Demystifying IP/Data Rights in Government Contracts

Virtual Class Series 2023

Session 5: Patent Rights & OTAs

Ralph C. Nash
Scott A. Felder

May 16, 2023

Public Contracting Institute

Roadmap

- Government Rights in Background Inventions
- Government Rights in “Subject Inventions”
- Other Transaction Authorities

Today's Goals

- Understand the Government's rights in background and foreground inventions
- Understand how an Other Transaction Agreement differs from a FAR-based contract

PATENTS & GOVERNMENT CONTRACTS: A REFRESHER ON THE BASICS

Basic Principles (Refresher)

- Remember: The FAR and DFARS both distinguish between the Government's rights in a contractor's **technical data** and **computer software** ("**data**") and the Government's rights in a contractor's **inventions/patents**
  - "Nothing contained in this clause shall imply a license to the Government under any patent . . . ." (FAR 52.227-14(i))
- We can break the Government's approach to inventions/patents down into three categories:
  - Background inventions
  - "Subject inventions"
  - Third-party inventions

BACKGROUND INVENTIONS

Background Inventions

- What the contractor brings to the table
- Not expressly covered by FAR or DFARS
  - Background inventions are expressly covered in some agency supplements (*e.g.*, the NRO Acquisition Manual)
  - Solicitations are more frequently requiring listings of background inventions
  - The sample SNLR in Army Directive 2018-26 Implementation Guidance contemplates a separate listing of background inventions
- It is advisable to put the Government on notice of your background inventions and patents
  - Describe/list your background inventions in your proposal, making explicit the rights, if any (beyond the implied license in deliverables), you will grant to the Government if your offer is successful
  - No FAR/DFARS prescribed format
    - Follow any formatting instructions provided in the solicitation
    - If no instructions, use something familiar (*e.g.*, like the 252.227-7017 table)
    - But do not list patents in the -7017 table
- Unlike ownership of limited rights technical data or restricted rights computer software, ownership of a background patent cannot, by itself, support a sole-source J&A

SUBJECT INVENTIONS

"Subject Inventions"

- Governed by the Bayh-Dole Act (35 U.S.C. §§ 200-212) and implementing regulations
  - 37 C.F.R. Part 401
  - Patent Rights Clauses
    - FAR 52.227-11 (Ownership by the Contractor)
    - FAR 52.227-13 (Ownership by the USG)
    - DFARS 252.227-7038
- Statute applies only to non-profits/small businesses
- Extended to large businesses by Presidential Memorandum
  - Now codified in the definition of "contractor" at 37 C.F.R. § 401.2

"Subject Inventions" Policy and History

- Increased role of Government in R&D following WWII
- Wide disparity of approaches to IP ownership for USG-sponsored R&D
- Bayh-Dole Act was an effort to remedy the disparity and encourage contractors to participate in Government-sponsored R&D

What is a "Subject Invention"?

- Something that is or may be patentable
  - Patent Eligibility
  - Utility
  - Novelty
  - Non-obviousness
- Of the contractor (*i.e.*, the contractor is an inventor)
- Made
  - Conception ***OR***
  - First ***actual*** reduction to practice ***AND***
- In the performance of work under a funding agreement
  - ***During*** and ***related to*** the work specified by the funding agreement

Actual Reduction to Practice

- Requires the invention to be embodied in a physical form used to demonstrate its workability
  - The invention is embodied when the physical form has all the claim elements
  - The invention is workable when it has been tested to the extent necessary to show that the invention will perform as intended beyond a probability of failure (not perfection)
- This is a higher standard than "developed" under the DFARS (*see, e.g.*, *Lockheed Martin Aeronautics Co.*, ASBCA Nos. 62249, 62727 (Dec. 9, 2022))

"Subject Inventions" Burden of Proof

- The Government bears the burden of coming forward with evidence that conception or ***an*** actual reduction to practice occurred during the contract
- Then the burden shifts to the contractor to establish that the invention was not so conceived and/or that this was not the ***first*** actual reduction to practice

"Subject Inventions" Contractor Obligations

- Disclose the invention to the CO "within a reasonable time"
  - Within two months after the inventor discloses to the contractor
  - Government can get title if contractor fails to disclose timely
- Content of disclosure to CO
  - "[S]ufficiently complete in technical detail to convey a clear understanding of the subject invention." (FAR 52.227-11)
    - This is a lower standard than 35 U.S.C. § 112
  - Provide (and keep the CO updated) as to potential novelty-defeating activities (*e.g.*, publication, on-sale)

