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FEATURE COMMENT: Here Is How You Actually Negotiate IP Rights In Other Transactions

Many people are writing many things these days about other transactions (OTs), and understandably so. OTs are increasingly popular, at least at the Department of Defense. According to the Government Accountability Office's November 2019 report, "DOD obligated a total of $7.2 billion on prototype other transactions from fiscal year 2016 through 2018. The total number of new prototype other transactions increased five-fold from 34 to 173 during this time…." See *DOD's Use of Other Transactions for Prototype Projects Has Increased* (GAO-20-84), Nov. 22, 2019.

Judging by what is coming across our desks, 2020 will substantially eclipse these figures. So, commentators and DOD alike seek to explain and to demystify OTs. They tell us what OTs are (enforceable contracts) and are not (procurement contracts), what types there are (three at DOD), who qualifies for them, and that most terms are, in DOD's own words, "fully negotiable." This is handy stuff. No one, however, tells you how you actually go about negotiating those negotiable OT terms, particularly the intellectual property (IP) terms that seem to be the most troublesome for contractors. We are going to fix that.

As a starting point, everyone involved in negotiating IP rights under a DOD OT should have in hand DOD's excellent December 2018 "Other Transactions Guide" (the "Guide" available on-line at *aaf.dau.mil/ot-guide/*), which constructively advises the "Government team" to "balance the relative investments and risks borne by the parties both in past development of the technology and in future development and maintenance." Guide at 17. The Guide also makes the key point that, because they are not procurement contracts, OTs are not subject to the procurement laws governing IP and data rights, although the Government should "be familiar" with them. Guide Appendix F. Ultimately, though, "IP rights are fully negotiable under all types of OTs." Guide at 17. True enough, but saying this does not make it so.

Rather, in practice, agencies *are* using the Federal Acquisition Regulation and Defense FAR Supplement data rights clauses as a framework of sorts for negotiating IP and data rights, but they are doing it wrong. Agencies frequently are corrupting the existing data rights clauses, modifying them to obtain rights never contemplated by and inconsistent with those clauses. More importantly, these agency OT ad libs are often directly contrary to the basic and common-sense principles underpinning the FAR and DFARS.

That is an essential point contractors and agencies need to bear in mind when negotiating IP clauses in OTs: If one is going to use some form of the existing clauses, then both sides have to understand and adhere to the fundamental principles that drove their form. Agencies cannot divorce the DFARS clauses' wording, structure, and definitions from the reasons behind those things. One depends on the other. This means parties to an OT should extend the logic of basic data rights principles to any new clauses developed uniquely for an OT, because those principles reflect a logical and fair allocation of rights that has evolved from decades of critical thinking, judicial decisions and common sense.

So, negotiating IP terms that are fair to both sides requires three things: **First**, understanding those basic IP principles about which there is (or really should be) no debate. **Second**, figuring out what existing IP information and facts to bring to the negotiating table. And **third**, recognizing how agencies are deviating from well-known IP principles and knowing how to respond constructively to get the agency back on track. Here are the steps.

Step 1: No Debate—These Are Fundamental Concepts That Apply Under OTs—1. *Most contractor rights begin with "development" at "private expense."* Almost everyone understands the concept that if a company "develops" something at "private expense," it can assert some form of limitation or restriction on the Government's use of the technology. This fundamentally makes sense in any context, because the Government had absolutely nothing to do with the development. By analogy, think about someone who successfully developed a new software operating system—the next "Windows" —in her garage, drawing exclusively on her own funds (and maybe some borrowed against her spouse's 401k). No one would dispute she has the entire right to control who gets a license to that software and who owns it. She does, because the development was achieved solely by her and funded privately. The result is no different if a company develops something at its private expense. Why would it be?

Conversely, no one disputes the Government is entitled to the broadest license rights when it pays entirely and *directly* for a contractor's development work.

2. *Development necessarily occurs before the final product.* In practice, almost all things are developed incrementally, moving in various stages from an idea, to a sketch or draft, to a model or prototype, to a preproduction version, and finally to the elegant final product. The data rights clauses recognize this and define development for data rights purposes as being attained when reasonable people skilled in the applicable art say there is a *high probability* it will work as intended. Therefore, consistent with the real world and by definition, one can achieve development for purposes of asserting limited or restricted data rights before the end product is ready to go or even if the Government pays for further refinement or improvement of the technology.

