Proprietary Markings Still Of Limited Use To Gov't Contractors

By **Tyler Evans** (February 15, 2023)

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The U.S. Department of Defense recently settled a long-running dispute with The Boeing Co. to permit proprietary markings on data submitted to the U.S. government.[1]

The settlement represents a victory for contractors that have been pushing to use standard commercial markings like "proprietary and confidential" in the face of U.S. government claims that these markings violate procurement regulations. However, the settlement also highlights that proprietary markings may not always be useful, especially when a contractor grants the U.S. government unlimited rights to disclose submitted data to third parties.

Marking Under Federal Procurement Contracts

Procurement regulations identify specific markings that contractors generally need to apply to data submitted to the U.S. government to control how it is used and disclosed. For example, depending on how data is developed, contractors need to apply specific "limited," "restricted," or "government purpose" rights markings to ensure that data is only used within the U.S. government or at most shared with other contractors for the purpose of performing their own U.S. government contracts.[2]

If a contractor omits one of these regulatory markings when providing noncommercial products or services, the government is generally deemed to have unlimited rights in submitted data and can disclose it to third parties for any purpose and without restriction.[3]

The problem with the regulatory markings is that they are directed at the U.S. government and do not address the rights and obligations of third parties that may ultimately receive submitted data.

Procurement regulations partially close this gap by requiring other contractors to agree in some circumstances to limit how they use and disclose marked data.[4] However, in practice, these limitations are not always imposed, and data submitted to the U.S. government can inappropriately be shared without this type of protection.

As a result, contractors like Boeing have sought to supplement regulatory markings with more general proprietary markings that would normally be used in the commercial marketplace. By also marking data as "proprietary and confidential," contractors can claim that they have taken steps to preserve the data's confidentiality and to notify third parties that misuse of the data could subject them to liability, such as through misappropriation of trade secret claims.

Proprietary Markings and Unlimited Rights

However, efforts to mark data as proprietary and confidential may be misguided when a contractor grants the U.S. government unlimited rights. In such circumstances, the U.S. government has the right to use and disclose submitted data for any purpose and can authorize others to do so as well.

As a result, because a contractor has ceded control over how such data is used and disclosed, there is a strong basis to believe that data subject to unlimited rights cannot be protected as a trade secret or even considered confidential under public disclosure statutes like the Freedom of Information Act.

The U.S. Supreme Court has long recognized that an unrestricted disclosure of data is inconsistent with an intent to preserve the data's confidentiality and, therefore, destroys any trade secret protection that may otherwise apply.

According to the court's 1984 opinion in Ruckelshaus v. Monsanto Co.:

> If an individual discloses his trade secret to others who are under no obligation to protect the confidentiality of the information ... his property right is extinguished. ... With respect to a trade secret, the right to exclude others is central to the very definition of the property interest. Once the data that constitute a trade secret are disclosed to others, or others are allowed to use those data, the holder of the trade secret has lost his property interest in the data.[5]

Other courts have reached the same conclusion in a various circumstances,[6] and the U.S. Court of Appeals for the D.C. Circuit has even expressly indicated in its 1987 decision in Conax Florida Corp. v. U.S. that a federal contractor had "no trade secrets to be protected" when "the government had unlimited rights."[7]

Similarly, exemptions to public disclosure statutes based on the confidentiality of information may not apply when data is submitted with unlimited rights.[8]

For example, the U.S. Court of Appeals for the Tenth Circuit specifically concluded in its 2002 opinion in Herrick v. Garvey that this type of data cannot be considered confidential under FOIA, stating:

> [O]nce a submitter grants the government permission to loan or release the information to the public, there is no reason for [the FOIA exemption governing trade secrets and confidential information] to apply because the submitter no longer intends the information to be "secret."[9]

This conclusion is also consistent with recent Supreme Court guidance under FOIA, in its 2019 decision in Food Marketing Institute v. Argus Leader Media, that "it is hard to see how information could be deemed confidential if its owner shares it freely."[10]

In addition, because courts evaluating disclosures under FOIA now look at a contractor's actions instead of assertions of confidentiality, proprietary markings may not be effective at preventing disclosure when a contractor has granted the U.S. government unlimited rights.[11]

