Understanding What Government Technology Contractors Cannot Ignore About IP

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Overview of the Relationship Between IP and Government

Securing Innovation

Overview of IP

A. **What Is Intellectual Property?**

1. **Patents**
2. **Copyrights**
3. **Trademarks**
4. **Trade Secrets**

A. What Is Intellectual Property?

- **General types**
  - **Patents**
  - **Copyrights**
  - **Trademarks**
  - **Trade Secrets**
- Any non-tangible “product” having value is likely a form of intellectual property.

A. What Is Intellectual Property? (Cont.)

- Societal impact
  - Used to be relatively minor in importance
    - Not anymore
  - 20% of GDP: Stephen Siwek, *Engines of Growth: Economic Contributions of the US Intellectual Property Industries*, (Nov. 2005)
  - FTC holding hearings on the IP Marketplace to explore impact
    - http://www.ftc.gov/bc/workshops/ipmarketplace/
- Company valuation
  - IP accounts for substantial portion of American business assets
    - Over half: James V. DeLong, *The Importance of Intellectual Property for Information Technology Development in the Less-Developed World: Progress Snapshot 1.22*. The Progress & Freedom Foundation, December 2005
  - Need to account for under SOX
    - Existing portfolio as an asset
    - Possible liability
      - Past damages (easiest to quantify) and future profits (such as royalties)
      - Injunctions
        - Impact of injunctions hard to measure

A. What Is Intellectual Property? (Cont.)

- IP assets are growing in importance in business transactions
- M&A Insights: Spotlight on Intellectual Property Rights Survey (2008)
  - 52% of survey respondents believe IP will become more important to overall M&A activity in the next five years.
  - 85% of corporate respondents and 72% of private equity respondents view IP assets as important or more important than other assets
  - 33% listed patents as most valuable asset in M&A transaction
    - 26 % viewed trademarks and domains names as most important
    - 16% viewed trade secrets as most important
    - 8% viewed copyrights as most important
- Survey by Mergermarket Group shows:
  - Crucial role in mergers and acquisitions process
  - Importance in driving additional value for transactions
  - Commercial view is overwhelming that patents are most valuable asset
    - In contrast to what is valuable for purposes of procurement

A. What Is Intellectual Property? (Cont.)

- Example of impact on Company
  - Tivo, Inc.
    - In January 2000, the company's stock dropped 44% when a patent infringement complaint was filed against the company.
    - In May 2001, the company's stock price increased 127% after the announcement of a key patent's issuance.
    - In early December 2001, the company's main competitor announced the issuance of a key patent, and TiVo's stock price dropped 10%.
    - One week later, TiVo announced the issuance of two new patents, and its stock price rebounded with a 17% increase in price.
- Similar recent occurrences for Research In Motion (RIM)

A. What Is Intellectual Property? (Cont.)

- Example of impact on Industry
  - Patent cliff
    - Over 100 pharmaceutical patents are set to expire by end of 2009 according to PharmaTimes article
    - “The world's top drugmakers face the loss of $140 billion in annual sales by 2016” according to Reuters article
  - Pfizer’s epilepsy drug Neurontin went off patent in the second quarter of 2005 and subsequently had a **77% drop in sales**.
  - Merck & Co. expected sales of cholesterol drug Zocor to drop from $4.2 billion to 2.6 billion after the patent expiration in June 2006.

A. What Is Intellectual Property? (Cont.)

- IP is a powerful litigation weapon
  - Can use to obtain:
    - Past damages
    - Royalties (future damages)
    - Injunctions

A. What Is Intellectual Property? (Cont.)

- Recent Patent Infringement Verdicts
  1. *Tivo v. Echostar, 516 F.3d 1290 (January 2008)*
     - Echostar infringed on Tivo's DVR patent.
     - Award: $73,000,000
  2. *Honeywell International Inc. v. Hamilton Sunstrand Corp., (April 2008)*
     - Hamilton Sundstrand infringed on Honeywell's patents related to gas turbine engines.
     - Award: $46,600,000
  3. *Lucent Technologies Inc. v. Microsoft Corp. (February 2007)*
     - Microsoft Windows MP3 technology infringed on two Lucent patents
     - Award: $1,538,056,702
  4. *Depuy Acromed, Inc. v. Medtronic Sofamor Danek, Inc (September 2007)*
     - Medical device company claimed defendant violated patent on surgical screw.
     - Award: $226,300,000
  5. *TGIP Inc. v. AT&T Corp. (September 2007)*
     - AT&T infringed on plaintiff's patents for point-of-sale activation and resale of calling cards.
     - Award: $156,289,609
  6. *Z4 Technologies v. Microsoft Corp. (April 2006)*
     - Microsoft Corp. and Autodesk Inc. infringed Z4's anti-piracy software
     - Award: $133,000,000 ($115M-Microsoft; $18M-Autodesk)
  7. *Hynix Semiconductor Inc. v. Rambus Inc. (July 2006)*
     - Competitor liable for infringement of memory manufacturer's products.
     - Award: $306,900,000

