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PRACTICAL TIGHT-KNIT BRIEFINGS INCLUDING ACTION GUIDELINES ON GOVERNMENT CONTRACT TOPICS

DOD's Other Transactions: Data Rights & Intellectual Property Simplified

By W. Jay DeVecchio[*]

In the ever-changing world of Government contracts, the use of other transactions (OTs) has become increasingly popular, especially within the Department of Defense (DOD). Although OTs were first authorized in 1958 for NASA,[1] and subsequently extended off and on to 11 other executive agencies, their use is greatest today at the DOD. Beginning in 1989, OTs—"transactions (other than contracts, cooperative agreements, and grants)"—were codified at 10 U.S.C.A. § 2371 for pursuit of advanced research projects by the Defense Advanced Research Projects Agency (DARPA) and were later extended to prototyping and to military services. Section 815 of the National Defense Authorization Act (NDAA) for Fiscal Year 2016 made OT prototype authority permanent, codifying it at 10 U.S.C.A. § 2371b,[2] and thus reinvigorating their use within the DOD.

Because OTs are perceived as unique substitutes for DOD procurement contracts, many questions surround OT requirements—in particular their intellectual property (IP) obligations. Accordingly, this BRIEFING PAPER will address the most commonly raised IP issues in OTs at the DOD, answer several of the repeatedly raised questions about OTs generally, and offer a few examples of OT clauses addressing IP rights—all with the overarching purpose of helping to guide the unfamiliar contractor in this area of Government contracting, where confusion is more the rule than the exception.

Let us start from the beginning with a few basic OT questions and principles and then move to OT data rights.

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IN THIS ISSUE:

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Basic OT Principles

Types Of OTs

Question 1: What kinds of OTs are there?

Answer: At the DOD, OTs generally can be categorized into three types of agreements: (1) research, (2) prototype, and (3) production.

Research OTs are authorized for "basic, applied, and advanced research projects."[3] This is for work that pushes the state of the art, has dual application (Government and commercial), and has only incidental prototype work.

Prototype OTs are used when the goal of a program is to create a single prototype that will be delivered to the Government or is to acquire a reasonable number of prototypes to test in the field before purchasing in quantity. They are designed to enhance "the mission effectiveness of military personnel and the supporting platforms, systems, components, or materials proposed to be acquired or developed by the Department of Defense" or to improve existing "platforms, systems, components, or materials in use by the armed forces," which typically involves designing or building a new technology or system.[4]

Production OTs are what they sound like—to make things. More formally, they flow from prototype OTs and can be awarded to a sole source if competitive procedures were utilized in awarding the prototype OT, the participant successfully completed the prototype, and the solicitation and original agreement allowed for a follow-on for production contract or OT.[5]

OTs vs. Procurement Contracts

Question 2: Is an OT a contract?

Answer: Yes, an OT is a contract. A contract often is defined as "an agreement between two or more parties creating obligations that are enforceable or otherwise recognizable at law."[6] Specifically, a contract is "a promise or set of promises for the breach of which the law gives a remedy, or the performance or which the law in some way recognizes as a duty."[7] There is no question OTs fit these definitions; they are binding on and enforceable by the parties.

So, the real question is what an OT is not: it is *not* a procurement contract, a grant, a cooperative agreement, or a cooperative research and development agreement (CRADA).

Question 3: Ok, then, how does an OT differ from a typical procurement contract or other funding agreement?

Answer: Because an OT is *not* a procurement contract, clauses from the Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Supplement (DFARS) are inapplicable—or, at least, not necessarily applicable. (Parties can and do use FAR and DFARS provisions, or minor variations on them—particularly the data rights clauses—because the concepts are familiar to procuring agencies.

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More on this later in the PAPER.) This means the data rights statutes at 10 U.S.C.A. §§ 2320 and 2321 and 41 U.S.C.A. § 2302, as well as their corresponding FAR and DFARS provisions—found at FAR Subpart 27.4, "Rights in Data and Copyrights," and DFARS Subpart 227.7100, "Rights in Technical Data," and Subpart 227.7200, "Rights in Computer Software and Computer Software Documentation"—and data rights clauses, e.g., FAR 52.227-14, "Rights in Data—General"; DFARS 252.227-7013, "Rights in Technical Data—Noncommercial Items"; and DFARS 252.227-7014, "Rights in Noncommercial Computer Software and Noncommercial Computer Software Documentation," *do not* apply. Nor does the Bayh-Dole Act, which governs patent rights in grants, funding agreements, and procurement contracts.[8] Thus, with an OT, a federal agency has "the flexibility necessary to adopt and incorporate business practices that reflect commercial industry standards and best practices into its award instruments."[9] OTs, therefore, provide nontraditional defense contractors an opportunity to contract with the Federal Government without requiring familiarity with the nuances of traditional procurement contracting.

