



Government Contract

Andrews Litigation Reporter 

VOLUME 23 ★ ISSUE 6 ★ JULY 27, 2009

Expert Analysis

COMMENTARY

Intellectual Property Rights In Government Contracting

By William C. Bergmann, Esq., and Bukola Aina, Esq.

Introduction

In the global economy, Intellectual Property rights — including patents, copyrights, trademarks and trade secrets — are often some of the most valuable assets owned by a company. Maintaining IP rights is crucial to both small and large companies, especially within industries that are highly technical.

Companies engaging in business with government agencies are faced with a unique set of issues related to retaining and protecting their IP rights. Government contracting has the advantage of providing a company with access to federal funding for (a) research and development work relating to new technology, and (b) further contract work leading to the commercialization of that new technology for use by the government or the private sector.

Companies engaging in business with government agencies are faced with a unique set of issues related to retaining and protecting their IP rights.

Government contractors can retain a significant portion of their IP rights during this process, but only by adhering to various statutes and regulations.

In addition to protecting their own IP rights, contractors must be prepared to defend themselves against infringement claims that may be brought by other companies as a result of work performed under government contracts. This issue often occurs when the government awards a contract to one of two competitors and the other company alleges that carrying out the contract necessarily violates its IP rights.

Title 28, Sections 1498(a) and (b), provides for the filing of a patent or copyright infringement action against the United States in the U.S. Court of Federal Claims for allegedly infringing acts by the government or by its contractors or subcontractors during the performance of work under a federal contract. Because government contracts often incorporate indemnification provisions, contractors may be liable to indemnify the United States for damages suffered as a result of allegations of infringement by others.

An aggrieved contractor also may bring suit under this statute if the company believes the government is infringing its IP rights. The Federal Acquisition Regulation has several provisions that relate to such IP disputes.

Government Contracting and the Disposition Of IP Rights

The disposition of rights to IP that is created during the performance of a federal contract is governed by U.S. statutes and/or regulations. The general policy of the United States, which is reflected in these laws, is to allow contractors to retain ownership rights in IP that is developed with federal funding as long as the government obtains a nonexclusive, paid-up license to use such IP. See Presidential Memorandum to the Heads of Executive Departments and Agencies on Government Patent Policy issued Feb. 18, 1983; Executive Order 12591 (Apr. 10, 1987), 52 FR 13414, 3 C.F.R., 1987 Comp., p. 220.

This policy is based on the rationale that a contractor is better positioned to commercialize a new technology than the federal government.

Important statutes and regulations governing the disposition of IP rights in government contracts are discussed below.

Patent Rights: Chapter 18 of Title 35 (35 U.S.C. §§ 200-212)

The disposition of patent rights in inventions made with federal funding for small businesses and nonprofit organizations is governed by Chapter 18 of Title 35 (35 U.S.C. §§ 200-212).

The main provisions of Chapter 18 can be summarized as follows:

- Nonprofit organizations and small businesses may elect to retain title to subject inventions, *provided* that the funding agreement may

indicate otherwise in certain circumstances (35 U.S.C. § 202[a]). For purposes of these provisions, “subject inventions” are defined as “any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement” (35 U.S.C. § 201[e]) and “funding agreement” is defined broadly as any contract, grant or cooperative agreement entered into between any federal agency and the contractor for the performance of experimental, developmental, or research work. 35 U.S.C. § 201(b);

- The government retains a nonexclusive, non-transferable, irrevocable, paid-up license to practice the invention for or on behalf of the United States throughout the world. 35 U.S.C. § 202(c)(4).
- Duties of the contractor include disclosure of the existence of each “subject invention” to the government, election to take title to the invention, and prosecution of the patent application for the invention. The funding agreement may also require the contractor to report on the real world utilization of the invention. Failure to observe these duties may result in the title to the invention vesting with the government. 35 U.S.C. § 202(c).
- The federal government retains “march-in” rights to force the contractor to grant a non-exclusive or exclusive license to others in a particular field of use if the contractor is not taking reasonable steps to achieve the practical application of the invention in the field of use or for public health or safety reasons. 35 U.S.C. § 203(a).
- U.S. industries are promoted throughout Chapter 18, for example, in the granting of title to invention rights (Section 202[a][i]), the manufacture of subject inventions (Section 204) and in the licensing of inventions owned by the federal government (Section 209[b]).

