 U.S.C. § 105
  - Exceptions for the Post Office, Corporation for Public Broadcasting, National Public Radio, and publications from the National Technical Information Service
  - Also, Government can own copyrights that originate in the private sector (*i.e.*, from contractors) by contract or assignment

How the Government acquires IP

- Trademarks
  - Government can register trademarks, service marks, or certification marks (*e.g.*, EnergyStar)
  - Government also can license-in third-party trademarks and license others to use its marks/insignia

How the Government acquires IP

- Trade Secrets
  - Difficult for Government to create or monetize trade secrets
    - The U.S. Government is not a commercial competitor
    - What does it mean for the U.S. Government to claim that a secret confers a *competitive* / marketplace advantage?
    - Trade secrets are not the same as state secrets or classified information
      - State secrets and classified information are protected by statute for reasons having to do with, e.g., national security
      - They do not relate to commercial activities or advantages
  - It is unusual to claim trade secret protections for federally funded technologies. But some programs (e.g., SBIR) and contracting vehicles (e.g., CRADA) support time-limited trade secret-type protections

How the Government acquires IP

- Government can practice any patent and copyright without the consent of the owner
  - 28 U.S.C. § 1498
  - But must pay "reasonable and entire compensation"
- Government cannot use or disclose the trade secrets of others without consent
  - 18 USC § 1905; see 22 USC 2356(a)(2)
  - *Food Marketing Inst. V. Argus Leader Media*, 588 U.S. ___ (2019)
- Government cannot use private trademarks without consent
  - 15 U.S.C. § 1122 (a)

IP created under Government contract

- Bayh-Dole Act, 35 U.S.C. §§ 200–206
  - Applies to "funding agreements" with nonprofits and small businesses
  - Extended to large business by executive order
  - Implemented by 37 C.F.R. § 401
  - Key concepts are *timely disclosure*, the contractor's *election to retain title*, and the filing of a *patent application*

IP created under Government contract

- Patent clauses only apply to "Subject Inventions"
  - "**subject invention**" means any invention of the contractor **conceived *or first actually reduced to practice*** in the performance of work under a funding agreement
  - "***Invention***" means any invention or discovery which **is *or may be patentable*** ...
    - By definition, subject inventions can include a contractor's existing patent portfolio if the claimed invention was never built (actually reduced to practice) until the Government contract
  - Bayh-Dole *requires* certain government rights - see 35 U.S.C. §§ 201–204

IP created under Government contract

- **Hypothetical I:** Acme Corp has been working on the design of new battery for the past 5 years and has spent over $1M of private funds to develop several designs. Acme's most recent development, battery X, promises to be the most efficient battery ever designed, but Acme needs additional funding to further develop battery X and test its performance. Before deciding to put in a proposal for a federal R&D grant Acme files a patent application on the battery X design to secure its intellectual property rights. Acme is awarded $100K in federal funds to further develop battery X and Acme uses those funds to make the first working battery X prototype.
  - Is battery X a subject invention?
  - What is the impact of the patent application Acme filed?

IP created under Government contract

- **Hypothetical I:** Acme Corp has been working on the design of new battery for the past 5 years and has spent over $1M of private funds to develop several designs. Acme's most recent development, battery X, promises to be the most efficient battery ever designed, but Acme needs additional funding to further develop battery X and test its performance. Before deciding to put in a proposal for a federal R&D grant Acme files a patent application on the battery X design to secure its intellectual property rights. Acme is awarded $100K in federal funds to further develop battery X and Acme uses those funds to make the first working battery X prototype.
  - Is battery X a subject invention? Yes.
  - What is the impact of the patent application Acme filed? None. The patent application is a mere *constructive* reduction to practice.

IP created under Government contract

- **Hypothetical II:** Jane Inventor is one of nation's top researchers in her area of science and she recently made a major breakthrough that was funded by a federal agency. While Jane is excited about the discovery and has disclosed it as a subject invention to the funding agency, she is worried about filing a patent application as she doesn't want her competitors to find out about her new discovery.
  - Instead of filing a patent application can Jane protect her new discovery as a trade secret?