Question 4: But my agency is telling me I must follow its standard OT agreement, do I?

Answer: No. Because there are essentially no OT terms and conditions fixed by law or regulation, there is no such thing as mandatory "standard" OT agreements or IP clauses, no matter what an agency or a contractor tells you. You might as a practical matter face bureaucratic inertia in trying to vary what an agency claims are its standard terms, but ultimately many agencies will negotiate key provisions.

Question 5: Does this mean OTs are administered differently from procurement contracts?

Answer: Yes, and there are several administrative advantages to OTs. For example, they are not required to be administered by the Defense Contract Management Agency—they can be if the contractor and agency agree, but it is not required. Most notable, OTs are not subject to Defense Contract Audit Agency audits. If an audit becomes necessary, the Government has the ability to use outside, independent auditors, and the parties should be able to negotiate the scope of the audit. Where, however, a prototype OT provides for total payments in excess of $5 million, the OT must include a clause that provides the Comptroller General access to records.[10] The same is not required for a research OT.

Nontraditional Defense Contractors

Question 5: You mentioned "nontraditional defense contractors." What are they, and do I need to be one to get an OT?

Answer: Those are two separate questions; first let us address the definition of a nontraditional defense contractor, and then sort out who is eligible for OTs.

A nontraditional defense contractor is defined in the DFARS as "an entity that is not currently performing and has not performed any contract or subcontract for DoD that is subject to full coverage under the cost accounting standards [CAS] prescribed pursuant to [41 U.S.C.A. § 1502] and the regulations implementing such section, for at least the 1-year period preceding the solicitation of sources by DoD for the procurement."[11] You will know if you qualify, because you will not be performing a contract subject to the CAS until you receive a large DOD contract (in excess of $7.5 million) that is not exempt from the Truth in Negotiations Act;[12] so, it would be hard to miss.[13]

Eligibility For Award

Question 6: Who is eligible for OTs?

Answer: At non-DOD agencies and for research OTs, anyone can be eligible for award of an OT. DOD's prototype OT authority, however, has unique constraints. Under 10 U.S.C.A. § 2371b, a DOD prototype project can only be conducted if one of

four conditions are met: (1) at least one nontraditional defense contractor significantly participates in the project; (2) all significant participants are small business or nontraditional defense contractors; (3) at least one-third of the total cost of the prototype project is provided by non-Government participants; or (4) the senior procurement acquisition official provides a written justification for using an OT.[14]

What Laws Apply?

Question 7: If the procurement and grant laws do not apply to OTs, what laws do apply?

Answer: Freedom from the FAR and DFARS is liberating, but there always are rules. Any time one is dealing directly or indirectly with the Federal Government, there are a wide variety of laws potentially applicable to the arrangement and the parties' conduct. In all circumstances, the Government demands honesty and expects familiarity with federal law. OT holders, thus, must remain conscious, among others, of the False Claims Act,[15] false statements statute,[16] Fair Labor Standards Act,[17] nondiscrimination laws,[18] export control prohibitions,[19] the Anti-Deficiency Act (which prohibits most indemnification clauses),[20] and classification and other national security laws.[21]

Furthermore, OTs are *not* immune from bid protests. Both the Government Accountability Office (GAO) and the U.S. Court of Federal Claims will review bid protests alleging an agency is improperly using its OT authority.[22] The court also may have jurisdiction to review challenges to an OT evaluation and award decision in certain circumstances, although this jurisdiction has not yet been decided.

Negotiable Terms & Conditions

Question 8: What makes OT terms and conditions unique?

Answer: The simple answer is they are *negotiable*. Although there are benefits to having certain mandatory FAR and DFARS clauses—the "Changes" clause comes to mind (you are entitled to equitable adjustments)[23]—and although there is comfort in knowing what you are up against—for example, the FAR Part 49 termination for convenience provisions are some of the most rational ever written—there is almost no constraint on what you can negotiate. This might mean work for both sides: they have got to figure out how best to handle disputes, terminations, and, of course, IP. But the corollary is OTs offer great flexibility and the ability for both sides to tailor terms to accommodate their real needs rather than "needs" set by regulation. This is the inverse of the maxim that "boilerplate is a substitute for active thought."

Intellectual Property In OTs

No Mandatory IP Clauses

Question 9: Are OT IP terms and conditions negotiable?

Answer: Yes, you can negotiate your IP rights, because there are no mandatory IP clauses for OTs. The most important point to keep in mind when negotiating IP rights in an OT is that the agreement is a blank slate to be etched as far as your Government customer is willing to go.

DOD Guidance On IP Terms & Conditions

Question 10: Is there any DOD guidance about IP terms and conditions?

