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Since September 11, many technology companies have launched or expanded efforts to sell technology products to the US government. But recent cases demonstrate the risk such sales pose to intellectual property rights if the peculiarities of government contracts law are not observed carefully.

For example, in *Xerxe Group, Inc. v. United States*, 278 F.3d 1357 (Fed. Cir. 2002), Xerxe sought damages for the government's alleged improper release of proprietary information contained in an unsolicited proposal submitted by Xerxe. The court rejected the claim because Xerxe had failed to properly mark **each page** of the proposal containing its proprietary information with the restrictive legend prescribed in the Federal Acquisition Regulations ("FAR"). In *General Atronics Corp.*, 2002 WL 450441, ASBCA No. 49,196 (Mar. 19, 2002), a Board of Contract Appeals rejected a contractor's demand for license fees on certain interface software developed by the contractor and delivered to the government. Again, the contractor had failed to include the prescribed restrictive legend and to negotiate the required license agreement reflecting the restricted nature of the government's rights. Copies of these decisions are attached.

Other government rules on IP can also trap the unwary. For example, contractors generally can retain title to inventions first conceived or reduced to practice in connection with a government contract. However, the government retains a royalty free license to practice the invention and may retain "march-in rights" if the contractor fails to take steps to achieve practical application of the invention. Further, contractors must comply with various procedural requirements to protect their patent rights in such inventions.

Specific rules also apply to rights in technical data and in computer software and software documentation under government contracts, with the scope of the government's rights generally depending on the source of the funding used to develop the data or software (private expense, government funding or mixed funding). Other factors include whether the item or software is "commercial" or noncommercial and whether the contract is with the Department of Defense ("DOD") or a civilian agency. IP provisions applicable to U.S. Government contracts are set forth in contract clauses in the FAR and agency FAR supplements.

Those looking for further guidance (and perhaps some negotiating leverage) should review a DOD guidance paper issued in October 2001. It is entitled "Intellectual Property: Navigating Through Commercial Waters, Issues and Solutions When Negotiating Intellectual Property With Commercial Companies" (Version 1.1). It recognizes DOD's need to acquire commercially available technology and to find ways to collaborate with commercial industry in research efforts, while also acknowledging that government contract IP practices have been an obstacle to achieving those objectives. The guidance paper goes on to identify a number of "Core Principles" for the DOD acquisition community relating to IP, and includes a considerable amount of helpful background and reference material on IP issues as they relate to government contracts. A copy of the DOD guidance paper is attached. The DOD "Core Principles" are:

- Integrate IP considerations fully into acquisition strategies for advanced technologies in order to protect core DOD interests.
- Respect and protect privately developed IP because it is a valuable form of intangible property that is critical to the financial strength of a business.
- Resolve issues prior to award by clearly identifying and distinguishing the IP **deliverables** from the **license rights** in those deliverables.
- Negotiate specialized IP provisions whenever the customary deliverables or standard license rights do not adequately balance the interests of the contractor and the government.

- Seek flexible and creative solutions to IP issues, focusing on acquiring only those deliverable and license rights necessary to accomplish the acquisition strategy.

These core principles have not yet necessarily been internalized throughout DOD and there are likely to be issues of interpretation and application relating to IP rights in individual acquisitions.