IP created under Government contract

- **Hypothetical II:** Jane Inventor is one of nation's top researchers in her area of science and she recently made a major breakthrough that was funded by a federal agency. While Jane is excited about discovery and has disclosed it as a subject invention to the funding agency, she is worried about filing a patent application as she doesn't want her competitors to find out about her new discovery.
  - Instead of filing a patent application can Jane protect her new discovery as a trade secret? No. "The contractor will file its initial patent application on a subject invention to which it elects to retain title within one year after election of title or, if earlier, prior to the end of any statutory period wherein valid patent protection can be obtained in the United States after a publication, on sale, or public use." 37 C.F.R. § 401.14(c)
  - "Federal agencies are authorized to withhold from disclosure to the public information disclosing any invention in which the Federal Government owns or may own a right, title, or interest (including a nonexclusive license) for a reasonable time in order for a patent application to be filed." 35 U.S.C. § 205

IP created under Government contract

- No rights in non-subject inventions
  - *Boeing Co. v. United States*, 670 F.2d 156 (Cl. Ct. 1982) - No rights in inventions created using intramural research and outside of statement of work
  - *Stanford v. Roche*, 563 U.S. 776 (2011) - No rights in inventions not owned by contractor
  - Subject invention must be within the scope of work
  - IR&D expenditures are *treated as* private expenditures even if they are reimbursed by the Government

IP created under Government contract

- If you develop a subject invention ...
  - *Must* timely report and elect title
    - Government typically only gets/needs nonexclusive license
    - Government may assert greater rights if you fail to report
    - Can lose ownership for failure to report or elect on time
    - The 60 day time window for agencies to act has been removed in the recent updates to the Bayh-Dole regulations
  - *Campbell Plastics Engineering & Mfg., Inc. v. Brownlee*, 389 F.3d 1243 (Fed. Cir. 2004) (failure to abide by the FAR's reporting requirements resulted in the Government's taking of patent title)

IP created under Government contract

- If you develop a subject invention ...
  - March-in rights
    - Subject inventions are subject to re-licensing
    - Allows the Government to grant sublicenses if not commercializing subject invention
    - Required by statute (35 U.S.C. § 203) but never used
      - *See* D. Bloch, *Alternatives To March-In Rights*, 18 Vanderbilt J. Ent. & Tech L. 247 (2016)
    - Has been suggested by various political candidates as a mechanism for lowering drug prices
    - But *not* raised in *USA v. Gilead*

IP created under Government contract

- If you develop a subject invention ...
  - Must manufacture substantially in the United States
    - 35 U.S.C. 204: “no small business firm or nonprofit organization which receives title to any subject invention and no assignee of any such small business firm or nonprofit organization ... shall grant to any person the *exclusive right to use or sell* any subject invention *in the United States* unless such 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”
    - 35 U.S.C. § 209 (b): licenses are generally only granted to “a licensee who agrees that any products embodying the invention or produced through the use of the invention will be manufactured substantially in the United States”
    - Some agencies require US manufacturing clauses that are more stringent than section 204

IP created under Government contract

- If you develop a subject invention ...
  - Domestic manufacture requirement is waivable by regulation (37 C.F.R. § 404.5 (a)(2)) if
    - domestic manufacture is not commercially feasible *and*
    - no other domestic manufacturer would take a license from the Government

IP created under Government contract

- Similar rules for computer software or technical data developed at Government expense
- No rights in computer software or technical data developed at private expense
  - Commercial technology subject to commercial licenses (mostly)
  - Even non-commercial technology subject to limited/restricted rights

IP created under Government contract

- Marking is critical here, too
  - Limited Rights (technical data) / Restricted Rights (computer software)
  - Government Purpose Rights
  - Small Business Innovation Research (SBIR/STTR) Rights
  - If deliverables are *not* marked, deemed Unlimited Rights.
  - Specially negotiated rights
- Government will obtain *at least* Government purpose rights if created at Government expense

