Dancing With the Devil

Protecting Your Intellectual Property Rights While Doing Business with the Government

By John McCarthy

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Consider the following scenario: ABC Software Development Company approaches the Government with a great idea, a new high tech software product that is able to differentiate between terrorists and vacationers and business travelers in real time. After years of effort and the investment of millions of dollars of its own capital, ABC has developed all of the algorithms and much of the software for the product. The Government agrees to fund a relatively small amount of development work to come up with a prototype, whereupon ABC enters into its first Government contract for a few hundred thousand dollars for a few months of work. At the end of that brief contract, ABC is waiting for the big payday in the larger development project and the thousands of seat licenses it plans to sell the Government. It then learns that the Government has contracted with Monster Aerospace to complete the development of the product and that the Government plans to pay ABC nothing further for the software, even though the vast majority of the software was developed at ABC's expense. In a panic, ABC calls its lawyer only to find out, to its dismay, that the Government is well within its rights. Because ABC was not familiar with the ins and outs of Federal intellectual property law, it inadvertently granted the Government an unlimited right to use its software and there is nothing that ABC or its lawyer can do about it.

Sound overstated? It is not. A key risk area to new entrants in the Federal government marketplace, particularly those in the high-tech arena, is intellectual property (IP). The rules in the universe of Government contracting are quite different than those in the commercial setting, and the pitfalls for failing to follow those rules are draconian. Conversely, there is opportunity for the well-informed contractor to have the Government fund research and development efforts, while retaining the company's IP jewels.

First, as a threshold matter, ownership rights in the Government contracts arena are defined differently than ownership rights in the commercial setting. In the commercial world, ownership rights are comprised of trade secrets and copyrights. In the world of Government contracts, ownership rights are defined in terms of rights in technical data and computer software. Patents are common to both; however, a patent holder cannot preclude the United States government or someone operating on its behalf from using any U.S. patent.

Second, there is not just one set of rules governing intellectual property in Government contracts. With regard to technical data and computer software, there are different rules depending on whether one is dealing with the Department of Defense (DOD) or a civilian agency. For patents, the rules are slightly different for the Department of Energy and NASA as compared to other Federal agencies. To further complicate matters, the rules also depend on the type of contract vehicle being used. Thus, there are different rules for grants, cooperative agreements, and so-called "other transactions." For technical data and computer software, the rules are different if the

intellectual property relates to an item that is a "commercial item," a term of art in the Government contracts arena.

Third, if a contractor follows the rules, it could end up owning intellectual property, the development of which was paid for by the Government. For technical data and computer software developed in whole or in part at the Government's expense, the contractor retains title to the intellectual property. For its investment, the Government receives only a license. There are three distinct types of license rights: unlimited rights, Government purpose rights, and limited rights. For software the term restricted rights is used in lieu of limited rights.

If the Government gets unlimited rights in technical data or computer software, there is no restriction on the Government's use of that technical data or computer software. Government purpose rights allow the Government, or anyone acting on its behalf, to use the technical data or computer software for any governmental purpose. Limited rights restrict the use of technical data to within the Government. The definition of restricted rights is different for DOD and civilian agencies. However, with a few exceptions, it restricts use to within the Government. It also restricts the number of copies that can be made.

For patentable inventions, a contractor can generally get title to the invention developed at Government expense if it follows the complex rules for obtaining title. These rules involve various notices within specified timeframes, including an election or request for title and obtaining a patent in a timely manner. Moreover, in most cases, even if the contractor does not want title to the patent, it can generally get a non-exclusive license to practice the invention. However, if the contractor does not follow the rules, it will not even get a license. In a recent case decided by the U.S. Court of Appeals for the Federal Circuit, Campbell Plastics Engineering & Mfg., Inc. v. Brownlee, a company forfeited an invention that it developed because it failed to notify the Government of the invention in a timely manner.

Fourth, a classic stumbling block for Government contractors is labeling. There are specific labeling requirements for technical data and computer software that contractors must carefully follow. If a contractor does not label its technical data or software correctly, the contractor may inadvertently grant the Government unlimited rights in the technical data or software, even if that technical data or software was developed and paid for by the contractor.

These are but a few of the myriad traps for the unwary. That said, for the cautious, well-informed contractor, there are opportunities to finance product upgrades with Government funds and still retain all of the intellectual property rights in the product that the contractor needs.

As in other areas, but especially so with intellectual property, doing business with the Government is not for the uninformed, particularly in the area of intellectual property. Even for those who are well-informed, the correct processes must be put in place to assure that mistakes are not made. However, there are also tremendous opportunities. Contractors must take care to avoid the substantial pitfalls while reaping the potential benefits.

John McCarthy is a Counsel in the Washington, D.C. office of Crowell & Moring. He specializes in Government contracts with a particular emphasis on high technology issues. Mr. McCarthy also has a masters degree in electrical engineering and worked as an engineer in the aerospace industry for ten years prior to becoming an attorney.

EDITOR'S NOTE: Earlier in the year, the Acquisition Reform Working Group (which CSA co-chairs) had sent a legislative request to the Congress that was intended to improve protection of commercially developed intellectual property rights after submission to the Government Instead of taking that action, Congress included language in the FY2007 National Defense Authorization Act that would require the Defense Department to "require program managers to assess long-term technical data needs and establish corresponding acquisition strategies to ensure availability of technical data rights."