Answer: Yes, there is broad guidance on the DOD's use of OTs generally and IP specifically. In November 2018, the Under Secretary of Defense for Acquisition and Sustainment issued the *Other Transactions Guide* to provide "advice and lessons learned on the planning, publicizing, soliciting, evaluating, negotiation, award, and administration of OTs."[24] The OT Guide identifies two primary audiences: the Government team and Government partners.[25] The Government team consists of project managers, agreements officers, agreements specialists, system

engineers, small business representatives, and legal counsel; whereas, Government partners include industry members, the academic community, federal agencies, as well as state and local authorities.[26]

Question 11: What does the OT Guide say about IP terms and conditions?

Answer: The Guide instructs DOD Agreements Officers (AOs) (the Contracting Officer equivalent for OTs) to rely on their understanding of Bayh-Dole and DFARS frameworks only as a *starting point* from which to craft IP clauses that consider "project goals," including commercialization and follow-on support, and "balance 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."[27] These are welcome suggestions, tempered by countervailing Government needs, as reflected in the following excerpt from the OT Guide:

> c. **Licensing:** Consider restricting awardees from licensing technology developed under the OT to domestic or foreign firms under circumstances that would hinder potential domestic manufacture or use of the technology.
>
> * * *
>
> e. **Additional Rights:** Consider including in the IP clauses any additional rights available to the Government in the case of inability or refusal of the private party or team to continue to perform.
>
> * * *
>
> g. **Patents:** Negotiate a patents rights clause necessary to accomplish program objectives. . .. In determining what represents a reasonable arrangement under the circumstances, the AO should consider the Government's needs for patents and patent rights to use the developed technology, or what other IP rights will be needed should the agreement provide for trade secret protection instead of patent protection.
>
> * * *
>
> i. **Software data rights:** Refers to a combined copyright, know-how, and/or trade secret license that defines the Government's ability to use, reproduce, modify, release, and disclose technical data and computer software. . ..The OT should typically address definitions, allocation of rights, delivery requirements, and restrictive legends. The OT should account for certain emergency or special circumstances in which the Government may need additional rights, such as the need to disclose technical data or computer software.
>
> j. **Commercial data:** The AO should consider commercial technical data and commercial computer software. The government typically does not need extensive rights in commercial technical data and software. However, depending on the project scope and goals, the Government may need to negotiate for greater rights in order to utilize the developed technology.[28]

Basic Data Rights Principles

Question 11: Those points sound reasonable, but 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 broad Government purpose rights in them, is that correct?

Answer: Absolutely not; there is no such requirement.

Question 12: But the agency says giving up ownership and providing Government purpose rights[29] are consistent with the DOD data rights clauses and principles, is that correct?

Answer: No, it is not correct. Unfortunately, there are a number of misconceptions within the Government and among contractors about the basic principles of IP and the various data rights clauses.[30] This is true not only for OTs, but also for procurement contracts and grants, whose clauses AOs often modify for use in OTs. So, let us clear up a few key points to bear in mind when negotiating rights in technical data and computer software under OTs.

(a) *Almost all contractor rights begin with "development" at "private expense."* Most AOs and contractors understand 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. This makes sense, because the Government had nothing to do with the development. Conversely, the Government is entitled to the broadest license rights when it pays entirely and *directly* for a contractor's development work.

But beyond these basic principles, people tend to go astray. For example, rights in technical data do not typically arise when the data (e.g., drawings, specifications, or processes) are developed, as many seem to think, but rather when the item, component, or process to which the technical data pertain was developed. Therefore, to know where you stand with your IP in *any* contractual setting, you need to know when the item, component, process, or software was developed and who paid directly for it. You also need to know more, such as how development is defined and applied as well as what private expense means, and then you need to understand how those principles correctly fit into the variations of the DFARS data rights clauses used widely in OTs but misunderstood.

(b) *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.[31] Therefore, 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 you for further refinement or improvement of the technology.[32] This is reflected in the ASBCA's seminal *Bell Helicopter Textron* decision:

> All "development" of an item or component need not be 100 percent complete. There will often be further development of an item or component after it has reached the point of being "developed" for data rights purposes.[33]

It also is clear from the DFARS:

> 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.[34]

(c) *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 various modules and subroutines. Therefore, in the real world, these components typically are developed separately and can be developed separately for data rights purposes—i.e., reasonable people skilled in the art will say there is a high probability the component will work as intended—before the entire item is finished. Accordingly, one can and should assert rights at these lowest practicable component levels, which is exactly what the DFARS and the decisions state.[35]

(d) *Therefore, your rights follow the components or modules.* This means if an item comprises four components, and three of those components were developed entirely at private expense with the fourth being developed with *direct* (not overhead) funding from the Government, then the Government *could not* correctly assert the entire item was developed with mixed funding and thus claim Government purpose or unlimited rights. Instead, the contractor would be entitled to limit or restrict the Government's right in the three components developed exclusively at private expense, while the Government could assert unlimited rights only in the fourth component.[36]

This is one of the least appreciated but most important concepts to keep in mind. It also should be the driving factor in how companies track development: the development history and funding should be tracked from concept to fruition at each component or module level.