"Subject Inventions" Contractor Obligations (cont'd)

- Invention Surveillance by the Government
  - Ongoing reporting requirements will be spelled out in the contract's Patent Rights Clause
  - FAR generally requires:
    - Reporting if you decide to abandon your application
    - Reporting on utilization of subject inventions
  - Contracting Officer may enhance these requirements:
    - Periodic listings of subject inventions (req'd by DFARS)
    - Closeout reports of subject inventions (req'd by DFARS)
    - Application bibliographical data (req'd by DFARS)

"Subject Inventions" Contractor Obligations (cont'd)

- Contractor elects title
  - By statute, within 2 years of disclosure to CO (but check the clause)
  - Can be extended by CO
  - Can also be shortened to preserve novelty
  - Government can get title if contractor fails to elect timely or non-elects
  - ***Contractor must secure rights from the inventor in order to have title to elect to retain***
    - Response to *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems*, which held that the Bayh-Dole Act does not shift title from an inventor (the default under the Patent Act) to the federal funding recipient (*e.g.*, the inventor's employer)

"Subject Inventions" Contractor Obligations (cont'd)

- If contractor elects title, must timely file a patent application (*e.g.*, before novelty is destroyed)
  - At least the US
  - Other countries as desired
  - Government can get title if contractor fails to file timely or non-files
- The patent application must include language noting the Government's financial contribution to the invention

"Subject Inventions" Risks in a First to File World

- Any extensions of the time allowed for a contractor to disclose subject inventions, elect title, or file an application are nearly per se prejudicial to the Government's rights
  - In a race to the PTO
  - Earlier disclosures are nearly absolute bars
- Even the default deadlines could be problematic
  - Statutory bars are not the only concern anymore

"Subject Inventions" Risks in a First to File World (cont'd)

- Encourage provisional filings if there has been (or is about to be) a disclosure (FITF ≠ First to Disclose)
- Be cautious with extensions
- Consider shortening default time periods
  - At least, treat large and small businesses the same?
- Consider the use of FAR 52.227-11 Alt IV
  - Make it the standard clause?
- Recent NIST rulemaking changes

"Subject Inventions" Government Rights

- A license to practice the invention
  - Non-exclusive
  - Non-transferable
  - Royalty free
  - Irrevocable
  - For or on behalf of the United States
- The Government can ask for the contractor to execute a confirmatory document for purposes of recording the Government's license at the USPTO
- March-in rights
  - Can force a license of the invention
  - Substantial due process afforded
  - Can only be invoked at the highest levels
  - Has never been used

"Subject Inventions" Licensing

- Exclusive Licensing Domestic Manufacturing Requirement
  - The owner of a subject invention may not grant an exclusive right to use or sell unless the licensee agrees to "manufacture[ ] substantially in the United States"
    - The Bayh-Dole Act does not define "manufactured substantially"
    - Virtually no agency has provided any guidance
    - NASA's cooperative agreement regulations are the notable exception: "[T]he product must have over 50 percent of its components manufactured in the United States. This requirement is met if the cost to the recipient of the components mined, produced, or manufactured in the United States exceeds 50 percent of the cost of all components required to make the product."
  - Exceptions – Can seek a waiver if:
    - There is no willing domestic licensee; or
    - Domestic manufacturing is infeasible
  - Courts appear to treat this exclusive licensing requirement as form over substance
  - The Government can exercise its march-in rights if an improper exclusive license is granted
- Compulsory Foreign Licensing
  - Look for Alt I or Alt II to the Patent Rights Clause

"Subject Inventions" Subcontractors

- Patent rights clauses flow down
- A higher-tier contractor cannot obtain rights in a lower-tier contractor's inventions through the subcontract
  - The Bayh-Dole Act allocates rights as between the Government and the contractor at any tier, not as between contractors at various tiers
  - Any rights between contractors must be based on separate consideration
  - Best practice is to use a separate agreement
- Subs may wish to bypass higher-tier contractors and deal directly with the Government

"Subject Inventions" Clause Selection

- 52.227-11 allows the contractor to elect to retain title, whereas 52.227-13 requires the contractor to assign title to the Government (leaving the contractor with a license)
- Reasons to use FAR 52.227-13
  - Contractor not in the US
  - Contractor has no place of business in the US
  - Contractor is subject to the control of a foreign gov't
  - Exceptional circumstances
  - Foreign intelligence/counterintelligence activities
  - DOE GOCO facility for naval nuclear propulsion or weapons programs