IP licensed from the Government

- Bayh-Dole Act, 35 U.S.C. §§ 207–209
  - Agencies can apply for patents on inventions by Government employees *and* subject inventions for which a contractor did not elect to take title (or otherwise abide by Bayh-Dole)
  - Encouraged to engage in technology transfer activities "to promote the licensing and utilization of Government-owned inventions." 35 U.S.C. § 207(b)(1)
  - Licenses can be exclusive, non-exclusive, or partially exclusive. 35 U.S.C. § 208
  - Implemented by 37 C.F.R. § 404.

IP licensed from the Government

- Purpose of Government licensing is commercialization and use
  - The Government does not want to license its IP to non-practicing entities
  - Wants to create domestic industries/jobs
  - Returns of IP investment to the public in the form of products, jobs, and tax revenues
  - Sec. 404.2: "to use the patent system to promote the *utilization* of inventions arising from federally supported research or development"

Negotiating IP rights in Government contracts

- Government contracts and licenses are similar in substance to commercial contracts/licenses
  - But they are different structurally because they rely on pre-set rules that appear in 48 C.F.R.
  - Most Government contracts are subject to the Federal Acquisition Regulation (the "FAR")
  - Each agency also has a FAR supplement – the Defense Federal Acquisition Supplement (the "DFARS"), the Department of Energy Acquisition Regulation (the "DEAR"), the NASA FAR Supplement (the "NFS"), and so on

Negotiating IP rights in Government contracts

- Omitted clauses from the FAR or Supplements can be "read into" the contract under the *Christian* doctrine
  - Whether IP rules would be read into a contract is an open (and contested) question
- Rationale: Because contracting rules are pre-set, Government officials lack authority to make changes to law/regulation unless they have specific "waiver authority."
  - Thus, omission of a required clause is said to be beyond a contracting officer's actual authority.

Negotiating IP rights in Government contracts

- Under the FAR, the Government will generally abide by commercial licenses for commercial items
- But the commercial terms must not be inconsistent with federal procurement law
- Common issues:
  - Venue
  - Choice of law
  - Indemnity
  - Arbitration

Negotiating IP rights in Government contracts

- 15-point GSA “fail list” and resulting GSAR 552.212-4 order-of-precedence clause
  - definition of contracting parties
  - contract formation
  - vendor indemnification
  - automatic renewals of term-limited agreements
  - future fees or penalties
  - taxes
  - payment terms or invoicing
  - automatic incorporation/deemed acceptance of third-party terms
  - state/foreign law governed contracts
  - equitable remedies, injunctions, binding arbitration
  - supplier’s unilateral termination of agreement
  - supplier’s unilateral modification of agreement
  - assignment of agreement
  - confidentiality of supplier agreement terms and conditions
  - audits

Negotiating IP rights in Government contracts

- Standard rights
  - Limited Rights (technical data) / Restricted Rights (computer software)
    - Most restrictive – apply if the tech data/software was privately developed
  - Government Purpose Rights
    - Restricts to Government uses if mixed developed
  - Small Business Innovation Research (SBIR/STTR) Rights
    - Restricts to Government evaluation (no procurement) if SBIR
  - Unlimited Rights.
    - No restrictions since Government paid for it
- Standard rights are not negotiable

Negotiating IP rights in Government contracts

- Nonstandard rights
  - Specially negotiated rights
    - Part of standard clauses for non-commercial items
    - Flexible, though it cannot provide less than Limited or Restricted Rights
    - Requires a different marking
  - Commercial Item licenses
    - FAR 12.211 (technical data)
    - FAR 12.212 (software)

Negotiating IP rights in Government contracts

- Nonstandard rights are limited by statutes
  - DoD - 10 U.S.C. §§ 2320-2321
    - Segregation / integration data
    - Modular open systems architecture
    - Commercial technical data subject to minimum rights under § 2320 and validation under § 2321
  - Commercial software subject to FAR 52.232–39 (interim rule)
    - Automatically deletes indemnity element of EULAs – an obligation for the Government to indemnify a contractor is a violation of the Anti-Deficiency Act