A. What Is Intellectual Property? (Cont.)

- Five Recent Patent Infringement Settlements
  1. *Samsung Electronics v. InterDigital (January 2009)*
     1. Samsung Electronics BlackJack II and Instinct phones allegedly infringed InterDigital patents
     2. Settlement: $400 million
  2. *SAP v. i2 (June 2008)*
     - SAP will pay i2 $83.3 for patents on software programs related to supply chain planning, electronic negotiation, collaboration, and available-to-promise product management
  3. *Apple v. Creative Labs (August 2006)*
     - Apple's iPod allegedly infringed Creative Lab patents
     - Settlement: $100,000,000
  4. *NTP v. RIM. (March 2006)*
     - Research in Motion's Blackberry product allegedly infringed NTP's patents
     - Settlement: $612,500,000
  5. *Karlin Technology v. Medtronics (April 2005)*
     - Medtronic settled infringement claims by buying spine-related medical patents
     - Settlement: $1,350,000,000
  6. *EMC v. Hewlett Packard (May 2005)*
     - HP paid cross-licensing agreement to resolve software patent litigations
     - Settlement: $325,000,000
  7. *Sun Microsystems v. Microsoft (April 2004)*
     - Microsoft paid Sun Microsystems to resolve patent, anti-trust issues
     - Settlement (patents): $900,000,000

A. What Is Intellectual Property? (Cont.)

Large Money Damages in Trademark Lawsuits 1995–2005

Case	Damages Award	Decision Year
Phillip Morris v. Otamedia	$173,000,000	2005
Qwest Communications v. OneQwest	$117,000,000	2002
Orthofix v. Electro-Biology	$64,170,000	2001
Neon Sys. Inc. v. New Era of Networks Inc.	$39,000,000	2001
Playboy Enterprises Inc. v. HSINI. Chen	$18,537,766	1997
A&M Records Inc. v. Abdallah	$7,000,000	1996
Purebred Co. v. H.J. Heinz Co.	$5,900,000	2003
Christopher Rolell Weaver v. Burger King Corp.	$3,059,680	1998
Nintendo of America Inc. v. Ketchum	$2,994,000	1993
United Phosphorus Ltd. v. Midland Fumigant	$2,729,146	2000
McCoy v. Mitsubishi Cutlery Inc.	$2,600,000	1995

A. What Is Intellectual Property? (Cont.)

- U.S. IP Infringement Verdicts and Settlements
  - $1.35 billion settlement to surgeon by medical device company (patent, contract)
    - *Michelson v. Medtronic* (2005)
  - $873 million judgment to Polaroid for infringement on instant photography patents.
    - *Polaroid Corp. v. Eastman Kodak Co.* (1991)
  - $235 million settlement for misappropriation of trade secrets
    - *Cadence Design Systems v. Avant!* (2002)
  - $116 million for misappropriation of trade secrets
    - *X-IT Products v. Walter Kidde Portable Equipment Inc.* (2001)
  - $750 million settlement for unlawful procurement of intellectual property and breach of contract concerning medical stents.
    - *Medinol v. Boston Scientific* (2005)

A. What Is Intellectual Property? (Cont.)

- U.S. IP Infringement Verdicts and Settlements (Cont.)
  - $136.3 million award for 23 record companies who sued a Taiwanese CD production company for pirating more than 1,500 songs for counterfeit CDs
    - *Atlantic Recording v. Media Group, Inc.* (2002)
  - $381 million for the theft of NAND flash-related trade secrets, with an additional $84 million in punitive damages
    - *Toshiba v. Lexar* (2004)
  - $400 million settlement over infringement of printer patents
    - *Pitney Bowes Inc. v. Hewlett-Packard Co.* (1999)
  - $53.7 million verdict followed by $612 million settlement agreement for infringement of wireless email patents
    - *NTP Inc. v. Research In Motion Ltd.* (2002, 2006)