"Subject Inventions" Department of Energy Rules

- Title to inventions conceived or first actually reduced to practice under a funding agreement with DOE vests in the Government **except** as to small businesses and non-profit organizations (*e.g.*, entities that are statutorily covered by the Bayh-Dole Act), subject to certain exceptions
- The Secretary of Energy may waive title
  - Advanced Patent Waivers
  - Class Patent Waivers
  - Identified Patent Waivers
- DOE has also made a determination of exceptional circumstances to extend the domestic manufacturing requirements beyond the context of exclusive licenses
- NASA uses a similar waiver process

"Subject Inventions" and National Security

- FAR 52.227-10 prescribes special requirements for patent applications to national security classified subject matter
  - For "Secret" or higher:
    - Give the proposed patent application to the Contracting Officer
    - 30 day waiting period before filing
    - Government cannot deny the right to file the application
  - For "Confidential"
    - Give a copy of the application to the Contracting Officer
    - No waiting period
  - No foreign filings without Contracting Officer approval
  - Must provide bibliographical data to the Contracting Officer

OTHER TRANSACTIONS (OT)

What is an OT?

- Best defined in the negative: Not a FAR-based procurement contract ("capital 'c' contract") or an assistance agreement (grant or cooperative agreement)
  - Generally, not subject to laws/regulations that apply only to these types of instruments
  - Leaves broad discretion to shape terms and conditions
- Can be used to acquire goods/services for the direct benefit of the Government
- Still a legally binding contract ("lower-case 'c' contract")
  - Needs **authority**, offer, acceptance, consideration, legal purpose, etc.
- *Terminology: "OT" vs. "OTA"*

Selected Inapplicable Laws/Regulations

- Competition in Contracting Act
  - *But* Prototype OTs must be competed "to the maximum extent practicable"
  - *And* there are second-order disadvantages to non-competitive awards
- Truthful Cost and Pricing Data Act
- Cost Accounting Standards
  - *In fact*, this part of the definition of a "non-traditional defense contractor"
- Contract Disputes Act
  - *But see* GSA's OT sample terms
- Buy American Act
- Bayh-Dole Act
- Rights in Technical Data Statutes

Selected Applicable Laws/Regulations

- Fiscal Law
- Tucker Act
- Procurement Integrity Act
- Trade Secrets Act
- Economic Espionage Act
- Freedom of Information Act
  - *Note* statutory exception for prototype OTs
- Criminal Laws
  - *Including* False Claims Act
- Arms Export Control Act and Other Export Laws/Regulations

OTs Require Authority

- First OT authority: NASA, 1958 – "Space Act Agreements"
- Agencies with OT authority include:
  - NASA
  - DoD (and all services)
  - Department of Energy
    - Advanced Research Projects Agency – Energy
  - Department of Health and Human Services
  - Department of Homeland Security
    - Transportation Security Administration
    - Domestic Nuclear Detection Office
  - Department of Transportation
    - Federal Aviation Administration
  - National Institutes of Health

Use of OTs is Increasing

- Over time:
  - Less than $1 billion in FY15
  - Around $8 billion just before the pandemic
  - Around $18 billion in FY20
  - Around $12 billion through the first three quarters of FY21 (outpacing FY20)

- By agency:
  - Biggest users are NASA, DoD (dollars), TSA (awards), and DHHS (pandemic-related)

Many Reasons for the Increase

- Legislation
  - FY16 NDAA broadened the definition of "non-traditional defense contractor," authorized a more flexible transition into production and sustainment following a successful prototype, and made the authority permanent
  - FY18 NDAA "established a preference" for using OTs for prototypes
    - DoD's OT guidance broadly defines "prototype" – it's not what you (probably) think it is
- Shifting Innovation Focus
  - R&D dollars moving from Government funding to private spending
  - Increasing innovation within the commercial sector, in particular with non-traditional contractors, startups, and emerging tech companies
- A Changing World
  - Eroding military competitive advantage, particularly vis-à-vis "near peers" – OTs can help us get technology that will enable our Warfighters to close the "kill chain" more quickly
  - Global pandemic
- Shifting Perceptions
  - Belief that OTs encourage non-traditional contractors to work with DoD
  - Belief that OTs shorten the acquisition cycle

Who it Getting OTs?