(e) *Private expense is easy.* At the DOD, and

elsewhere generally, private expense means development was paid for entirely with any funds other than *direct* payment under a Government contract or subcontract.[37] This means that if you perform development work properly charged to any indirect cost account (most commonly this is independent research and development, covered by FAR 31.205-18) or bottom line profit dollars, then that is private expense even if the Government reimburses a portion of your indirect accounts. This is true also of costs allocated to agreements that are not Government "contracts" as defined in the FAR, meaning for purposes of the DFARS data rights clauses, funding received under a grant or cooperative agreement is private expense.[38] That may extend to OTs as well, a result that would be consistent with the intended flexibility in allocating IP rights in technology developed under OTs.[39]

(f) *License rights only*. The basic FAR and DFARS data rights clauses define *when* the Government gets *license rights* in technical data and computer software and *what* those license rights are, nothing more.[40]

(g) *Use rights only*. Those license rights are rights of *use* only; that is, they define how the Government can and cannot use a contractor's technical data and software, nothing more. This is clear in DFARS Subpart 227.71, which defines the Government's rights in technical data and describes the "*rights* to use, modify, reproduce, release, perform, display, or disclose technical data."[41] DFARS Subpart 227.72 is comparably written for noncommercial computer software.[42]

(h) *No Government ownership or exclusivity*. Therefore, nothing in the clauses (not one word) gives the Government title, ownership, sole rights, or exclusive rights to a contractor's technical data or computer software. The only thing the Government typically owns are those things that are deliverables under the contract or agreement—i.e., a *copy* of the technical data or the software. The extent to which the Government can use, reproduce, and disclose those delivered copies of data and software is what is defined by the license rights in the data rights clauses.

(i) *No delivery obligation*. Similarly, there is nothing (not one word) in the data rights clauses requiring delivery to the Government of any technical data or computer software in which it obtains license rights under the clauses.[43]

(j) *You own and can use what you have developed*. Because nothing in the clauses divests you of ownership in your existing technology, data, or software, you can do whatever you please with it, subject to other applicable laws (e.g., export control). Under the data rights clauses, this is true as well for anything you develop and are paid for directly under a contract—that is, you have the ability under the data rights clauses to make, use, sell, lease, or license any technical data or software even if the Government paid you entirely to develop it and has unlimited rights to it.

(k) *Unlimited rights are not exclusive rights*. This means that even when the Government gets an "unlimited rights" license, you can still make, use, sell, lease, or license your technical data or software as you please (again subject to other laws). Accordingly, it is incorrect for the Government to say you cannot do so under the data rights clauses.

Negotiating IP Terms & Conditions

Question 13. Those are great pointers, but how do I apply them when negotiating an OT?

Answer: Easy. Before you begin discussions with the agency over the IP terms of an OT, you should take careful stock of the existing IP you are bringing to the table, making sure that for technical data or noncommercial computer software you have sound support for development at private expense. This will set the baseline from which you will move, no matter what type of IP clauses the agency initially proposes in the draft OT. Specifically:

(a) *Identify each item, component, process, or*

software that you have developed entirely at private expense at the lowest component level. These are the things in which you are entitled to, and should, constrain the Government's use under an OT. In other words, whatever formulation of IP clauses the agency advances in the draft OT, these are the things in which you should not permit use outside of the bounds of the OT or by any nongovernmental entity, except your collaborators. This IP is the fruit of your labor and creativity, paid for with your money. There is no reason to give up your rights in it, although, of course, you could if you wished.

(b) *Identify each of your patents and pending patent applications, whether provisional or not.* If 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 you again can elect to constrain what the Government does with them under an OT.

(c) *Identify your commercial computer software.* Commercial computer software, for the purposes of procurement contracts at the DOD, is defined in accordance with DFARS 252.227-7014(a)(1). There is no requirement that software meet this definition to be treated as commercial computer software in an OT, but your AO likely will be more comfortable with that characterization of the software if it does. Recognize that to qualify as commercial, your software simply has to meet the definition, and the definition does not depend on whether your software was developed at private expense. Commercial software can be licensed under an OT subject to almost all of your "standard" commercial software terms, because most of the commercial terms to which the Government takes exception are terms that are contrary to federal procurement law, such as the Contract Disputes Act.[44] But the procurement laws do not apply to OTs. Therefore, apart from provisions that might run afoul of the Anti-Deficiency Act,[45] which is independent of the procurement laws and precludes anyone in the Executive Branch from creating an obligation in advance of an appropriation, most commercial software license terms are viable in OTs. The Anti-Deficiency Act, however, would preclude most indemnification clauses and many advance payments or automatic renewals.