1. Patents

- Patents have strong historical and constitutional basis
  - Article 1, Section 8 of the U.S. Constitution reads
    - Congress shall have Power… to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.
  - George Washington's address to the U.S. Congress in 1790 urged that the United States should encourage and reward its own inventors and not rely on the importation of technology.
  - First patent board: Thomas Jefferson, Henry Knox, and Edmond Randolph
- The idea of protecting innovation is fundamental and personal to inventors/authors
  - Discourages slavish copying and forces creation of something new

1. Patents (Cont.)

- **Patent Right: The Negative Right to Exclude Others**
  - 35 U.S.C. § 271(a) recites "[e]xcept as otherwise provided by this title, whoever without authority makes, uses, offers to sell or sells any patent invention, within the Unites States or imports into the Unites States any patented invention during the term therefore infringes the patent."
- It is not an affirmative right to make or use your own invention.
  - Can infringe third party patent while practicing your own
  - Patent thicket

1. Patents (Cont.)

- Compared to other IP, patent term is very short
  - Term of Utility Patent Application: 20 years from filing
  - Trade Secrets and Trademarks: Potentially indefinite
  - Copyrights: 70-90 years
    - Works made for hire last upwards of 95 years after publication or 120 years after creation
- Coverage is stronger and more broad
  - Presumption of validity (not true in trade secrets)
  - Not tied to specific product or expression (not true in copyright or trademark)
- Compared to other IP, patents viewed as more valuable as an asset
  - M&A Insights: Spotlight on Intellectual Property Rights Survey (2008)
    - 85% of corporate respondents and 72% of private equity respondents view IP assets as important or more important than other assets
    - 33% listed patents as most valuable asset in M&A transaction
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  - Commercial view is overwhelming that patents are most valuable asset
    - In contrast to what is valuable for purposes of procurement

1. Patents (Cont.)

- **What is patentable**
  - Utility patents: inventions and discoveries of a:
    - new and useful
    - process, machine, manufacture, composition of matter, or new and useful improvements of the same.
  - “New”
    - not previously invented or discovered by another or obvious in view of what was previously known
  - “Useful”
    - Not frivolous or immoral, laws of nature, pure mathematical algorithms

1. Patents (Cont.)

- A U.S. patent may be obtained on practically anything resulting from man's intervention,
  - Normally process, machine, manufacture, composition of matter
    - New animals, software, seeds, fruits and in special cases, products of nature.
    - Software
- The U.S. Supreme Court has held that statutory subject matter "… include[s] anything under the sun as made by man." *Diamond v. Chakrabarty*, 447 U.S. 303 (1980).
- Currently a hot topic in light of *In re Bilski*

1. Patents (Cont.)

- Drawbacks to patents
  - Not all inventions are patentable
    - Mere ideas; intellectual and mathematical operations; fundamental scientific discoveries; laws of nature; writing, such as business plans, customer lists, etc.
    - Current fight over computer software
      - Is patentable as process or a system
      - But if based upon algorithm not tied to specific transformation or machine, not patentable because it would monopolize all uses of the algorithm

1. Patents (Cont.)

- Patents are not immediate and are expensive
  - Unlike trademarks, trade secrets, and copyrights, which vest immediately and cheaply
- Pendency
  - Average first action pendency of 25.6 months and an average total pendency of 32.2 months
- Average cost
  - Between $6500 and $12,000 for application alone according to 2007 AIPLA Report of the Economic Survey

2. Copyrights

- Copyrights also have strong historical and constitutional basis
  - Article 1, Section 8 of the U.S. Constitution reads
    - Congress shall have Power… to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.
- 17 U.S.C. § 102
  - Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated,
- They are exclusive <u>rights</u> to authors to their <u>work</u>, for a limited <u>time</u>, to promote knowledge and learning.

2. Copyrights (Cont.)

- Copyright protection is available to:
  1. Original works
  2. Works of authorship
  3. Works fixed in any tangible medium of expression
- Originality:
  - Minimum level of creativity
  - Does not mean you can’t use ideas or preexisting materials
    - However, it is not original if the form of work is purely functional
- Authorship means independent creation

2. Copyrights (Cont.)

- Fixation means that your work is “fixed” in any tangible medium of expression (17 U.S.C. § 101)
- What is Copyrightable
  - Work includes (but is not limited to) literary, music, dramatic, pictorial, motion picture, sound recording, architectural, and sculptural work (17 USC § 102)
    - Software
  - Work does not include ideas, facts, procedures, etc.
    - Ideas are protected by patents
    - Facts, procedures protected by trade secrets
- If work is entirely driven by an idea such that there is no other way to express an idea, it is not a copyrightable work.
  - E.g., *Lexmark Intern’l, Inc. v. Static Control Components, Inc,* 387 F.3d 522; 72 U.S.P.Q.2D 1839 (6th Cir. 2004)
    - Small size of the Toner Loading Program prevented it from being eligible for copyright protection