Table 2: Top 20 Vendors: Overall OTA Obligations, 2015-2019

Vendor Rank	Global Vendor Name	Total Obligations 2015-2019 (Billions)
1	Analytic Services Inc.	5.68
2	Advanced Technology International	1.64
3	Consortium Management Group Inc.	1.26
4	National Center For Manufacturing Sciences	0.65
5	SOSSEC	0.58
Top 5 Total		9.81
6	Lockheed Martin Corporation	0.56
7	Northrop Grumman Corporation	0.41
8	United Launch Alliance	0.40
9	The Boeing Company	0.40
10	Microsoft Corporation	0.37
11	Aerojet Rocketdyne	0.31
12	Defense Energy Center Of Excellence	0.22
13	Blue Origin	0.18
14	Raytheon	0.18
15	Alliant Techsystems	0.18
16	Consortium For Energy Environment and Demilitarization	0.18
17	Medical Technology Enterprise Consortium	0.15
18	Pivotal Software	0.12
19	Defense Automotive Technologies Consortium	0.12
20	Consortium for Command, Control, Communications and Computer Technologies	0.11
Top 20 Total		13.70
Overall DoD Total		17.09

Source: FPDS; CSIS analysis

Three Types of DoD OT

- Research (10 U.S.C. § 4021)
  - Formerly section 2371
- Prototype (10 U.S.C. § 4022)
  - Formerly section 2371b
- Production (10 U.S.C. § 4022(f))

- Most recent guidance: November 2018
- *See also* Part 37 of the DoD Grant and Agreement Regulations (DoDGARS) for Technology Investment Agreement (TIA) OTs

Prototype OT Authority

DoD may "carry out prototype projects that are directly relevant to **enhancing the mission effectiveness** of military personnel and the supporting platforms, systems, components, or materials proposed to be acquired or developed by the Department of Defense, or to **improvement** of platforms, systems, components, or materials in use by the armed forces."

--10 U.S.C. § 4022(a)(1)

What's a "Prototype"?

- DoD defines "prototype" broadly:

"A proof of concept, model, reverse engineering to address obsolescence, pilot, **novel application of commercial technologies for defense purposes**, agile development activity, creation, design, development, demonstration of technical or operational utility, or combinations of the foregoing."

--DoD OT Guide, Glossary

Eligibility for OTs

- Four paths:
  - At least one **non-traditional defense contractor** or non-profit research institution participating **to a significant extent**
    - "Significant extent" is tested on a totality of the circumstances test, and can include in-kind contribution
  - All significant participants are small businesses or non-traditional defense contractors
  - 33% or greater cost sharing by the non-federal participant(s)
  - "Exceptional circumstances"

"Non-Traditional Defense Contractor"

- An entity that, in the year preceding award, has not performed any contract or subcontract subject to full CAS coverage
  - $50M+
- CAS-covered contracts do not include:
  - Contracts with small businesses
  - Commercial item contracts
  - FFP contracts awarded without submission of cost/pricing data

Awarding a Prototype OT

- Competition is not required, but shall be used "to the maximum extent practicable"
  - If the prototype OT was not awarded competitively, then the follow-on production OT authority of 4022(f) is unavailable

- What might "competition" look like?
  - Issuances of "Requests for Prototype Proposals" (RPPs)
  - White paper submissions
  - "Shark Tank"-style pitches

Transition to Production

- 4022(f) provides authority to make a non-competitive, follow-on production OT award to the recipient of a prototype OT
  - The prototype OT must have been competitively awarded
  - The prototype OT must have contemplated the follow-on award (note that DoD requires such language in all prototype awards)
  - The prototype OT must have been successfully completed
    - Met the key technical goals of a protype project
    - Satisfied metrics incorporated into the prototype OT
    - Accomplished a particularly favorable or unexpected result that justifies transition
    - No longer requires completion of the entire prototype effort – portions can be transitioned

"Direct" v. Consortia OTs

- Consortium Management Firm (CMF) Model
  - Member entities join a consortium, subject to an agreement with the CMF
  - CMF enters master agreement with DoD
  - DoD issues Requests for Prototype Proposals (RPPs)
  - Members submit responses to the CMF
  - CMF decides what responses to present to DoD
  - DoD awards project agreements through the CMF, subject to the master agreement with the CMF; CMF will also apply terms of the consortium agreement