Question 14: The agency is saying it needs "Government purpose" or "unlimited" rights in my technical data and computer software for "OMIT" use—that is, use for operations, maintenance, installation, and training. Is that permissible?

Answer: It is permissible, but you should not agree to provide any OMIT technical data comprising detailed manufacturing or process data nor any software as OMIT. The notion of the Government's getting broad rights in OMIT data arises principally from DFARS 252.227-7013(b)(1)(v), which affords the Government unlimited rights in these technical data even if the data are otherwise subject to limited rights. But detailed manufacturing and process data (DMPD) are expressly excepted from the DFARS definition of OMIT data, and no DFARS clause applies this OMIT requirement to software. Moreover, regardless of the regulations, providing DMPD data or software to the Government greatly enhances the likelihood of your most important and closely held technology being released to your competitors.

Question 15: What types of IP should we be willing to share with the Government or provide greater rights under an OT?

Answer: It makes sense for an agency to seek broad rights in any technology that is developed entirely under the OT or to seek a license or title to any invention first conceived or reduced to practice under the OT (and providing a license to the contractor in the event the agency takes title). The difficulty will be making sure you can segregate your preexisting IP from what is being developed under the OT. This is why carefully and thoroughly identifying those things in advance is so essential.

Moreover, even for things developed entirely under the OT, there is no reason why some reasonable time constraints cannot be negotiated. For

example, instead of providing the Government immediately with unlimited or Government purpose rights, one could negotiate provisions constraining the Government's use for period of the OT or for some other fixed time. Although periods such as three or five years are common under procurement contracts, agencies have negotiated substantially longer times (including up to 20 years) before limited and restricted rights convert to Government purpose rights.

OT IP-Related Terms vs. DFARS Clauses

Question 16: 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. So, define carefully any of those IP-related terms. If appropriate in the context of the OT, you could define terms by specific reference to a DFARS clause—e.g., "The terms Government Purpose and Government Purpose Rights shall have the same meanings as in DFARS 252.227-7013(a)(12) & (13) respectively."

Sample OT Terms & Conditions

Question 17: Are there any sample OTs available?

Answer: Yes. The Defense Advanced Research Projects Agency has a sample "Streamlined Other Transactions for Prototypes" available on the internet.[46] This contains relatively neutral IP terms and conditions that various Government agencies utilize in their OTs.

Question 18: Are there other sample terms and conditions available to review in preparation for negotiation?

Answer: Yes. Here are a few simple "generic" provisions adapted from various agencies' OTs. These are examples only and may not be suitable for your OT; consult counsel before using these or any "form" clauses:

Patent Rights

1. Disclosure:

The [Contractor] shall disclose each subject invention [define], whether as a result of the contractor's or its Affiliates [define] or subcontractor's sole efforts or as a result of joint efforts by any of them with this Agency, to the Administrative Officer within four (4) months after the inventor discloses it in writing to his company personnel responsible for patent matters. The disclosure shall be in the form of a written report and shall identify the agreement and circumstances under which the invention was made and the identity of the inventor(s). It shall be sufficiently complete in technical detail to convey a clear understanding, to the extent known at the time of the disclosure, of the nature, purpose, operation, and the physical, chemical, biological, or electrical characteristics of the Invention.

2. Allocation of Principal Rights:

a. Unless [Contractor] notifies the Government that it or one of its Affiliates or subcontractors does not intend to retain title, [Contractor], its Affiliates or subcontractors, as applicable, shall retain the entire right, title and interest throughout the world in and to each Subject Invention.
b. With respect to any subject invention in which the [Contractor] retains title, [the Agency] shall have a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced on behalf of the United States the subject invention throughout the world as prescribed in this Article. Notwithstanding the above, the [Contractor] may elect to provide full or partial rights that it has retained to other parties.

3. Government License to Subject Inventions [OPTIONAL LIMITATIONS]:

Subject to the terms and conditions set forth in this Agreement, [Contractor] hereby grants to the [Agency] a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced on behalf of the United States each Subject Invention throughout the world solely [consider limits—e.g.,

"in the Field" (make sure to define)]. For avoidance of doubt, the right to practice or have practiced the Subject Inventions solely in the Field means that the [Agency] may:

i. Use, make, or have made Subject Inventions for the purpose of [specify—e.g., conducting research or development] in the Field;
ii. Sublicense such rights to other U.S. Government agencies or third parties to [conduct such research or development] in the Field on behalf of the [Agency].