Section 210 of Title 35 states that the provisions of Chapter 18 take precedence over any other conflicting statute and specifically lists 21 different statutes over which it takes precedence. Section 210 even goes so far as to provide that it takes precedence over *future* acts of Congress unless such act specifically states that Chapter 18 does not apply.

Patent Rights: Presidential Memorandum to the Heads of Executive Departments and Agencies On Government Patent Policy

The statutory provisions governing the disposition of invention rights for small businesses and nonprofit organizations found at 35 U.S.C. §§ 200-212 (formerly Chapter 38) were extended to all other government contractors by President Reagan in the Presidential Memorandum to the Heads of Executive Departments and Agencies on Government Patent Policy, dated Feb. 18, 1983.

This presidential memorandum states that:

To the extent permitted by law, agency policy with respect to the disposition of any invention made in the performance of a federally-funded research and development contract, grant or cooperative agreement award shall be the same or substantially the same as applied to small business firms and nonprofit organizations under Chapter 38 of Title 35 of the United States Code.

Effectively, this presidential memorandum grants title to certain inventions made with federal funding to all contractors, including those that lack small business or nonprofit status.

As in 35 U.S.C. §§ 200-212, this provision was originally limited to inventions stemming from a “federally funded research and development contract, grant, or cooperative agreement.” This limitation was removed by Section 1(b)(4) of Executive Order No. 12591, dated April 10, 1987, which extends “to all contractors, regardless of size, the title to patents made in whole or in part with federal funds, in exchange for royalty-free use by or on behalf of the government.”

Because the executive order extends a license for use “by or on behalf of the government,” federal contractors and subcontractors are also included within the scope of the license as long as the work they are performing is within the scope of their contract.

Copyrights and Trademarks

Ownership of copyrighted works created with federal funding is generally covered by the provisions of the government contract. Under 17 U.S.C. § 105, copyright protection is not available for any work of the U.S. government, but the United States is permitted to con-

tract out the work and then receive title of the resulting copyrights by assignment, bequest or otherwise.

To obligate the contractor into assigning to the United States any copyrighted works created during the performance of the contract, the government will insert an appropriate FAR clause (discussed further below) into the contract.

As with copyrights, the ownership of trademarks created with federal funding is generally covered by the provisions of the government contract. Unlike copyrights, however, the United States can create its own trademarks. Thus, the government contract can specifically assign to either the United States or the contractor any trademarks developed during the performance of the contract. Note that disputes over ownership of trademark rights created during the performance of a government contract occur infrequently.

Federal Acquisition Regulation Clauses

The Federal Acquisition Regulation located at 48 C.F.R. Chapter 1 codifies the policy of the United States regarding ownership of IP developed during the performance of a government contract and applies to almost all procurements.

Parts 1-51 of the FAR provide government policies and contracting procedures and include an explanation of the rules and clauses which apply to specific situations.

Part 52 of the FAR contains the actual contract clauses, akin to the boilerplate used in private contracts, which are to be used in government contracts.

FAR clauses often implement statutory or policy directives of Congress or the president and the language contained therein cannot be changed by contracting officers. With respect to some FAR clauses, their insertion into the government contract is discretionary on the part of the contracting officer and the contractor can attempt to negotiate whether those clauses will be used.

The FAR also includes different versions of certain clauses and guidance as to which version should be used particular circumstances. The contracting officers, with input from the contractor in some instances, decide which versions of the FAR clauses apply where the language of the FAR leaves room for interpretation.

The FAR policies and provisions regarding IP rights are found at Chapter 1, Part 27, including 27.402, which expresses the government's policy with respect to copyrights in data and software. This section recognizes that, in general, both the government and the contractor have an interest in data and software rights.

As such, the applicable FAR clause (52.227-14, discussed below), includes five alternate clauses that a contracting officer can select from, depending upon the specific circumstances, in order to allocate data rights between the contractor and the government in varying degrees.

