



IP Trends, Protection of Assets, Review of Fundamentals and Recent DFARS Changes

***Presentation to NMCA South Bay
Chapter***

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TOPICS DISCUSSED

- **Regulatory Changes**
- **Statutory Changes (current and proposed)**



REGULATORY CHANGES

- **DPN 20110302 (March 2, 2011)**
 - **Implements FY10 NDAA § 821**
 - **DFARS 209.505**
 - **States that “covered government support contractors” may be required to enter into NDAs directly with third parties asserting restrictions on Limited Rights technical data, commercial technical data or Restricted Rights computer software**
 - **DFARS 227.7103-5**
 - **Limited Rights technical data may not be used/ released/disclosed outside Government except to, e.g., a “covered government support contractor”**
 - **DFARS 252.212-7001**
 - **Revises month/year versions of clauses listed below**



REGULATORY CHANGES (CON'T)

- **DPN 20110302 (March 2, 2011)(con' t)**
 - **DFARS 252.2227-7013**
 - **“Covered government support contractor” = a contractor who is primarily furnishing independent and impartial advice or technical assistance directly to the Government in support of its management and oversight of a program or effort (vice directly furnishing an end item or service to accomplish a program or effort) IF**
 - **Contractor is not affiliated with a prime or 1st tier subcontractor on the program or effort or with any direct competitor of such prime/1st tier subcontractor in furnishing end items or services**
 - **Contractor' s contract includes DFARS 252.227-7025**



REGULATORY CHANGES (CON'T)

- **DPN 20110302 (March 2, 2011)(con' t)**
 - **DFARS 252.2227-7013 (con' t)**
 - **Expands the scope of Limited Rights to encompass use/release/disclosure to a “covered government support contractor” if:**
 - **NDA exists between prime contractor and “covered government support contractor” WRT that technical data (unless this requirement is waived in writing by the contractor)**
 - **Such NDAs do not include any additional terms/ conditions beyond those described in DFARS unless mutually agreed to by the parties to the NDA**
 - **Contractor provides copy of NDA or waiver to PCO upon request**



REGULATORY CHANGES (CON'T)

- **DPN 20110302 (March 2, 2011)(con' t)**
 - **DFARS 252.227-7014**
 - **Creates identical expansion of the scope of Restricted Rights in noncommercial computer software as DFARS 252.227-7013 does for Limited Rights**
 - **DFARS 252.227-7015**
 - **Creates identical expansion of the scope of rights in commercial technical data as DFARS 252.227-7013 does for Limited Rights**
 - **DFARS 252.227-7018**
 - **Creates identical expansion of the scope of Limited/ Restricted Rights in noncommercial technical data and computer software as do DFARS 252.227-7013 and 252.227-7014, respectively**



REGULATORY CHANGES (CON'T)

- **DPN 20110302 (March 2, 2011)(con' t)**
 - **DFARS 252.227-7025**
 - **Requires a “covered government support contractor” who receives GFI marked with restrictions to**
 - **Only use the data or software for the purposes stated in the contract and not to compete for any Government or non-Government contract**
 - **Take all reasonable steps to protect the data against unauthorized release or disclosure**
 - **Ensure the owner of the data is or has been notified of its access or use of such data**
 - **Enter into an NDA with the owner of the data if required by that owner, comply with that NDA, and not include any additional terms and conditions into that NDA unless mutually agreed to by the parties to that NDA**



REGULATORY CHANGES (CON'T)

- **DPN 20110302 (March 2, 2011)(con' t)**
 - **DFARS 252.227-7025 (con' t)**
 - **Requires a “covered government support contractor” who receives GFI marked with restrictions to (con' t)**
 - **Provide a copy of any such NDA or waiver to the PCO upon request**
 - **Be subject to criminal, civil administrative and contractual actions for penalties, damages and other remedies by the US, and civil actions for damages and other remedies by the owner of the data for breach of the obligations described above**



REGULATORY CHANGES (CON'T)

- **DPN 20110920 (September 20, 2011)**
 - **Implements FY07 NDAA § 802(b) and FY08 NDAA § 815**
 - **DFARS Subpart 227.71**
 - **DFARS 252.227-7013 will apply to technical data associated with any portion of a commercial item developed in any part at government expense**
 - **DFARS 252.227-7015 will apply to technical data associated with any portion of a commercial item developed exclusively at private expense**
 - **Establishes presumptions (discussed below) regarding development exclusively at private expense**



REGULATORY CHANGES (CON'T)

- **DPN 20110920 (September 20, 2011)(con' t)**
 - **DFARS 252.212-7001**
 - **Revises month/year versions of clauses listed below**
 - **DFARS 252.227-7013(k)(2)**
 - **Contractor must use this clause in its subcontracts without alteration**
 - **Clause applies to all noncommercial technical data or any portion of commercial item developed in any part at Government expense**
 - **DFARS 252.227-7015 governs technical data pertaining to portion of a commercial item developed exclusively at private expense**



REGULATORY CHANGES (CON'T)

- **DPN 20110920 (September 20, 2011)(con' t)**
 - **DFARS 252.227-7015(e)(2): Same conditions apply as in DFARS 252.227-7013(k)(2).**
 - **DFARS 252.227-7019(f)**
 - **PCO will sustain challenge to asserted restrictions regarding noncommercial computer software for major system, subsystem, or component unless contractor/subcontractor demonstrates noncommercial computer software was developed exclusively at private expense (i.e., PCO will determine that computer software was not developed exclusively at private expense)**