2. Copyrights (Cont.)

- Useful Article Exception
  - Copyright does not cover functional or useful subject matter of work
    - E.g., Bottle designs, software, furniture, cars
  - Does cover useful articles to the extent: “such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.” 17 U.S.C. § 101
  - This is the reason why software is copyrightable
    - Although, protection is thin

2. Copyrights (Cont.)

- Positive right
  - Exclusive rights to reproduce, distribute copies, to display in public, to prepare derivative work based on the copyrighted work, to perform or display the copyrighted work publicly, etc.
- Time (For U.S. work published with notice on or after 1978 (Berne Convention))
  - Author: Life + 70 years
  - Corporation: Shorter of 95 years after 1st publication -or- 120 years after creation
- Subsisting works: Copyrights before 1978:
  - Sonny Bono Copyright Term Extension Act, Public Law No: 105-298, incorporated into 17 U.S.C. §§ 302-04, extended the term of earlier works by 20 years.

2. Copyrights (Cont.)

- Fair Use Exception
  - Examples of fair use:
    - a comparative advertisement is a fair use
    - a “Parody” may also contribute to fair use
  - Problem: All infringers think their infringement is “fair”
    - Essence of test to distinguish: Does use affect commercial market of copyright owner

3. Trademarks

- Trademarks have strong historical basis
  - All states have system, and they are historically protected under common law
  - Federal trademark law based upon Commerce Clause
    - Unlike patents or copyrights
    - Required to be “in commerce” for federal causes of action
- Purpose of trademark is to protect consumers
  - Trademarks do not prevent usage outside of source identification
  - Unlike patents and copyrights, which are for protection of inventors and authors

3. Trademarks (Cont.)

- The purposes of trademarks and service marks are:
  - To indicate source of the goods/services,
  - To guarantee uniform quality to purchasers, and
  - To advertise the products and services.
- Does not preempt use outside of product or services
  - Unless famous

3. Trademarks (Cont.)

- A trademark or service mark is:
  - a word, name,
  - symbol, device
  - sounds,
  - color combinations, or
  - combination thereof
- Strength based upon distinctiveness
  - The more remote the relationship is between the mark and the goods, the stronger the mark is. Moving from strong to weak marks: arbitrary, suggestive, descriptive, generic.

3. Trademarks (Cont.)

- Common Law Rights:
  - Created when use of mark commences and consumers begin association between marked good and manufacturer
  - Can be enforced in the U.S. courts if can show used as source identifier
    - State or Federal

3. Trademarks (Cont.)

- State Registration Rights:
  - Each state maintains its own register of marks, which can be enforced under state law.
  - The state registration system functions primarily to afford protection to marks which have not been used throughout the U.S., and which, therefore, cannot be federally registered.

3. Trademarks (Cont.)

- Federal Registration Rights:
  - Used in interstate commerce, in foreign commerce with the United States
  - If activity can be regulated by Congress (broad authority)
  - Registration under the federal Lanham Act

3. Trademarks (Cont.)

- International protection is also available
  - Madrid Protocol
  - File in individual countries
  - As of October 2008, 84 countries are party to the Madrid Protocol

3. Trademarks (Cont.)

- Federal registration has important legal advantages over state and common law.
  - Federal court jurisdiction.
  - Increased money damages and attorney's fees against infringers.
  - Incontestability (during the sixth year after registration, the mark may acquire "incontestable" status meaning that a competitor cannot claim prior rights).
  - Conclusive evidence of owner's exclusive right to use.
  - Prima facie evidence of ownership and validity.
  - Constructive notice nationwide.
  - May be used to exclude importation through U.S. Customs of goods bearing infringing marks.
- Quick and cheap to obtain
  - FY08: Average first action pendency is 3 months and average time to registration is 13.9 months (often quicker)
  - Average cost is $673 for the application alone

4. Trade Secrets

- Two main requirements
  - Information that provides owner with competitive advantage in the marketplace; and
  - Owner treats information in such a way that can be reasonably expected to prevent the public or competitors from learning about the information, absent improper acquisition or theft
    - Markings
    - Non-Disclosure Agreements

4. Trade Secrets (Cont.)

- Trade Secret Eligible Subject Matter
  - Formula
  - Pattern
  - Physical device
  - Idea
  - Process
  - Information
  - Compilation of information
    - Customer lists, etc.
- No need for originality or novelty so long as has value