DFARS 252.227-7013(a)(7) embodies this practical reality clearly:

> To be considered "developed," the item, component, or process need not be at the stage where it could be offered for sale or sold on the commercial market, nor must the item, component, or process be actually reduced to practice within the meaning of Title 35 of the United States Code.

3. *Development is analyzed at the lowest component level.* Also in practice, development occurs at component levels: Hardware is made of parts and pieces, while software comprises modules and subroutines. Therefore, in the real world, these components typically are developed separately and can be developed separately for data rights purposes before the entire item is finished. In other words, one properly asserts limited rights in each component once it has been developed, even if the device of which that component is a part has not yet been completed. The same is true for separate modules of a software suite.

Accordingly, reflecting this practical reality, the regulations and laws contemplate that data rights should be asserted at these lowest practicable component levels. E.g., DFARS 252.227-7013(a)(8)(i); DFARS 252.227-7014(a)(8)(i); see 41 USCA § 108; 10 USCA § 2302(3)(F).

4. *Therefore, a contractor's rights follow the components or modules*. Once everyone understands that "private expense," as used in the data rights clauses (e.g., 252.227-7013(a)(8)), means development was paid for entirely with funds *other than direct payment* under a procurement contract or subcontract, then we know that a company's development work not only should be tracked at each of these lowest component levels, but also charged to private expense at those levels. The most common charge is independent research and development per FAR 31.205-18, which is the conceptual equivalent of tapping into your spouse's 401k.

Instilling the discipline to track and charge development this way will be the most significant thing any contractor can do to be in a strong position to assert correctly its data rights under a procurement contract, and, as we will see, under an OT.

5. *The data rights clauses are licenses describing the Government's rights of use.* Given these principles, the data rights clauses were written to recognize and to respect contractors' rights in data and software in which the contractor alone invested its time, talent and money to develop—all without any participation from the Government. Accordingly, the data rights clauses take nothing away from the contractor, but rather describe carefully only how the Government can ***use*** the intellectual property the contractor owns. Specifically,

a. **No ownership**: There is not one word in the data rights clauses that gives the Government ownership of a contractor's IP rights. The Government can *use* a company's technical data or software in the ways specified by the rights the Government accrues under the clauses, but the contractor is never divested

of its ownership. Why would it be? How would that make sense?

b. **No exclusive or sole rights**: For the same reasons, the Government's rights under the data rights clauses are not sole or exclusive, meaning the contractor as the developer and owner of the intellectual property can license others to use it, just as any owner of property can. A contractor can separately agree in a contract to grant the Government an exclusive license, but the data rights clause does not do that, not one word.

c. **No delivery obligations**: Because the data rights clauses describe only the Government's rights of use, they do not provide for deliverables or delivery, not one word. Data and software deliverables are described elsewhere in a contract, just as any other deliverable.

Step 1: Applying These Principles to Other Transactions—There is no reason whatsoever why these principles should not be followed equally in OTs, or at least underpin the negotiations over intellectual property rights. They reflect the reality of how development actually occurs and the effects of private investment and Government expense. The OT Guide, again, expressly recognizes the contractor's private contribution, advocating balancing "the relative investments and risks borne by the parties both in past development of the technology and in future development and maintenance of the technology." Guide at 17.

Both sides' negotiators should be (or become) well acquainted with these long established principles, as this will help avoid misunderstandings about rights and help streamline negotiations.

Step 2: What to Bring to the Table—There are, however, a few more actions companies should take, and the Government should require, *before* embarking on OT intellectual property terms and conditions:

1. **Identify at the lowest component level each item, component, process or software module developed entirely at private expense (and be able to back it up)**. This will set a contemporaneous baseline for what the contractor is bringing to the program that merits the greatest protection; it also will help avoid later debates about who developed or improved those things.

2. **Identify each issued patent and pending patent applications, whether provisional or not**. Assuming these are not "subject inventions"—i.e., inventions first conceived or reduced to practice under a Government contract or subcontract—then the Government has no license to them, and they are subject to licensing and royalties.

