SESSION 9

INTELLECTUAL PROPERTY

WEDNESDAY, JANUARY 27, 2021
2:00 PM to 3:00 PM

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SBIR/STTR Data Rights

SBA's revised SBIR/STTR Policy Directive

- Updated/defined new terms related to data rights
- Revised SBIR/STTR Data Protection Period
- Marking errors or unmarked data

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SBIR/STTR Data Rights

DoD Class Deviation 2020-O0007 (Mar 2020)

- DFARS 252.227-7018, Rights in Noncommercial Technical Data and Computer Software - Small Business Innovative Research (SBIR) Program (DEVIATION 2020-O0007)
- Finite protection period of 20 years for SBIR data
- Eliminated extensions of the protection period through follow-on awards
- Changed Government's rights in SBIR data after expiration of protection period

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SBIR/STTR Data Rights

DFARS Case 2019-D043, Small Business Innovative Research Data Rights (Aug. 31, 2020)

- Draft revisions to DFARS 252.227-7018
- Revised title of clause and expanded coverage to include STTR
- Defined new term “SBIR/STTR data protection period”
  - Describes the nature of the protection
  - Identifies when those protections start and stop

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SBIR/STTR Data Rights

DFARS Case 2019-D043, Small Business Innovative Research Data Rights (Aug. 31, 2020)

- Clarifications regarding 20-year protection period
  - Follow-on SBIR/STTR contracts
  - SBIR/STTR data developed/generated under subsequent contract(s)

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SBIR/STTR Data Rights

DFARS Case 2019-D043, Small Business Innovative Research Data Rights (Aug. 31, 2020)

- “Government Purpose Rights” at end of the SBIR/STTR data protection period
- Revisions for situations involving Government Purpose Rights in non-SBIR/STTR data developed with mixed funding

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SBIR/STTR Data Rights

DFARS Case 2019-D043, Small Business Innovative Research Data Rights (Aug. 31, 2020)

- Revised definitions
- Created new terms to capture features common to both FAR/DFARS definitions
  - Example- “SBIR/STTR Technical Data Rights”
- Addressed flow down of SBIR/STTR clauses
- Comment period reopened/extended to Jan. 31, 2021

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SBIR/STTR Data Rights

FAR Case 2020-010, Small Business Innovation Research and Technology Transfer Programs

- Acquisition Law Team tasked to draft FAR rule on April 1, 2020.
- Report originally due May 2020; now Jan. 13, 2021.

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Privileged Internal Investigation Files

In re Fluor Intercontinental, Inc., 803 Fed. Appx. 697 (4th Cir. 2020)

- Case arose from a privileged internal investigation conducted due to FAR 52.203-13, the mandatory disclosure rule requiring government contractors to timely disclose credible evidence of wrongdoing.
- Ex-employee brought suit against Fluor in the Eastern District of Virginia ("EDVA") and sought production of Flour's internal investigation files; EDVA ordered production after determining disclosure was voluntary, attorney-client privilege waived.
- Fluor requested and received a *writ of mandamus* ordering the EDVA to vacate its orders compelling disclosure of documents.

Proprietary Markings on Vendor and Parts Lists

Raytheon Company v. United States, 146 Fed. Cl. 469 (2020).

- Dispute arose when the Army requested the removal of proprietary markings from a Raytheon vendor list submitted in 2016. The list included all the sources Raytheon used to procure subcontracted items.
- In 2018, a Contracting Officer declared that the list contained technical data; warned that if the proprietary markings were not replaced with the "Government Purpose Rights" legend prescribed by DFARS 252.227-7013, the Army would withhold ten-percent of the total contract price.
- Raytheon filed for a declaratory judgement in the COFC, alleging violation of Raytheon's procedural rights under 10 U.S.C. § 2321 and the data rights dispute procedure in DFARS 252.227-7037.
- Government's motion to dismiss denied.

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Markings on Data Delivered with Unlimited Rights

Boeing Company v. Secretary of the Air Force, 2019-2147, 2020 WL 7484750 (Fed. Cir. Dec. 21, 2020).

- Since 2002, Boeing's practice has been to include a marking on data delivered to the Government with Unlimited Rights placing non-government third-parties on notice that they are required to receive permission from either Boeing or the government before the third-party uses or discloses Boeing's technical data.
- The Armed Services Board of Contract Appeals ("ASBCA") held that DFARS 252.227-7013 precluded Boeing from marking its technical data to restrict the rights of third parties.

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Markings on Data Delivered with Unlimited Rights (cont)

- The Federal Circuit overruled the ASBCA and held that DFARS 252.227-7013 does not preclude Boeing from marking its technical data with restrictions on the rights of *non-government third-parties*.
- The court ruled that the standard marking procedures prescribed by DFARS 252.227-7013 apply "only in situations when a contractor seeks to assert restrictions on the government's rights."
- The court remanded the dispute back to the ASBCA for a factual determination as to whether Boeing's marking in effect infringed on the government's unlimited rights.

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Source Code Discoverable in 28 U.S.C. §1498 Matter

Thales Visionix, Inc., v. United States, 149 Fed. Cl. 38 (2020).