4. Trade Secrets (Cont.)

- Major factor to creation: Keep information confidential
- Relatively easy to lose trade secret since relatively easy for court to see what procedures were in place. Thus, for preservation of trade secret, one should:
  - Limit employee access to need to know
  - Divide process into steps to limit access
  - Use employment agreements
  - Make sure employees practicing process know of importance
  - Prohibit access by outsiders
  - Keep process in secure portion of manufacturing plant
  - Use passwords and other security devices on computers, flowcharts, schematics, source code
  - Keep papers related to process in secure place
  - Account for all copies of documents relating to process
  - Prohibit unauthorized copying of process documents
  - Put restrictive legends on documents
  - Lease, not sell, apparatus that performs process
  - Use unnamed or coded ingredients
- Most important measures are marking of the trade secret and/or notice of status

4. Trade Secrets (Cont.)

- Trade Secrets exist until made public, then no longer valuable
  - As long as the secret is kept confidential
    - Potentially longer than for patents, copyrights
    - Potentially shorter than for patents, copyrights
- No specific term limits as with patent or copyright

4. Trade Secrets (Cont.)

- Protect information not sheltered by other intellectual property law
  - Business methods, pure algorithms, formulas
- Protect ideas that offer a business a competitive advantage
- Get ahead of the competition
- Keep competitors from learning of product or service under development
- Keep competitors from discovering functional or technical attributes

4. Trade Secrets (Cont.)

- Protect valuable business information such as
  - marketing plans
  - cost and price information
  - customer lists
  - schedule for new product line
  - protect "negative know-how" (e.g., what will not work)
  - any other information having value not generally known by your competitors

4. Trade Secrets (Cont.)

- Prevent others from
  - copying
  - using
  - benefiting from
  - disclosing to others
- Sometimes used as form of non-compete agreement
  - Inevitable disclosure

4. Trade Secrets (Cont.)

- Enforcement of Trade Secret
  - No national trade secret law available for civil enforcement
    - State law applies
  - Computer Fraud and Abuse Act provides some relief
  - Federal criminal laws:
    - Economic Espionage Act
    - Trade Secrets Act
- Uniform Trade Secrets Act
  - Most common basis for state law
    - Injunctive relief
    - Damages for any economic injury

4. Trade Secrets (Cont.)

- Defenses
  - Independent discovery
  - Lack of evidence showing trade secret

4. Trade Secrets (Cont.)

- Independent discovery defense
  - If can show arrived at information without unlawful means, cannot be enjoined
  - Defense requires information obtained without violating agreements or state laws
    - Example: reverse engineering
    - Example: FOIA
  - If shown, the trade secret may still have value, just not against the defendant (assuming defendant also maintains in confidence)
- Problem: Most trade secret claims involve evidence that defendant had access to trade secret
  - Former employees, licensees, etc.

4. Trade Secrets (Cont.)

- Lack of evidence showing trade secret
  - Pleading with particularity
- No presumption of validity
  - Must show more than markings
    - Must plead and prove a negative (i.e., your information was not generally known)
    - Still must show took reasonable steps to prevent disclosure after showing not generally known
  - Must segregate the trade secrets from the non trade secrets in pleading

Overview of Government Contracts

A. Government Contracts
   1. Civilian Agency Overview
   2. Department of Defense Overview
B. How Government Acquires Intellectual Property Rights
   1. Rights or Ownership
   2. Rights in Ideas
      i. Trade Secrets
      ii. Patents
   3. Rights in Copies
      i. Copyrights and Software
   4. Rights in Names
      i. Trademark
C. Significance
   1. Preserve Commercial Rights
   2. Preserve Rights to Follow on Contracts

A. Government Contracts

- Government contracts similar to commercial contracts
- Similar elements required
  - Offer & acceptance
  - Consideration
  - Terms

A. Government Contracts (Cont.)

- Difference is dealing with rule maker/king
  - Controlled taking
  - Government creates laws that govern all contracts
    - In better position as contracting party to create clauses needed
- Example:
  - In regular contract, if fail to include clause, clause not part of contract
  - In Government contract, law requires certain provisions, omitted clauses included as if in contract