Critics of this position may point out that Boeing granted the U.S. government unlimited rights in the data that it sought to mark as proprietary, and the U.S. Court of Appeals for the Federal Circuit, in its 2020 decision in Boeing v. Secretary of the Air Force, indicated that Boeing retained an ownership interest in that data.[12]

Moreover, the U.S. District Court for the District of Columbia, in its 1987 decision in Pacific Sky Supply Inc. v. Department of the Air Force, has suggested that a contractor retains an interest in data it submits to the U.S. government with unlimited rights.[13]

However, these decisions may simply recognize that granting unlimited rights does not prevent a contractor from using and disclosing data for its own purposes.[14] Adopting a contrary interpretation that a contractor can prevent others from using and disclosing data subject to unlimited rights would be inconsistent with Supreme Court precedent on trade secrets and suggest that there can be an inherent right to control data independent of formal modes of protection like trade secret, copyright and patent.

Some courts have also concluded that trade secret protection is not lost when there is a limited disclosure of data.[15] However, an express grant of unlimited rights for the U.S. government to use and disclose data for any purpose and authorize others to do so is unlike a situation in which a private party merely shares information in a few transactions without an express expectation of confidentiality.

In addition, the U.S. government arguably has an affirmative obligation to disclose data in its possession under FOIA when it has unlimited rights and a FOIA exemption does not apply.[16]

Marking in Other Contexts

There are circumstances where other forms of marking may be beneficial when the U.S. government has unlimited rights. For example, copyright protection does not depend on the continued confidentiality of submitted data, and applying a copyright notice to a qualifying work of authorship can limit a third party's defenses to copyright infringement claims.[17]

Similarly, patent, mask work and vessel hull design notices can help to secure remedies for infringement claims under each of these forms of protection.[18]

However, contractors should be aware that in Appeal of FlightSafety International Inc., the Armed Services Board of Contract Appeals recently found that copyright notices — and presumably other intellectual property notices — are not permitted for unlimited rights data under some Department of Defense contracts that involve commercial products or services.[19]

The board's decision was based on a questionable interpretation of the Federal Circuit's reasoning in the Boeing dispute and is likely inconsistent with statutory protections for contractors.[20] Yet, at least for now, the board's decision should be considered whenever applying copyright, patent or other intellectual property notices to data submitted to the U.S. government.

Separately, although proprietary markings can help to control submitted data when the U.S. government has less than unlimited rights, contractors should be aware that civilian agencies may continue to take the position that proprietary markings are not permitted under any circumstances.

Civilian agency contracts arguably include more restrictive marking provisions than Department of Defense contracts, and whether proprietary markings and in some cases even copyright or other intellectual property notices are permitted under civilian agency contracts remains an open question.[21]

In addition, the Department of Defense is currently considering revising its provisions to be more consistent with those of civilian agencies, which could once again lead to proprietary markings not being permitted under defense contracts in the near future.[22]

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[1] The Boeing Co., ASBCA Nos. 61387, 61388, 2022 WL 17970458 (Dec. 6, 2022).

[2] See, e.g., FAR 52.227-14; DFARS 252.227-7013; DFARS 252.227-7014.

[3] See, e.g., FAR 52.227-14(f)(1); DFARS 227.7103-10(c)(1); DFARS 227.7203-10(c)(1).

[4] See, e.g., FAR 3.1103(a)(2); DFARS 227.7103-7; DFARS 252.227-7025.

[5] Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1002, 1011(1984); see also Thomas v. Union Carbide Agri. Prods. Co., 473 U.S. 568, 584 (1985).

[6] See Sheets v. Yamaha Motors Corp., 849 F.2d 179, 183–85 (5th Cir. 1988) ("A disclosure of a trade secret to others who have no obligation of confidentiality extinguishes the property right in the trade secret."); Pike Co. v. Universal Concrete Prods., Inc., 524 F. Supp. 3d 164, 182 (W.D.N.Y. 2021); Block v. United States, 66 Fed. Cl. 68, 75 (2005); Eli Lilly & Co. v. Envtl. Prot. Agency, 615 F. Supp. 811, 820 (S.D. Ind. 1985).