Commercial Solutions Opening Model

- Pioneered by Defense Innovation Unit; now DoD-wide
- Awarding agency posts problem statements/areas of interest
- Vendors respond with short “solution briefs”
- DoD evaluates submissions; offerors may be invited to a “pitch” session
- If successful, RPP issued with model terms and conditions; parties then negotiate scope, terms, payment, etc.
- Award

Intellectual Property Rules

- The Bayh-Dole Act and the Rights in Technical Data statutes (and therefore the implementing clauses) do not apply
- The prior version of the DoD OT Guide "suggested" that OTs follow Bayh-Dole for inventions/patents and the DFARS clauses for rights in technical data and computer software
- The current DoD OT Guide "encourages" negotiation of IP terms based on consideration of the relative investments and risks borne by the parties
  - The Army's December 2018 IP policy adopts a similar theme of flexibility on IP – and applies to FAR/DFARS contracts, OTs, and other instruments
- *A word on "real life"*

Real Life: DIU Model Terms

Data Categories:

- ***Category A** is Data developed and paid for totally by non-governmental funds, whether pre-existing or concurrently developed proprietary data, trade secret data, or data related to COMPANY products. The COMPANY retains all rights to Category A Data.*
- ***Category B** is any Data developed under this Agreement, using Government funds, which cannot be disclosed without compromising the Category A data.*
- ***Category C** is any COMPANY developed Data, excluding Category A and B data, developed during the performance of work under this Agreement.*
- ***Category D** is third party proprietary data used in performance of work under this Agreement, including but not limited to, technical data, software, trade secrets and mask works.*

Real Life: DIU Model Terms (cont'd)

Allocation of Principal Rights:

1. The parties agree that in consideration for the Government's funding, and in lieu of any Government rights to Category A, B or D data (except as contained in paragraph 4 below), the COMPANY intends to reduce to practical application materials and processes developed under this Agreement.

2. No deliveries to the Government of Category A and B data are contemplated or required under this Agreement. The Government reserves the right to negotiate certain rights in Category A and B data with the owner of the data.

3. The Government shall have immediate and irrevocable Government Purpose Rights to all Category C Data.

4. The COMPANY shall deliver third-party computer software, Category D data, as required for the performance or operation of other computer software required to be delivered in the performance of this Agreement, with such rights as it is able to negotiate with the software vendor.

Real Life: DIU Model Terms (cont'd)

Prior Technology:

In the event it is necessary for the COMPANY to furnish the Government with Data which existed prior to, or was produced outside of this Agreement, and such Data embodies trade secrets or comprises commercial or financial information which is privileged or confidential, and such Data is so identified with a suitable notice or legend, the Data will be maintained in confidence and disclosed and used by the Government and such Government Contractors or contract employees that the Government may hire on a temporary or periodic basis only for the purpose of carrying out the Government's responsibilities under this Agreement. ***Data protection will include proprietary markings and handling, and the signing of nondisclosure agreements by such Government Contractors or contract employees.*** The COMPANY shall not be obligated to provide Data that existed prior to, or was developed outside of this Agreement to the Government. Upon completion of activities under this Agreement, such Data will be disposed of as requested by the COMPANY.

Key Takeaways

- OTs are not new, but are seeing increased use
- OTs are widely perceived as the preferred way to entice non-traditional defense contractors into business with the Government
- OTs are widely perceived as the preferred way to deliver innovative technology from the lab to the Warfighter faster
- Even though OTs are not FAR contracts, agencies may (and often do) leverage FAR clauses and principles in OTs

Presenters

Scott A. Felder
Wiley Rein LLP
202.719.7029
sfelder@wiley.law

Scott helps clients identify, protect, manage, and enforce their intellectual property rights. His practice focuses on the complex intellectual property issues confronted by government contractors, including patent rights and rights in technical data and computer software, with emphasis on the aerospace, defense, and intelligence sectors.

Ralph C. Nash, Jr.
Professor Emeritus,
The George Washington University

Professor Ralph C. Nash, Jr. founded the academic discipline of government contacts law with the late John Cibinic. He was Professor Emeritus of Law of The George Washington University, Washington, D.C., and founded the Government Contracts Program. Professor Nash is currently a consultant for government agencies, private corporations, and law firms on government contract matters. He is active in the Public Contracts Section of the American Bar Association, is a member of the Procurement Round Table, and is a Fellow and serves on the Board of Advisors of the National Contract Management Association.