Negotiating IP rights in Government contracts

- But data must be delivered with proper markings
  - Failure to mark at all means could be released under FOIA
  - Presumed unlimited rights
  - *Xerxe Group, Inc. v. United States*, 278 F.3d 1357 (Fed. Cir. 2002) (Failure to mark both cover page and each page having proprietary information fatal to claim of trade secret misappropriation)
- Marking incorrectly can require re-delivery with corrected markings
- DFARS 252.227-7014(f)(4) prescribes SLR/SNLR rights legend; for civilian agencies, non-standard rights do not have specific markings, but delivered data needs to have *something*

Negotiating IP rights in Government contracts

- DoD's approach: Modular Open Systems Architecture (MOSA)
  - Open systems architecture
  - Rights to form, fit, and function data
  - Rights to operations, maintenance, integration, and test data
  - Right to buy technical data post-contract

Recent case law

- *Sikorsky Aircraft Corp.* (GAO Nos. B-416027, B-416027.2, May 22, 2018)
  - USAF RFP for new helicopter fleet to replace UH-1N (Twin Huey) required prime contractor to obtain all related commercial computer software licenses as well as unlimited OMIT data and software licenses
  - Sikorsky's response asserted that source code was not a deliverable; that only some OMIT data was required to be delivered; that it did not need to deliver additional license rights for software already licensed to the Government; and specifically identified what data it would provide
  - USAFy objected to Sikorsky's limitations; Sikorsky challenged USAF interpretation of RFP terms on 7 grounds
  - GAO held that most of Sikorsky's challenges were untimely or moot, but reached some substantive conclusions:
    - Rights and delivery are distinct concepts
    - RFP properly required delivery of "detailed manufacturing or process data" (DMPD) and source code
    - Distinction between OMIT and non-OMIT data is to be made at the level of individual data items, not contract data requirements list (CDRL) line items

Recent case law

- *Appeals of the Boeing Co.* (ASBCA No. 60373, July 17, 2018)
  - Boeing contracted to refurbish AH-64D Apache helicopters. No specially negotiated rights; contract contained standard DFARS 252.227-7014 (Rights in Noncommercial Computer Software and Noncommercial Computer Software Documentation)
  - Separately, Boeing contracted to perform R&D regarding manned-unmanned airborne systems under a Technology Investment Agreement (TIA) – a non-FAR non-procurement vehicle – under which some deliverables were subject to Government purpose rights and others were subject to restricted rights
  - ASBCA held that software created under a TIA (other than software specifically identified as subject to Government purpose rights) is "developed exclusively at private expense" under DFARS 252.227-7014 (a)(8)

Recent case law

- *Appeals of the Boeing Co.*, 2018 WL 6705542 (ASBCA No. 61387, Nov. 28, 2018)
  - Contracts (for F-15 Eagle Passive/Active Warning Survivability System) contained DFARS 252.227-7013 (Rights in Technical Data-Noncommercial Items), granting Government unlimited rights
  - Boeing data deliverables contained non-standard/non-conforming markings ("Non-US Government entities may use and disclose only as permitted in writing by Boeing or by the US Government")
  - ASBCA agreed that Boeing's markings were improper and expressed skepticism that Boeing had retained any IP in light of the Government's unlimited rights
  - Summary judgment denied; case remanded for trial

Government misuse and potential remedies

- Sole remedy for patent/copyright infringement is a claim for “reasonable and entire compensation” in the Court of Federal Claims
  - Actual damages plus interest
  - Statutory copyright damages
  - Attorneys fees for individual inventors and small businesses
  - No willfulness
  - No injunctions

