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Protecting your intellectual property rights in government contracts

By Heather A. James

Federal government contracts can be a rich source of business for private companies, particularly for companies engaged in developing new technology and products.

The federal government is a major contributor to the development of new technology, spending well over \$100 billion each year on contracts, grants, and other agreements with private companies to develop new products and processes.

However, contracting with the government has inherent risks – including the potential loss or dilution of a company's valuable intellectual property rights.

Despite statutory protection for contractors to preserve intellectual property rights, contractors must still negotiate carefully with the government to ensure that it is not obtaining greater rights to the contractor's intellectual property than are strictly necessary.

The scope of government rights in a contractor's intellectual property depends primarily on the type of intellectual property at issue, specifically, whether the intellectual property is a patent or patentable intellectual property, copyrighted material, or rights in technical data or computer software.

Companies should not shy away from business opportunities with the government out of fear they will lose valuable intellectual property rights. However, it is critical that a company seeking to do business with the government, either as a prime or subcontractor, understand its intellectual property rights.

Patent protection

Before 1980, the federal government usually acquired title to any patented or patentable subject invention conceived or developed under federal funding.

In 1980, Congress passed the Bayh-Dole Act (the "Act") (35 U.S.C. Sects. 200-212), which allowed contractors to retain title over and profit from their intellectual property developed under federally-funded projects so they could bring the technology, products and processes developed under federal funding to the commercial marketplace.

Under the Act and its implementing regulations, a contractor is now permitted to retain title to patented or patentable subject inventions developed under federal funding. To retain title, a contractor must meet reporting and other requirements in 35 U.S.C. Sect. 202 within a specific time period to identify and protect its patent rights. Failure to do so could result in a contractor losing title to such intellectual property.

The government is typically granted a non-exclusive, non-transferable, irrevocable, paid-up license to practice or have practiced, for or on behalf of the United States, any subject invention throughout the world.

Because the government's license to use a contractor's patented intellectual property is so broad, infringement does occur, mostly by other contractors or subcontractors also doing business with the government.

A contractor's only recourse in the event of unauthorized use of its patent, whether by the government or another contractor in the performance of its own government contract, is a lawsuit against the government, not against the contractor, and only for money damages, not injunctive relief.

Copyrighted material

Unless otherwise prohibited by the terms of the prime contract, a contractor may generally assert copyright in a work first produced during the performance of its contract with the government, and hold the government liable for infringement of a lawfully asserted copyright.

A contractor must mark material it intends to copyright with an appropriate legend that acknowledges the work was produced under government sponsorship. Failure to appropriately mark material allows the government to acquire unlimited rights to use and distribute the contractor's work.

If the contractor elects to copyright material produced during performance of a government contract, the government is still granted a non-exclusive, irrevocable, license to use, modify, reproduce, release, perform, display or disclose the copyrighted work by or on behalf of the United States throughout the world.

The government is further allowed to distribute copies of the contractor's copyrighted work to the public for government purpose, with the exception of copyrighted computer software. The government usually does not have the right to release or disclose a contractor's copyrighted computer program to the public.

Technical data and computer software protection

Regarding a contractor's intellectual rights in its technical data or computer software, the general rule is the more government funding the greater the government's rights in such material. Contractors are generally required to grant the government certain rights, usually in the form of a license, to use either technical data or computer software if it is developed or delivered by the contractor in connection with a government contract.

However, often a contractor performs under a government contract using technical data or software developed by the contractor outside of the federal procurement process. To protect its rights in wholly or partially privately-financed technical data or computer software used in the performance of a government contract, a contractor must: (1) identify the proposed restricted data or computer software to the government; and (2) mark each copy of the restricted data or computer software provided to the government with language specified at Federal Acquisition Regulation (FAR) Sect. 52.227-14. (Contracts with the U.S. Department of Defense apply DFARS Sect. 252.227-7015.)

Subcontractor intellectual property concerns

Subcontractors under a government contract must also negotiate with caution since a subcontractor must navigate two contractual vehicles – both the prime contract and subcontract – to protect their intellectual property interests. With this in mind, it is especially important for a subcontractor to carefully negotiate the terms of a prime contractor's use of the subcontractor's intellectual property.

A subcontractor must also understand how the subcontractor's intellectual property rights will be affected under the terms of the prime contract with the government so as not to unintentionally give away rights to its valuable intellectual property.

A subcontractor should review any contract clauses addressing ownership of the subcontractor's intellectual property used or developed in connection with the prime or subcontract before signing.

Further, a subcontractor should review the FAR "flow-down" clauses in the draft subcontract – particularly any FAR clauses from Sects. 52.227-1 through 52.227-23, all of which deal with intellectual property rights. (Contracts with the U.S. Department of Defense apply DFARS 252.227-7000, et seq.)

Moreover, a subcontractor must also review the contract between the prime contractor and the government. Subcontractors are not entitled to any additional intellectual property protection than the

prime contractor is granted under the prime contract.

To adequately protect its intellectual property, a subcontractor must do four things when negotiating with the prime: (1) define the intellectual property each party owns and brings to the subcontract; (2) ensure each party retains its intellectual property rights after the contract is completed, (3) determine the ownership rights in intellectual property developed under the contract; and (4) negotiate any licenses for use of the intellectual property after the subcontract is completed.

The Act affords some protection to the intellectual property rights of a subcontractor under a government contract, making it illegal for a prime contractor to demand outright ownership of a subcontractor's patent rights as a condition of awarding the subcontract.

Moreover, although a subcontractor under a government contract has no direct contractual relationship with the government, the Act gives subcontractors the right to sue the government directly for allowing infringement if another company, usually the prime contractor or a successor contractor, uses the subcontractor's intellectual property for unlawful purposes.

Unfortunately, Congress has not provided subcontractors with the same level of protection for trademarks, trade secrets and copyrights in general. A subcontractor must therefore ensure it negotiates with its prime contractor to include subcontract provisions preserving the subcontractor's rights in these areas.

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