The actual FAR contract clauses are generally found at Part 52.227. Significant clauses relating to patent, copyright and data rights include:

- 52.227-11 and 52.227-12: incorporating the statutory provisions of 35 U.S.C. §§ 200-212 discussed above and granting title in subject inventions to the contractor, subject to several conditions, the contracting officer will use either 52.227-11 (short form) or 52.227-12 (long form) as appropriate.
- 52.227-13: rarely used, but if applied, requires the contractor to assign patent rights in subject inventions to the government.
- 52.227-14: main contract clause outlining the respective rights of the contractor and the government in data and software that precedes the performance of contract work, and also outlining the rights in data and software created during the performance of the contract.
- 52.227-15 through 23: additional clauses for use in particular circumstances to delineate the allocation of data and software rights among contracting parties.

As discussed above, under 35 U.S.C. § 201(e) the government takes certain rights in any "subject invention" which includes "any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement."

The implications of this provision are that regardless of whether the contractor has *constructively* reduced the invention to practice (*i.e.* applied for a patent application for its inventions), the government obtains rights in that invention if it is first *actually* reduced to practice (*i.e.* first successful testing of the invention occurs) during the performance of the contract.

Tips

Given the provisions of the FAR and Section 201, whenever possible contractors should:

- Actually reduce their inventions to practice by developing an experimental model or prototype prior to entering into a government contract;
- Meticulously document work done prior to entering into the contract to show when the inventions were first actually reduced to practice;
- Disclose to the government in responses to requests for proposals that they intend to rely upon pre-existing technology in performance of the contract and describe in detail the pre-existing technology;
- Ensure that key contract clauses are incorporated into subcontracts;
- Make timely reporting of subject inventions as required under the FAR clauses;
- Elect title to subject inventions;
- File for patents on subject inventions or notify agencies of a decision not to file;
- Acknowledge government support and the United States' license in the invention;
- Submit annual utilization reports;
- Ensure that any royalties received for the utilization of subject inventions comply with applicable regulations; and
- Determine if more favorable or more appropriate FAR clauses may be substituted within the contract.

Government Contracting, IP Infringement Claims

Under 28 U.S.C. §§ 1498(a) and (b) the government can be sued in the U.S. Court of Federal Claims for patent and copyright infringement. Under 15 U.S.C. § 1122, the government can be sued in the district courts for trademark infringement.

Statutory Provisions of 28 U.S.C. § 1498

Although claims of IP infringement against the government are similar to claims against a private party

and the elements necessary to prove infringement are the same, some crucial differences exist.

These differences stem from the fact that the right to bring patent and copyright claims against the government is based upon the waiver of sovereign immunity found in the text of Section 1498, rather than on the right to bring suit for patent infringement under Title 35 or the right to bring a copyright infringement suit under Title 17.

Although the case law and the FAR provisions often refer to the government as committing “infringement” based on the language of the statute, the government does not technically “infringe” patents or copyrights but rather may be said to commit “unauthorized use or manufacture.”

Because a claim against the government for unauthorized use of patents and copyrights is based on a waiver of sovereign immunity, and such waivers are to be construed narrowly, many of the remedies available to a patent and copyright holder in an action against a private party are not available against the government.

For example, the government cannot be enjoined from further unauthorized use, found to “willfully” infringe or be subject to enhanced damages and attorney fees (because its use is permitted as a sovereign, and the statutory waiver of immunity does not encompass enhanced damages for willful infringement), or liable for induced or contributory infringement.

An aggrieved patent or copyright holder may obtain damages in the form of “reasonable and entire compensation” by way of an action brought in the U.S. Court of Federal Claims. While the government can in theory be liable for lost profits, it is difficult for a patent or copyright holder to obtain this measure of damages in practice. Under the statute, the government’s contractors and subcontractors do not have direct liability for the unauthorized use or manufacture of a patent or copyright.

Indemnification Obligations Under Government Contracts

While companies may not be sued directly in the district courts for infringement arising from work performed under a federal contract, by operation of the appropriate FAR clause the government may require contractors to indemnify it for damages suffered because of infringing acts committed during the course of contract work.

In general, the guidelines instruct the contracting officer to insert an indemnification provision into a contract for a commercial item, rather than when the contractor is engaging in research and development work

Regardless of whether the FAR clauses require a company to indemnify the government for IP infringement damages, a contractor may intervene in a Court of Federal Claims action to protect its interests.