Government misuse and potential remedies

- *Liberty Ammunition* (2014) - Green bullet patented technology used by Army
  - Damages award: $16 million + running royalty (est. $85 million)
  - Infringement finding reversed by Federal Circuit (2016)
- *Hitkansut* (March 2019) - Magnetic field patented technology used by Oak Ridge National Lab
  - Damages award: $200,000
  - Attorneys' fees: $4.4 million
- *Fastship* (July 2019) - Monohull patented technology used by Navy's littoral combat vessel
  - Damages award: $12.4 million
  - Attorneys' fees: - $7.4 million

Government misuse and potential remedies

- *Gaylord v. U.S. Postal Service* (2012) – Copyrighted photo of National Korean War Memorial on stamp
  - Damages award: $685,000
- *Davidson v. U.S. Postal Service* (2016) – Copyrighted image of Las Vegas Lady Liberty on stamp
  - Damages award: $3.5 million (5% royalty)

Government misuse and potential remedies

- Contractors can enforce trade secret protections via reverse-FOIA in BCA or Court of Federal Claims (contract or quasi-contract claim)
  - Can be used to manipulate procurement process
- Non-contractors can enforce trade secret protections via reverse-FOIA or trade secret misappropriation claims in any Federal court
- Damages and injunctions are available
- The Defend Trade Secrets Act does not apply to the Government

Government misuse and potential remedies

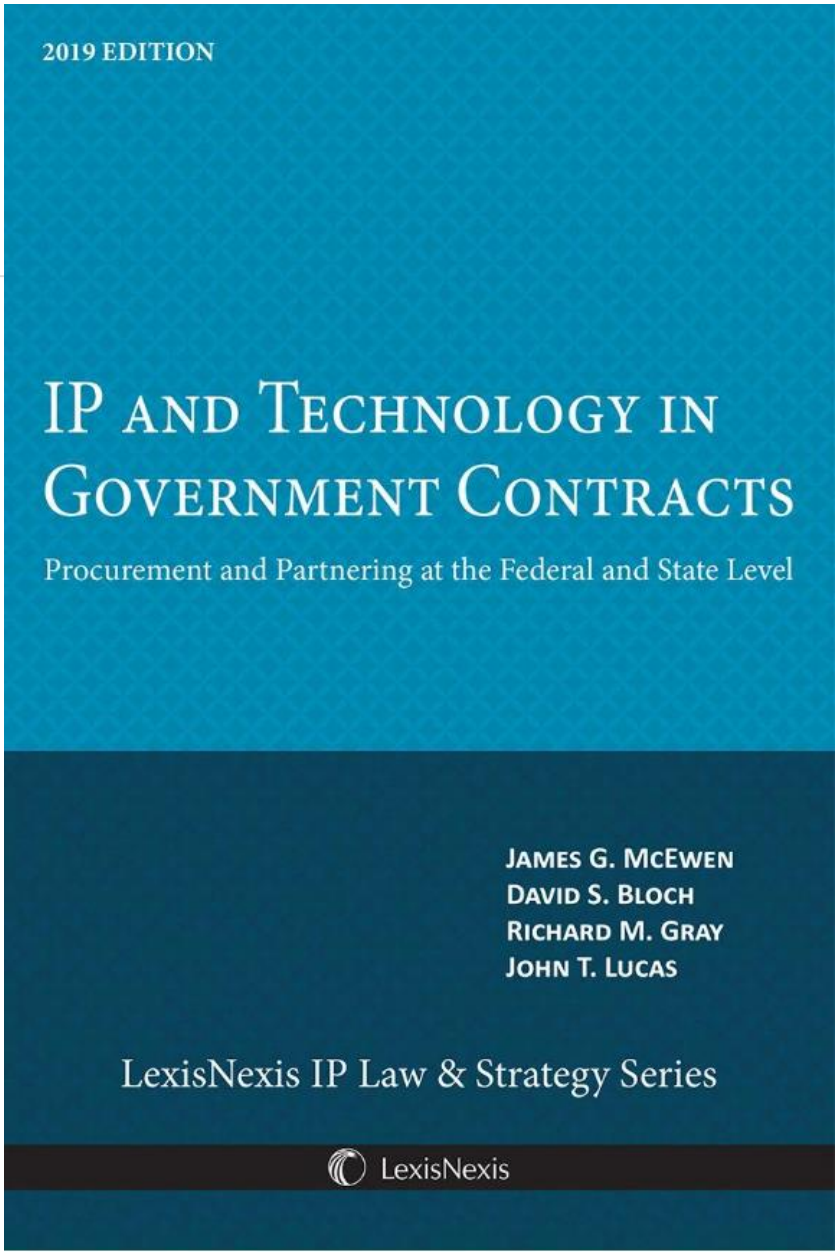
- Trademarks or Lanham Act unfair competition claims ...
  - Can sue in any court, State or Federal
  - Actual damages
  - Treble damages
  - Injunctive relief
  - Seizure of infringing goods
  - Only occasionally used in litigation