REGULATORY CHANGES (CON'T)

- **DCN 20110920 (September 20, 2011)(con' t)**
 - **DFARS 252.227-7037**
 - **COTS/Commercial items: PCO will presume that contractor' s asserted use/release restrictions are justified on grounds that item/component/process was developed exclusively at private expense**
 - **PCO shall not challenge such assertions unless he/she possesses information to the contrary**
 - **PCO will sustain challenge to asserted restrictions regarding noncommercial technical data for major system, subsystem, or component unless contractor/ subcontractor demonstrates that technical data was developed exclusively at private expense (i.e., PCO will determine that technical data was not developed exclusively at private expense)**



REGULATORY CHANGES (CON'T)

- **DCN 20110920 (September 20, 2011)(con' t)**
 - **DFARS 252.227-7037 (con' t)**
 - **Contractor/subcontractor shall maintain records sufficient to justify validity of markings and be prepared to provide same to PCO in response to a challenge**
 - **Clause must be flowed down to all subcontractors at all tiers**
 - **DFARS 252.244-7000**
 - **Revises month/year versions of clauses listed above**



WHAT DOES DPN 20110920 MEAN FOR CONTRACTORS?

- If the parties have not agreed as to which licenses will apply to which specific deliverables prior to award, the following procedures must already have been implemented years/decades ago by the contractor/subcontractor who developed an item/component/process to which the technical data – and apparently computer software – pertains:
 - Contractor must have developed an accounting system capable of tracking the allocation of private and government funds to the developmental work that was accomplished with those funds
 - Contractor must have identified technologies that offered long-term competitive advantages worthy of the initial investment to develop them
 - Contractor must break/separate the accounting trail for development of those technologies to indirect cost pools, costs not allocated to a government contractor, or any combination thereof

Source: Matthew S. Smichak, "Protecting Rights in Technical Data and Computer Software: Applying the Ten Practical Rules and Their Corollaries," 33 *Pub.Cont.L.J.* 139, 148 (Fall 2003)



WHAT DOES DPN 20110920 MEAN FOR CONTRACTORS? (CON'T)

- **If these procedures were not implemented years/decades ago, contractors will not be able to sustain their burden of proof that the noncommercial technical data – and apparently computer software – pertaining to a major system, subsystem, or component was developed exclusively at private expense**



STATUTORY CHANGES

- **Prior to January 7, 2011: Noncommercial technical data/computer software developed under IR&D/B&P = Government acquired Limited/Restricted Rights**
- **FY11 NDAA § 824(b)(2)(10 U.S.C. § 2320(a)(3)): Noncommercial technical data developed under IR&D/B&P = Government now acquires Unlimited Rights**
 - **HASC/SASC Joint Explanatory Statement does not explain basis for opinion that change is properly classified as a “clarifying amendment”**
 - **In contrast to revised bill (H.R. 6523 § 824), original Senate Bill (S.3454 § 832) would have only required SECDEF to ensure DoD preserved the option of competition for production/sustainment of systems/ subsystems developed exclusively with Federal funds or without “significant contribution” by contractor/subcontractor and that US is not required to pay more than once for same technical data**
 - **Given location of this new mandate in 10 U.S.C. § 2320(a)(3), it is not clear whether any Government employee has the authority to negotiate away Unlimited Rights in such technical data developed with IR&D/B&P (statements in DFARS §§ 227.7103-5(d)(1) and 252.227-7013(b)(4) to the contrary notwithstanding)**



PROPOSED STATUTORY CHANGES

- **HASC 112th Congress Oversight Plan**
 - **“[T]he Committee will continue to ensure the protection of the government’s interest in technical data”**
- **S.1253 (FY12 Senate National Defense Authorization Bill) § 841:**
 - **Clarifies treatment of IR&D/B&P costs in 10 U.S.C. § 2320 such that US would acquire Government Purpose Rights in technical data for item/process funded with IR&D/B&P where**
 - **Contractor contributed less than 10% of cost of development**
 - **Item/process integrated into major system AND (1) cannot be segregated from the system as a whole OR (2) was developed predominately at government expense**
 - **Not yet passed by Senate**
 - **No similar legislation proposed by HASC**



PROPOSED STATUTORY CHANGES

- **Personal observations**
 - **Legislative swirl makes it difficult to predict how either § 821 of FY11 NDAA or S.1253 § 841 (if enacted as proposed) will be implemented in the DFARS**
 - **Use of funding rules to determine IP rights to a specific CDRL that describes innumerable items/processes whose development costs were properly segregated in a contractor's accounting system under prior law – not to mention those items/processes whose development costs will be properly segregated in a contractor's accounting system under current (and future?) law – will become even more unwieldy if not impossible**
 - **Over two years ago, DoD's top IP attorney suggested the better approach is to have the entire CDRL governed by a single license**

Source: James G. McEwen, David S. Bloch & Richard M. Gray, *Intellectual Property in Government Contracts: Protecting and Enforcing IP at the State and Federal Level* 80-81, 98 (2009)



CONCLUSION

“Chance favors the prepared mind.” – Louis Pasteur (1822-1895)

How prepared is your company?

How prepared are you?