4. Trade Secrets:

Nothing in this Agreement shall be interpreted or construed as requiring [Contractor] to file, secure, or maintain in force any patent or patent application for any Subject Invention. Should [Contractor] elect not to seek patent protection for a Subject Invention for which it, or one of its Affiliates or subcontractors, has retained title, or withdraws or abandons a patent application for a Subject Invention before publication, [Contractor] agrees that it or its subcontractor will maintain the Subject Invention as a trade secret unless otherwise mutually agreed by the Parties. Upon [Agency's] request, [Contractor] shall provide to [Agency] a copy of all Technical Data [make sure to define] relating to any such Subject Inventions to permit [Agency] to exercise its license rights hereunder, subject to any applicable restrictions on the use and disclosure of such Data—such as Limited Rights [define]—as set forth in this Agreement.

5. Disclosure Restrictions:

The Government shall not disclose to the public or to any third party any Data (as defined in Article [consider including the definitions of Technical Data and Computer Software in DFARS 252.227-7013] or other information provided to the Government by [Contractor] under this Agreement if such Data or information would disclose a Subject Invention, until any patent application claiming such Subject Invention has been published by the U.S. Patent and Trademark Office or foreign patent office. In addition, the Government shall not release to the public or to any third-party copies of any document that is part of a patent application claiming a Subject Invention until such patent application has been published by the U.S. Patent and Trademark Office or foreign patent office. [Contractor] is responsible for marking or otherwise identifying such Data or information.

Data Rights

1. Allocation of Principal Rights:

With respect to Data delivered pursuant to the terms of this Agreement, the Government shall receive Limited Rights or Restricted Rights respectively in any (a) Technical Data marked with the "Limited Rights" legend specified in DFARS 252.227-7013 or (b) Computer Software marked with the "Restricted Rights" legend specified in DFARS 252.227-7014 as follows:

i. Delivered Data that would disclose a Subject Invention, until any patent application claiming such Subject Invention has been published by the U.S. Patent and Trademark Office or foreign patent office
ii. Delivered Data pertaining to items, components, processes, or software developed exclusively at private expense that will be used in the performance of the Statement of Work. Private expense determinations will be made at the lowest practicable component or module level.
iii. Delivered Data that are otherwise maintained by [Contractor] or an Affiliate or subcontractor as a trade secret.

Moving Outside Of The Box: Other Industries

Question 19: If there are no standard OT terms, should contractors consider using contract terms and conditions from other industries? If so, which industries?

Answer: That is an interesting question. For thinking "outside of the box," contractors might consider clauses from two other industries—architecture and construction—for inspiration. Again, these are examples only, and may not be suitable for your OT; consult counsel before using these or any "form" clauses.

The American Institute of Architects (AIA) maintains a database of industry standard construction contracts, many of which include clauses dedicated to IP and licenses. Here is a modified example pertinent to copyright:

(1) The [contractor] and the [agency] warrant that in transmitting or delivering any Technical Data or Computer Software [define both], or any other in-

formation, the transmitting party is the copyright owner or licensee of such information or otherwise has permission from the copyright owner to transmit such information for its use on the [contract].

(2) The [contractor] and the [contractor's agents or affiliates] shall be deemed the authors and owners of their respective Technical Data and Computer Software, and shall retain all common law, statutory, and other reserved rights, including copyrights.

(3) The [contractor] grants to the [agency] a non-exclusive license to use the [contractor's] Technical Data or Computer Software solely and exclusively for purposes described in this Agreement, provided that the [agency] substantially performs its obligations under the Agreement.

(4) Except for the licenses granted in this [article], no other license or right shall be deemed granted or implied under this Agreement. The [agency] shall not assign, delegate, sublicense, pledge or otherwise transfer any license granted herein to another party without the prior written agreement of the [contractor].[47]

Similarly, construction contracts typically must consider how to handle the iterative process of preparing and utilizing design and construction documents. This can be relevant, given today's fast-paced technological climate, in which contractors also must take steps to protect the data involved during the iterative design process. This concept, while specific to construction contracts, is analogously applicable to any contract containing designs or specifications. Here is an example of a clause that protects such data:

The drawings, designs, specifications, software and all other documents or information ("Data") prepared by the contractor for performing this Agreement are, if delivered by the contractor, for use by the Agency solely with respect to performing this agreement or as may be expressly permitted herein. The contractor shall be deemed the author of all such Data and shall retain all common law, statutory and other reserved rights, including the copyright. The [agency] shall be permitted to retain copies, including electronic format and reproducible copies, of the Data, but in no event may the Agency use the Data for any other purpose unless agreed to in writing in advance by the contractor.[48]

A Note On Modeling

Lastly, computer modeling is increasingly used in private industry and by the Government under OTs, particularly prototype OTs. There are a variety of clauses that could be used to address modeling and the parties' rights. Regardless of the particular form of the clause, contactors should consider the following issues if modeling is contemplated: (1) establishing the protocols that will govern development of the model; (2) anticipated authorized uses of the model and by whom; (3) additional modeling activities the parties may agree upon (*e.g.*, renderings, animations, performance simulations);[49] (4) who will manage the digital design process; (5) who can make changes to the model; (6) who owns the model; and, (7) how the data rights in the model will be allocated?[50]

Guidelines

These Guidelines are intended to assist you in understanding the most commonly raised IP issues in OTs at the DOD. They are not, however, a substitute for professional representation in any specific situation.