Government misuse and potential remedies

- *DNC Parks and Resorts at Yosemite Inc. v. United States*, Fed. Cl. 1:15-cv-01034 (July 16, 2019)
  - Delaware North was the concessionaire at Yosemite National Park 1993-2015
  - Aramark won the Yosemite concession in 2015
  - Delaware North had registered as trademarks the names of iconic Yosemite hotels (AHWAHNEE, CURRY VILLAGE, WAWONA, BADGER PASS) and demanded $51M
    - Settled for $12M
      - U.S. paid $3.84M, Aramark paid $8.16M
    - Names will revert to Park Service at no cost in 2031

The book …

IP and Technology in Government Contracts: Procurement and Partnering at the Federal and State Level addresses Federal and State procurement, IP laws, and sovereign immunity waivers.



About the speakers

David S. Bloch

is a Shareholder in Greenberg Traurig's San Francisco office. He is an intellectual property litigator focused on helping clients understand the complex technical and legal issues that their businesses face. David litigates patent infringement, copyright, trademark, and trade secrets cases for clients in the financial services, technology (networking), health care, and pharmaceutical industries. A prolific writer and frequent public speaker, David is the co-author of *IP and Technology in Government Contracts* (now in its fifth edition) and more than 50 articles on IP-related issues.

A biography and publication list are available online at www.gtlaw.com/en/professionals/b/bloch-david-s

About the speakers

Brian Lally

has spent the better part of two decades working in the Intellectual Property area, and is currently the Department of Energy's Assistant General Counsel for Technology Transfer and Intellectual Property. As the Chief IP Attorney for DOE, Brian leads a team of legal professionals across the DOE complex that provide counsel for a wide range of legal issues, ensure robust protection, management, safeguarding and enforcement of IP emanating from the Department's $10B plus R&D budget, and develop strategies that maximize the impact of federally funded intellectual property. In his current position, Brian is responsible for providing Department-level leadership and policy direction on all aspects of intellectual property law, ensuring intellectual property management of DOE funded IP, and representing DOE in intellectual property related hearings and disputes.

Brian received an undergraduate degree from the University of Virginia, and his law degree from Indiana University's Maurer School of Law where he is a member of the law school's alumni board.

About the speakers

Paul F. McQuade

McQuade focuses his practice on intellectual property law and government contracts, counseling both commercial and federal sector clients on improving their competitive position through technology development, intellectual property licensing, and patent procurement. Paul conducts due diligence in acquisitions and prepares and negotiates licensing, research and development, joint development and collaborative agreements between private parties and with government agencies. He has litigated patent infringement and trade secret cases in a number of jurisdictions and has lectured and appeared in articles concerning intellectual property enforcement, data rights and software licensing.

Early in his career, Paul served as a judicial clerk at the U.S. Court of Appeals for the Federal Circuit, and at the U.S. Court of Federal Claims, which courts, respectively, have national jurisdiction over patent appeals and significant government contracts matters. He also served as a trial attorney at the U.S. Department of Justice (Commercial Litigation Branch, Claims Court/Federal Circuit Section).