Contractors are likely to intervene because:

- They will at least have to participate in the action to respond to discovery requests;
- They will likely wish to take advantage of some of the benefits of becoming a party to the litigation (*i.e.* the ability to take discovery, file briefs and participate in the proceedings to the extent desired); and
- They will likely choose to support the government in the defense of the action for business reasons. For example, to avoid the potential adverse effect of an infringement finding against their product in a Court of Federal Claims action.

Important FAR Clauses Related to IP Litigation

- 52.227-1: confirms that the work done by the contractor and any subcontractor is done on behalf of the government, and that any infringement action is against the government pursuant to 28 U.S.C. § 1498 and not against the contractor;
- 52.227-2: obligates the contractor to notify the government of any allegations of patent or copyright infringement arising during the performance of the contract and obligates the company to assist the United States in defending against any infringement claims. The government will pay for the cost of assisting in the defense of a claim unless an indemnification clause is included in the contract;
- 52.227-3: obligates the contractor to indemnify the government against liability for patent infringement occurring during the performance of the contract. The contractor must be given notice of the action and be allowed to participate in the defense; and

- 52.212-4: incorporates several commercial contract terms, and includes paragraph (h), which obligates the contractor to indemnify the government against any liability for patent, trademark and copyright infringement arising from the performance of the contract.

In general the guidelines instruct the contracting officer to insert an indemnification provision into a contract for a commercial item rather than when the contractor is engaging in research and development work.

Tips

When entering into a federal contract and when faced with potential litigation over government sales, it is important for a contractor to:

- Make sure flow-down clauses are incorporated into subcontracts;
- Determine whether to intervene in the case if the government is sued over goods or services the contractor has supplied, the determination of which may be based in part upon whether it must indemnify the government and whether there is a commercial market for the IP;
- Plead lack of jurisdiction as an affirmative defense in a district court action dealing with government sales; and
- Notify the government of patent rights that may be involved in a new federal contract.

Conclusion

IP rights are an important part of federal contracting. Provided that companies comply with contract clauses covering the disposition of IP rights, they often have the opportunity to develop and retain these rights while being funded by the United States. Government policy encourages this, and the United States usually takes a nonexclusive license in the IP being developed. However, contractors must be aware of provisions relating to infringement actions against the government that are based on the contract work they performed, in order to minimize their associated liability.

William C. Bergmann is a partner and a key member of the intellectual property practice team at **Baker Hostetler** in Washington, D.C.

He worked as a trial and appellate attorney for 12 years at the United States Department of Justice, specializing in patent, trademark, copyright and government contract litigation. He is admitted to practice before the United States Patent and Trademark Office and has represented clients in IP cases before several district courts, the U.S. Court of Federal Claims, the International Trade Commission (ITC), the Federal Circuit, the Fourth Circuit, and the United States Supreme Court.

Since entering private practice, Mr. Bergmann has successfully represented major pharmaceutical, electronics, and manufacturing companies in patent, copyright, trademark and government contracts litigation. His practice also encompasses licensing and transactional work.

Before entering the legal profession, Mr. Bergmann worked as an engineer for the Westinghouse Electric Corporation designing nuclear power plants and as a laboratory assistant at Princeton University.

Bukola Aina is an associate at the firm and focuses her practice on patent law.



©2009 Thomson Reuters. This publication was created to provide you with accurate and authoritative information concerning the subject matter covered, however it may not necessarily have been prepared by persons licensed to practice law in a particular jurisdiction. The publisher is not engaged in rendering legal or other professional advice, and this publication is not a substitute for the advice of an attorney. If you require legal or other expert advice, you should seek the services of a competent attorney or other professional. For authorization to photocopy, please contact the Copyright Clearance Center at 222 Rosewood Drive, Danvers, MA 01923, USA (978) 750-8400; fax (978) 646-8600 or West's Copyright Services at 610 Opperman Drive, Eagan, MN 55123, fax (651) 687-7551. Please outline the specific material involved, the number of copies you wish to distribute and the purpose or format of the use. For subscription information, please visit www.West.Thomson.com.