A. Government Contracts (Cont.)

- Intellectual property rights are governed by laws and are "read in" to all contracts
  - E.g., *FilmTec Corp. v. Hydranautics,* 982 F.2d 1546, 25 U.S.P.Q.2d 1283 (Fed. Cir. 1992) & *FilmTec Corp. v. Allied-Signal Inc.*, 939 F.2d 1568, 19 U.S.P.Q.2d 1508 (Fed. Cir. 1991)
    - Patent title automatically divested mid-litigation due to finding invention was "subject invention" under Saline Water Conversion Act (since repealed)
  - E.g., *State of Texas v. Herbert W. Holland*, 2007 Tex. LEXIS 314, 50 Tex. Sup. J. 642 (Tex. 2007)
    - No takings under Texas State law for use of owner's personally held patent due to work on owner's companies since use was under "colorable contract rights"
  - Christian doctrine
    - Doctrine where important regulations read into contract or conflicting terms removed
      - IP provisions important
        - Quite a bit of treatment in Federal Acquisition Regulations, Congressional Hearings periodically
- Cannot assume that since contract lacks provision that it will not be later automatically included

A. Government Contracts (Cont.)

- Intellectual property rights governed strictly
  - E.g., *Campbell Plastics Engineering & Mfg., Inc. v. Army*, 389 F.3d 1243; 73 U.S.P.Q.2d 1357 (Fed. Cir. 2004)
    - Government takes patent title for failure to report subject invention
    - Requirements governed by FAR 52.227-11 and by statute (35 U.S.C. § 202)
  - E.g., *Night Vision Corp. v. United States, 68 Fed. Cl. 368 (Fed. Cl. 2005)*
    - Contractor delivered prototype goggles without restrictive markings required under DFARS 252.227-7018
    - Total loss of rights since failed to mark goggles as containing restricted software or data. No exceptions created to allow merely marking related technical documents to also protect goggles
- Multiple requirements for IP
  - Reporting
  - Notice
  - Dispute provisions
  - Later rights to use

A. Government Contracts (Cont.)

- Important to know with whom you are dealing
  - Commercial contracts: Authority presumed or can be inferred
    - Apparent, implied authority
  - Government contracts
    - If no authority, contract is void
    - If no authority to make special clauses/exceptions, special clauses/exceptions void by operation of law

A. Government Contracts (Cont.)

- Government contracts generally governed by pre-set rules
- Laws of general applicability
  - Competition in Contracting Act (CICA)
    - Implemented at 10 U.S.C. §§ 2301-2306 & 41 U.S.C. § 403
  - Requires competition unless specific exceptions apply
    - Emergencies
    - Not otherwise available (insufficient technical data rights)
  - Contract Disputes Act (CDA)
    - 41 U.S.C. §§ 601-613
  - Tucker Act (Disputes)
    - 28 U.S.C. § 1491
  - Intellectual Property
    - Bayh-Dole Act
      - 18 U.S.C. §§ 200-212

A. Government Contracts (Cont.)

- To interpret laws consistently, Office of Federal Procurement Policy Act directed creation of standard contract terms and regulations
- Federal Acquisition Regulations (FAR)
  - 48 C.F.R. Chapter I
  - Background rule governing normal procurement

A. Government Contracts (Cont.)

- For agency specific regulations, there are supplements
  - Fill in gaps and account for statutory differences
    - Example: DFARS for Defense
      - For copyrights/trade secrets, need to account for 10 U.S.C. §§ 2320-2321
    - Example: NFS for NASA
      - For patents, need to account for 42 U.S.C. § 2457
  - Each agency has its own supplement

A. Government Contracts (Cont.)

- Regulations change
  - New regulations only affect new contracts
    - Do not affect *existing* contracts unless specifically modify contract
  - Important to note month and year of clause
- Example:
  - FAR Case 1999-402, *FAR Part 27 Rewrite in Plain Language*, 72 Fed. Reg. 63045-75 (Nov. 7, 2007) & *Defense Federal Acquisition Regulation Supplement; Patent Rights- Ownership by the Contractor (DFARS Case 2001-D015)*, 72 Fed. Reg. 69159-69162 (Dec. 7, 2007)
    - OLD: FAR 52.227-12: Patent Rights -- Retention by the Contractor (Long Form) (Jan. 1997)
    - NEW: DFARS 252.227-7038: Patent Rights—Ownership By The Contractor (Large Business) (Dec. 2007)

A. Government Contracts (Cont.)

- Rules generally split according to procurement statutes of Agency:
  1. Defense
  2. Civilian

1. Civilian Agencies

- Civilian:
  - Federal Property and Administrative Act
    - 41 U.S.C. §§ 251-260
    - Everyone else not covered by Armed Service Procurement Act
  - Short term purchases or fundamental R&D
    - Smaller contracts, typically