1. Be aware that, at the DOD, OTs generally can be categorized into three types of agreements: (1) research, (2) prototype, and (3) production.

2. Recognize that although OTs are contracts, they are not procurement contracts, grants, cooperative agreements, or CRADAs. As a result, in general, statutes and implementing regulations specific to the procurement or financial assistance systems, including the data rights statutes at 10 U.S.C.A. §§ 2320 and 2321 and 41 U.S.C.A. § 2302, as well as their corresponding FAR and DFARS provisions and clauses, and the Bayh-Dole Act, which governs patent rights in grants, funding agreements, and procurement contracts, do not apply to OTs.

3. Bear in mind that although OT parties can and do use FAR and DFARS provisions, or minor variations on them—particularly the data rights clauses—

because the concepts are familiar to procuring agencies, there are no mandatory standard OT agreements or IP clauses and key terms and conditions are negotiable.

4. Be aware that the DOD can use an OT for a prototype project only if at least one of the following is true: a nontraditional defense contractor significantly participates in the project, all significant participants are small business or nontraditional defense contractors, at least one-third of the total cost of the prototype project is provided by non-Government participants, or the senior procurement acquisition official provides a written justification for using an OT.

5. Remember that both the GAO and the Court of Federal Claims will review bid protests alleging an agency is improperly using its OT authority.

6. Familiarize yourself with the DOD's November 2018 *Other Transactions Guide*, which provides broad guidance on the DOD's use of OTs generally and IP specifically. The Guide instructs DOD AOs to rely on their understanding of Bayh-Dole and DFARS frameworks only as a starting point from which to craft OT IP clauses.

7. Be aware that no matter what the agency may say, there is no requirement under an OT (or even a standard procurement contract) to give up ownership of existing data rights. The Government gets license rights, not ownership, under the standard data rights clauses, no matter who paid for the development.

8. Recognize that the Government's rights in a particular item, component, process, or software will be determined by evaluating when each item, component, process, or software was developed and who paid for it at the lowest component level.

9. Recognize that you own and can use what you have developed. Under the data rights clauses, you can make, use, sell, lease, or license any technical data or software even if the Government paid you entirely to develop it and has unlimited rights to it (subject to other applicable laws, such as export controls).

10. Before starting negotiations with the Government on the IP terms of an OT, take careful stock of the existing IP you are bringing to the table, making sure that for technical data or noncommercial computer software you have sound support for development at private expense. Identify each item, component, process, or software that you have developed entirely at private expense at the lowest component level, identify each of your patents and pending patent applications, whether provisional or not, and identify your commercial computer software.

ENDNOTES:

[1]See 51 U.S.C.A. § 20113(e).

[2]National Defense Authorization Act for Fiscal Year 2016, Pub. L. No. 114–92, § 815, 129 Stat. 726, 893 (2015).

[3]10 U.S.C.A. § 2371.

[4]10 U.S.C.A. § 2371b(a).

[5]10 U.S.C.A. § 2371b(f).

[6]Black's Law Dictionary (11th ed. 2019).

[7]Restatement (Second) of Contracts § 1.

[8]35 U.S.C.A. §§ 200–212.

[9]Office of the Under Sec'y of Defense for Acquisition and Sustainment, Other Transactions Guide at 4 (Version 1.0 Nov. 2018) [hereinafter OT Guide], available at https://aaf.dau.mil/ot-guide/, which refreshingly replaces the January 2017 Other Transactions Guide for Prototype Projects.

[10]10 U.S.C.A. § 2371b(c)(1).

[11]DFARS 212.001 (citing 10 U.S.C.A. § 2302(9)).

[12]Also called the Truthful Negotiations Act. 10 U.S.C.A § 2306a(b); 41 U.S.C.A. § 3503(a)(2).

[13]The CAS exemptions are found at 48 C.F.R. § 9903.201-1(b). The exemption for contracts under $7.5 million is at 48 C.F.R. § 9903.201-1(b)(7), while the exemptions for sealed bid contracts and firm-fixed-price contracts awarded on the basis of adequate price competition without the submission of cost or pricing data are 48 C.F.R. § 9903.201-1(b)(1) and 48 C.F.R. § 9903.201-1(b)(15), respectively. See 48 C.F.R. § 9903.201-1(a).

[14]10 U.S.C.A. § 2371b.

[15]31 U.S.C.A. § 3729 et seq.

[16]18 U.S.C.A. § 1001.

[17]29 U.S.C.A. § 201 et seq.

[18]See 42 U.S.C.A. § 2000d et seq.