3. **Identify your commercial computer software and license terms**. Although one's software does not have to meet the definition of commercial computer software under the DFARS, nor the FAR commercial-item definition, for software to be treated as commercial under an OT, agencies might be more comfortable with commerciality if you do. Regardless, under an OT, commercial software can be licensed using most "standard" commercial software license terms, because there is no concern for clauses "inconsistent with Federal procurement law…." E.g., DFARS 227.7201(a). The procurement laws do not apply.

Therefore, contractors and the Government should consider in advance how they wish to handle issues that otherwise would have been preempted by the DFARS or FAR, such as changes, termination for convenience, and disputes. Bear in mind, however, that even if the procurement laws do not apply, some prohibitions driven by non-procurement laws will. A good example is indemnification or automatic renewal clauses, which are precluded by the Anti-Deficiency Act.

Step 3: Getting Prepared for Buzz Words and Misconceptions—Although the data rights clauses do not apply, many agencies will use them, which often is a good idea so long as both parties understand the principles discussed above. Again, the existing clauses are rational, fair and reflect the reality of development.

Difficulties arise, however, when agencies start modifying the basic data rights clauses, or misunderstand them, or apply the clauses' form or language in ways both unintended by the regulations and contrary to the common-sense, practical principles underlying them.

Here are the most common questions about governmental detours from the clauses:

Question: *The draft OT from the agency includes terms such as "Government Purpose Rights," "OMIT Data," "Limited Distribution Rights," "Unrestricted Rights," and other undefined phrases. Should I assume these will be interpreted as they are defined in the DFARS?*

Answer: No, be careful. Often, OTs use words and phrases that are the same as or similar to those used in the DFARS data rights clauses, but the clauses in which they are used in the OT are different and

applied differently. Or, they might not be found at all in the regulations. Therefore, define carefully any of those IP-related terms. If appropriate in the context of the OT, you can define terms by specific reference to a DFARS data rights clause.

Question: *I am being told by the agency that I am required under OTs to give up ownership of my existing data rights, and I must provide unlimited rights or broad Government purpose rights (GPR) in them. Is that correct?*

Answer: No, absolutely not. **First**, there are essentially no OT terms and conditions required by law or regulation, and there is no such thing as mandatory "standard" OT agreements or IP clauses, no matter what an agency or a contractor tells you. What you likely will face is bureaucratic inertia in trying to vary what an agency claims are its standard terms. Always keep in mind that standard forms are a substitute for active thought. **Second**, and as important, giving up rights in what you otherwise are entitled to protect because of your investment of creativity and money—you made it in your garage with your spouse's 401k funds—is contrary to general rules of IP law, common sense, fairness, and DOD's own data rights principles. And it is just stupid. Point out why, for all the reasons described above.

Question: *The agency says I have to give GPR or unlimited rights in my technical data and computer software for OMIT use—i.e., for Operations, Maintenance, Installation, and Training. Is that correct?*

Answer: No. This peculiar OT notion arises principally from DFARS 252.227-7013(b)(1)(v), which vests unlimited rights in OMIT technical data, but with a critical exception for "detailed manufacturing or process data" (DMPD); and, there is no DFARS (or other) clause that applies the OMIT concept to computer software. Contractors also can point out that the genesis of OMIT in the data rights clause is a statute, 10 USCA § 2320 (a)(2)(C)(iii), in which Congress expressly excluded DMPD and never authorized unlimited OMIT rights for software in any circumstance.

Moreover, the exclusion of DMPD means everything involved in manufacturing cannot be OMIT data, no matter how much the agency says it needs it for maintenance.

Conclusion—This all is easy to say, but it may be difficult to do without sufficient advance planning for negotiating the OT. In particular, companies are well served—before the negotiations—by assembling the information of development at private expense and by drafting the clauses they think are most appropriate for the deal. These should include the data rights and IP clauses as well as other essentials, such as disputes, changes, and terminations. Companies also should take time before negotiations to make sure their negotiators understand the operation of the data rights clauses—what they do and don't do—as well as understand the basic, common-sense reasons why the clauses work that way. Often, it is not the Government who is a contractor's worst enemy at the table, it is your own well-intended but slightly mistaken personnel.

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This Feature Comment was written for THE GOVERNMENT CONTRACTOR by* W. Jay DeVecchio, *Senior Of Counsel in the Washington, D.C. office of Morrison & Foerster LLP.