2. Defense Agencies

- Defense:
  - Armed Service Procurement Act
    - 10 U.S.C. §§ 2301-2329
    - DOD, NASA, Coast Guard
  - Thrust of laws is based upon need for long term sustainability
  - Greater competition in view of scale of contracts

3. State Contracts

- States have own immunity
  - *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 527 U.S. 666 (1999)
- Not governed by consistent rules
  - ABA Model Procurement Code
    - Model Procurement Code does not address IP
  - Not adopted by all states
    - Adopted in AL, AZ, AK, CO, HI, IN, KY, LA, MD, MT, NM, RI, SC, UT, VA, OR
  - Not subject to federal procurement laws
    - Except when purchased through government
      - Example: GSA's Cooperative Purchasing authorized under Section 211 of the E-Government Act of 2002

3. State Contracts (Cont.)

- State Contracts generally focus on a variety of needs
  - Long term projects: Construction
  - Short term projects: Software, Leases
  - University-level Research and Development
- Thrust is multifaceted
  - Ensure long term sustainability through ownership
  - Public disclosure through Open Records Acts
  - Licensing of University IP
  - Reduced costs

3. State Contracts (Cont.)

- States have generally not waived immunity to Federal IP
  - Have not generally provided authorization and consent to contractors
    - *Texas v. Herbert W. Holland*, 2007 Tex. LEXIS 314, 50 Tex. Sup. J. 642 (Tex. 2007)
    - State of Texas contracted with Mr. Holland's companies to construct filtration units
    - Mr. Holland received U.S. patent no. 6,027,653 for process used in filtration units
      - Mr. Holland never assigned U.S. patent no. 6,027,653 to his companies
    - Mr. Holland personally demanded royalties for the use of this patented process as a takings under Article 1, Section 17 of the Texas Constitution.
    - In denial, State held that no takings since no intent to exercise eminent domain, but the contractor is liable
  - Generally require indemnification from contractor

B. How Government Acquires Intellectual Property Rights

- Government needs for intellectual property
  - General policy is not to acquire more than need
    - How much do you need versus the Government
- Commercial need:
  - Emotional: Develop product, thus own
  - Economic: Asset, thus used to acquire funding
  - Revenue: Protect revenue stream and generate new streams
    - Rembrandts in the attic: unlocking the hidden value of patents
    - Licensing: Patent trolls
    - Protect follow on market: Disposable razors, printer cartridges
    - Deterrence: Mutual assured destruction, need to force self into market

B. How Government Acquires Intellectual Property Rights (Cont.)

- Government need:
  - Use IP to ensure maximum value for public
    - Create new markets
    - Reduce costs of use
  - Quite a bit of interest
    - Statutes
      - Bayh-Dole Act: 35 U.S.C. §§ 200-212
      - Stevenson-Wydler Technology Innovation Act: 15 U.S.C. § 1510
      - Technical Data: 10 U.S.C. §§ 2320 & 2321
    - Large section of FAR
      - FAR Part 27
      - DFARS Part 227

B. How Government Acquires Intellectual Property Rights (Cont.)

- What is need? Agency dependent
  - If agency deploys system
    - DOD, NASA, DOE, DHS
    - Use to force market competition
      - New business creation
      - Second sources (full and open competition)
      - March in rights
        - Right of government to force a license to subject inventions under certain conditions (health/safety need + non-commercialization)
    - Use to reduce lawsuits
      - Rights in data and copyrights
      - Rights in patents
    - Eye is on long term use
      - Not unusual for technology to be in field for 15+ years

B. How Government Acquires Intellectual Property Rights (Cont.)

- What is need? Agency dependent
  - If agency develops system
    - DARPA, EPA, DOE, NASA, DHS, NIH, DOA, DOD
    - Use to create product
      - Encourage continued development through exclusivity: SBIR
      - Encourage new sources for innovation
    - Use to create revenue
      - License
    - Use to protect downstream use
      - Increased rights to encourage dissemination
        - Less concern of need for greater rights since do not use long term
    - Concern is short term use of IP, long term commercial potential
      - Exception: If same agency maintains system: DOD, NASA, DHS

1. Rights or Ownership

- Intellectual property ownership rarely necessary
  - Ownership means own the item
    - Significant in that allows maximum control
    - Unless plan on licensing, less need for ownership rights
    - Practically, ownership merely allows right to bring suit
  - License is bundle of rights less than total
    - Licenses of right to use sufficient for vast majority of uses
    - Software licenses allow use without requiring ownership of software itself
    - Can construct license to allow sublicense