[19]See International Traffic in Arms Regulations (ITAR), 22 C.F.R. pts. 120–130; Export Administration Regulations (EAR), 15 C.F.R. pts. 730–774.

[20]31 U.S.C.A. § 1341.

[21]See National Industrial Security Program Operating Manual, DOD 5220.22-M (Feb. 28, 2006), incorporating Change 2 (Mar. 18, 2016).

[22]See, e.g., Oracle Am., Inc., Comp. Gen. Dec. B-416061, 2018 CPD ¶ 180, 60 GC ¶ 195.

[23]See, e.g., FAR 52.243–1 ("Changes—Fixed–Price").

[24]OT Guide at 3.

[25]OT Guide at 3.

[26]OT Guide at 3.

[27]OT Guide at 50.

[28]OT Guide at 51–52.

[29]See DFARS 252.227-7013(b)(2); DFARS 252.227-7014(b)(2).

[30]The principal data rights clauses for the Department of Defense are DFARS 252.227-7013, "Rights in Technical Data—Noncommercial items," and DFARS 252.227-7014, "Rights in Noncommercial Computer Software and Noncommercial Computer Software Documentation."

[31]DFARS 252.227-7013(a)(7). There is a slightly different definition of "developed" for software and programs in DFARS 252.227-7014(a)(7), but the principle is the same.

[32]DeVecchio, "Taking the Mystery Out of Data Rights," 18-8 Briefing Papers 1, at 3 (July 2018).

[33]Bell Helicopter Textron, ASBCA No. 21192, 85-3 BCA ¶ 18,415, at 92,434; see Dowty Decoto, Inc. v. Dep't of the Navy, 883 F.2d 774,780 (9th Cir. 1989); Applied Devices Corp., Comp. Gen. Dec. B-187902, 77-1 CPD ¶ 362, at 9–12.

[34]DFARS 252.227-7013(a)(7). Although the FAR does not define "development," there is no reason to doubt that the DOD's concepts, long accepted, would be applied to an issue under the FAR. See DeVecchio, "Taking the Mystery Out of Data Rights," 18-8 Briefing Papers 1, at 3 (July 2018).

[35]DFARS 252.227-7013(a)(8)(i); DFARS 252.227-7014(a)(8)(i); see 41 U.S.C.A. § 108; 10 U.S.C.A. § 2302(3)(F); Bell Helicopter Textron, ASBCA No. 21192, 85-3 BCA ¶ 18,415, at 92,417.

[36]See DeVecchio, "Taking the Mystery Out of Data Rights," 18-8 Briefing Papers 1, at 4 (July 2018).

[37]DFARS 252.227-7013(a)(8)–(9); DFARS 252.227-7014(a)(8)–(9); see DeVecchio, "The False Claims Act and Data Rights: What Plaintiffs' Lawyers Need To Know but Do Not Want To Hear," 43 Pub. Cont. L.J. 467 (Spring 2014).

[38]See Boeing Co., ASBCA No. 60373, 18-1 BCA ¶ 37,112, 60 GC ¶ 269 (holding development costs allocated to a Technology Investment Agreement, a type of cooperative agreement with the DOD, constituted development at private expense).

[39]FAR 2.101 broadly defines a "contract" as "a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them," including "all types of commitments that obligate the Government to an expenditure of appropriated funds," but expressly excludes "grants and cooperative agreements covered by [31 U.S.C.A. § 6301 et seq.]." A prototype OT may be an agreement to furnish supplies or services for payment, but it is clear neither Congress nor the DOD intends for them to be treated as FAR-based procurement contracts.

[40]FAR 52.227-14; DFARS 252.227-7013; DFARS 252.227-7014.

[41]DFARS 227.7100 ("Scope of subpart") (emphasis added).

[42]DFARS 227.7200 ("Scope of subpart").

[43]See FAR 27.403; Office of the Under Sec'y of Defense for Acquisition, Technology & Logistics, Intellectual Property: Navigating Through Commercial Waters 2-7 (Version 1.1, Oct. 15, 2001), https://www.acq.osd.mil/dpap/docs/intelprop.pdf.

[44]41 U.S.C.A. §§ 7101–7109.

[45]31 U.S.C.A. § 1341.

[46]Currently available at https://www.darpa.mil/attachments/DARPA-BAA-16-08_845%20Sample.pdf.

[47]Adapted from AIA Document B101-2017, Standard Form Agreement Between Owner and Architect art. 7.

[48]Adapted from the University of Florida, Agreement for Design/Build Services.

[49]AIA Document E203-2013, Building Information Modeling and Digital Data Exhibit §§ 4.2–4.5.

[50]Many of these issues arise in the context of construction and architectural contracts. See Circo, Selected Construction Contract Clauses: From the Routine to the Cutting Edge, 2015 Ark. L. Notes 1800 (Nov. 15, 2015).

NOTES:

BRIEFING PAPERS