- In a 2014 complaint filed in the COFC, Thales accused the government of infringing on a patent for inertial tracking of objects in head-mounted displays through systems used in the F-35 fighter jet.
- The government notified Elbit Systems ("Elbit") as a third-party defendant. Elbit possessed the complete source code for the software used in the allegedly patent-infringing F-35 headsets.
- Thales moved to compel Elbit to produce the source code and technical documents for various software components in the headsets. Elbit objected.

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Production of Source Code in Discovery

- In granting Thales motion, the court noted that there is no elevated standard to be met when a party seeks production of relevant source code. The court found Thales' production requests to be narrowly tailored, and Protective Orders sufficient to protect the sensitive information.
- The court agreed with a jurisdictional limitation raised by Elbit with respect to a certain algorithm. The algorithm was entirely developed abroad and no products using the algorithm ever entered the United States; consequently, the algorithm never became subject to the U.S. government's limited waiver of sovereign immunity under 28 U.S.C. § 1498. The court could not order discovery of documents concerning the algorithm.

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DFARS Data Rights Essential Principles

1995 Rewrite of Data Rights Clauses

- Cannot require giving up limited or restricted rights, with exception for OMIT/FFF (not DMPD).
- Eliminated clauses for commercial software & precluded DOD from modifying or reproducing it.
- Clauses defined only rights of use, not ownership and not delivery. If you developed it in your garage, of course you own and control it & the IP.

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DOD'S Dissatisfaction

- No matter the politic words, DOD views contractors' statutory & common sense rights as "vendor lock."
- So, after 20 years, it tried a range of failed maneuvers – giving up rights as a condition of award; perpetual deferred ordering; OMIT rights in software; disclose pending validation; provide DMPD to competitors.
- 2019 nuance: DOD INSTRUCTION 5010.44 IP ACQUISITION AND LICENSING: "Use **all available techniques early** in the acquisition process for identifying, acquiring, licensing, and enforcing the U.S. Government's rights to IP necessary **to support operation, maintenance, modernization, and sustainment.**" Greater focus on long-term support.

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Increasing Internal & External Pressure

- External pressure by the DOD: “Acquire the necessary IP deliverables and associated license rights **at fair and reasonable prices.** Improve…financial analysis and **valuation practices** for determining fair and reasonable prices and appropriate needs for IP and IP rights in order to develop program budgets and **evaluate proposals**.”
- Internal pressure: “Go low or we will lose!” Really?
- Have you considered the loss of value & market share?
- Which valuation approach will you use – replacement cost, market (comparable sales), income (predicted future)?
- DOD is evaluating which one(s) it will use. We know what DCAA will prefer, as it never met a market value it liked.

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Tougher Negotiations Ahead

DFARS Case 2018-D071, Data Rights Revisions

- Proposed revisions to 215.470(a) via 207.106:

"The contracting officer **shall require that offerors provide estimates** of the prices of data and associated license rights …. To the maximum extent practicable, **before** making a source selection decision … the **contracting officer shall negotiate a price** for data (including technical data and computer software) and associated license rights … for the development, production, or sustainment of a system, subsystem, or component; or services…. [S]uch negotiations should **be based upon the use of appropriate intellectual property valuation practices and standards**."

- Emphasis on specially negotiated rights : "To the maximum extent practicable, negotiate specific licenses whenever doing so will more equitably address the parties' interests than the standard license rights provided in the clause. **If either party desires a special license, the parties shall enter into good faith negotiations to determine if there are acceptable terms for transferring such rights…..** 227.7103-5

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Dramatic Changes for Software

- These changes also are being made to the noncommercial software clauses, which is typical. Atypically, they are being applied to commercial computer software, a radical departure.
- Even more radical is the Case 2018-D018 changes to 227.7202: “(d) When establishing contract requirements and negotiation objectives to meet agency needs, **the Government shall consider the factors identified in 227.7203-2(b) and (c),** adapted as appropriate for commercial computer software and computer software documentation.
- **227.7203-2,** however, has never been applied to commercial software, and for good reason. It **has nothing to do with commercial software**, until now.

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Do these sound like commercial rights?

- 227.7203-2 Acquisition of noncommercial computer software and computer software documentation
  - [(2)(i) [The CO]… must address the acquisition at appropriate times in the life cycle of **all computer software, related data, and associated license rights necessary** to—

(A) **Reproduce, build, or recompile** the software from its **source code and** required **software libraries**;

(B) Conduct required computer software testing; and

(C) Deploy computer programs on relevant system hardware.

(ii) Needs determinations should be made as early as practicable, preferably before or during a competitive phase (10 U.S.C. 2322a).]

So what do you do today?

- **Educate** your contracts team about the what the data rights clause do and don't do.
- **Carefully review** RFPs for nonstandard clauses.
- **Do not** panic about a clause requesting a priced option for providing GPR or Unlimited rights, nor assume competitors are going to offer rights at no or low cost.
- **Do** get an independent, unbiased assessment of the value of the data rights you will be giving up.
- **Consider** strategies that provide GPR or Unlimited rights in option or out years, or after a certain volume
- **Engage** your industry groups to comment on the cases.

Challenge Question

Submit your answer to craig@pubklaw.com
Subject line: Panel 9 Challenge Question

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