1. Rights or Ownership (Cont.)

- Government used to be split on whether ownership is in Government's best interest
  - Later determined that, unless actually developed by Government, contractors are generally in best position
    - Even there, Government typically will only own one form of IP: Patents

2. Rights in Ideas

- Trade secrets
  - Protected under terms “Technical Data” and “Computer Software”
- Need sufficient trade secret rights to use to accomplish agency purpose
  - Civilian agencies need for different reasons as compared to Defense

2. Rights in Ideas (Cont.)

- Civilian agencies do not want trade secrets
  - Want total dissemination
    - Exception: Commercial items (e.g., software) will do whatever is market norm
  - Often do not accept restricted deliveries (i.e., limited rights or restricted rights)
- Defense agencies
  - Want to use for second source of goods
    - Need enough rights to maintain long and short term
    - Recognized early on will need to allow proprietary material
    - Allow submission, but only if marked properly
      - Very important to mark or will likely lose rights
    - Usually not big issue until there are budget cuts
- Still are minimum Government rights, just limited dissemination
  - The more restrictive, the fewer people who can see the information

2. Rights in Ideas (cont.)

- Patents
  - Generally, ownership of a patent not needed
    - Only time ownership is needed is to generate license revenues
    - Federal Government is poor licensor
      - Universities far better
  - Generally, Government content with license
    - NASA, DOE are major exceptions.
      - NASA: 42 U.S.C. § 2457(a) requires waiver or government owns
      - DOE: 42 U.S.C. §§ 2182 & 5908 require waiver or government owns
  - License right is broad:
    - Right to allow government to use
    - Right to allow third party use *for government purposes*
  - License may be compelled if not using
    - March in rights

3. Rights in Copies

- Copyrights prevent making copies
  - Government wants to give out copies freely
    - Copyright ownership not even possible for Government works
  - For most technical data, limited right to make copies
    - Trade secret rights prevent showing copies to non-government personnel
    - Drawings and reports
  - For software, limited to number of copies given
    - Much more limited than technical data
    - Government needs the ability
    - Similar to commercial rights

4. Rights in Names

- Trademarks
  - New frontier
    - No policy or clause
  - Would seem to need to be allowed to use to extent need to disseminate information and to support a product
    - Need rights to show ownership if government controls quality
      - Most fielded products developed to Government specifications
        - (even though developing contractor also produces product)
    - Need to prevent consumer confusion
    - Need enough rights in trade dress to allow re-procurement, repair
    - Need enough rights to establish certification program
      - Example: ENERGY STAR

C. Significance

- What does this matter to average company?
- Failure to follow rules
  - Lose rights by operation of law
    - *Campbell Plastics Engineering & Mfg., Inc. v. Army*, 389 F.3d 1243, 73 U.S.P.Q.2d (BNA) 1357 (Fed. Cir. 2004)
      - Loss of patent ownership due to failure to report subject invention
    - *Night Vision Corp. v. United States, 68 Fed. Cl. 368 (Fed. Cl. 2005)*
      - Loss of data rights due to failure to mark
  - Lose rights by not following solicitation requirements
    - Not identifying restrictions to be delivered
    - Not identifying if contract allows delivery of restricted information

C. Significance (Cont.)

- Failure to recognize alternative vehicles
  - Commercial versus Non-Commercial
  - Other agreements
    - Prototype versus Commercial versus Non-Commercial
- Failure to request reasonable accommodations
  - Is delivery needed?
  - Are special license rights appropriate?
    - *L-3 Communications Westwood Corp. v. Robichaux et al.*, 2008 U.S. Dist. LEXIS 15682 (E.D. La. Feb. 29, 2008)
      - Loss of trade secret rights in source code since government purpose rights expired giving government unlimited rights

1. Preserve Commercial Rights

- Need to be aware of how delivery affects rights
  - If no restrictions, data releasable under FOIA
- Need to model and require rights consistent with commercial requirements
  - Government purpose rights enough?
    - Government purpose (outside of SBIR) allow Government to use for Government purposes (including competitive procurement)
    - Not for commercial purposes
    - Technical data and commercial software
    - Patent rights
  - Is delivery even required?
  - Timing of actual reduction to practice
- Is contract vehicle even compatible with proposed commercialization model?

2. Preserve Rights to Follow-on Contracts

- If insufficient restrictions, can release for government purposes (i.e., procurement)
  - Includes competitive procurement
    - Means must be given to competitors if needed to obtain competition (CICA requirement)
- Can you build/develop prior to entering contract?
  - Secure trade secret and patent rights against competitors
- Are there exclusivity mechanisms compatible with contract vehicle?