[7] See Conax Fla. Corp. v. United States, 824 F.2d 1124,1128 (D.C. Cir. 1987); see also L-3 Commc'ns Westwood Corp. v. Robichaux, No. 06-279, 2008 WL 577560, at *6 (E.D. La. Feb. 29, 2008) ("The Court finds that because plaintiff provided the government with unlimited rights to all of the source codes at issue, they are no longer trade secrets."); HiRel Connectors, Inc. v. United States, No. CV01-11069, 2005 WL 4958589, at *4 (C.D. Cal. Jan 4., 2005) ("The Government's unlimited right to use form, fit, and function data in any way it wished establishes that as a matter of law, such information cannot be protected as a trade secret."); cf. L-3 Commc'ns Corp v. Jaxon Eng'g & Maint., Inc., 125 F. Supp 3d 1155, 1163 n.4 (D. Col. 2015) (identifying inclination to reach similar conclusion).

[8] See, e.g., 5 U.S.C. §552(b)(4).

[9] Herrick v. Garvey, 298 F.3d 1184, 1193-94 (10th Cir. 2002).

[10] See Food Mktg. Inst. v. Argus Leader Media, 139 S. Ct. 2356, 2363 (2019).

[11] See, e.g., Ctr. for Investigative Reporting v. Dep't of Labor, No. 18-CV-02414-DMR, 2020 WL 2995209, at *4 (N.D. Cal. June 4, 2020).

[12] See Boeing v. Sec'y of the Air Force, 983 F.3d 1321, 1332 (Fed. Cir. 2020).

[13] See Pac. Sky Supply, Inc. v. Dep't of the Air Force, No. 86-2044, 1987 WL 18214, at *2 (Sept. 29, 1987) ("Even if the Air Force obtained unlimited rights in these drawings, [the contractor and its successor] were not divested of their rights in the drawings."). But see Pac. Sky Supply, Inc., No. 86-2044, 1987 WL 28485, at *2 (D.D.C. Dec. 16, 1987) (later indicating the U.S. government may not have actually had unlimited rights as initially suggested).

[14] See, e.g., Northrop Corp. v. McDonnell Douglas Corp., 705 F.2d 1030, 1044 (9th Cir. 1983) (noting that granting unlimited rights "did not divest [the contractor] of the residual right to continue to use the technology itself and to share it with other parties").

[15] See United States v. Liew, 856 F.3d 585, 599 (9th Cir. 2017); Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195, 1200 (5th Cir. 1986); Healthpoint, Ltd. v. Ethex Corp., No.SA-01-CA-646, 2004 WL 2359420, at *32 (W.D. Tex. 2004); see also Compuware Corp. v. Serena Software Int'l, Inc., 77 F. Supp. 2d 816, 822 (1999) (finding limited ability to access material deposited with copyright office insufficient to destroy trade secret protection); Hoechst Diafoil Co. v. Nan Ya Plastics Corp., 174 F.3d 411, 418 (4th Cir. 1999) (reaching similar conclusion for public court records).

[16] See 5 U.S.C. §552(a)(3)(A); see also Gilmore v. U.S. Dep't of Energy, 4 F. Supp. 2d 912, 918 (N.D. Cal. 1998) (considering extent of agency rights in data for purpose of determining whether disclosure is required under FOIA).

[17] See 17 U.S.C. §401(d).

[18] See 35 U.S.C. §287; 17 U.S.C. §§907, 909, 1306-07.

[19] See FlightSafety Int'l, Inc., ASBCA No. 62659, 2022 WL 17731018 (Nov. 29, 2022) (addressing unlimited rights in operation, maintenance, installation, or training data, which is often referred to as "OMIT" data).

[20] See Boeing v. Sec'y of the Air Force, 983 F.3d 1321, 1328 (Fed. Cir. 2020) (recognizing that copyright can restrict the U.S. government's rights and require a license, without reaching whether the U.S. government's rights would still be restricted under a grant of unlimited rights); see also 10 U.S.C. §3771 (noting that applicable regulations may not impair contractor and subcontractor rights "with respect to patents or copyrights").

[21] Compare, e.g., DFARS 252.227-7013(f), with FAR 52.227-14(e)(1). These provisions do not apply to administrative or financial data, which contractors can likely mark without restriction under either civilian or defense contracts. See Raytheon Co. v. United States, 160 Fed. Cl. 428, 436, 445 (2022).

[22] See 87 Fed. Reg. 77,680, 77,681 (Dec. 19, 2022).