

# INTELLECTUAL PROPERTY OWNERSHIP RIGHTS

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**As new acquisition strategies are pursued to attract firms that will share their commercial technology with DoD, the government must move toward even more commercially friendly IP terms and conditions.**

Ownership rights in Intellectual Property (IP) created with federal assistance is an issue applicable to all contracts, grants, and cooperative agreements.<sup>1</sup> Congress is empowered 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.”<sup>2</sup> The earliest use of the term “intellectual property” can be traced back to an 1845 Massachusetts Circuit Court ruling in a patent case. See the Bayh-Dole Act (35 U.S.C. 200-212)<sup>3</sup>, applicable to all funding agreements regardless of agency.

As new acquisition strategies are pursued to attract firms that will share their commercial technology with DoD, the government must move toward even more commercially friendly IP terms and conditions. The tumultuous history of technical data laws and regulations are an apt reminder that this arena is fraught with vested interests and entrenched positions. Yet, much progress has been made in bringing government and industry together.<sup>4</sup>

## Definitions

### Copyright

Protects individuals and companies legally for works of authorship e.g. audiovisual, choreographic, computer databases, graphic, literary, music, pictorial, sculptural, software, and sound recording.

Exception, Research Exemption, or Safe Harbor Exemption: Also technically called §271(e)(1) exemption or Hatch-Waxman; is an affirmative defense to infringement where the alleged infringer is using a patented invention for research purposes.<sup>5</sup>

### Government Purpose Rights

Defines how the government has rights and may permit others those rights, but must be on behalf of government (government and third party funded).

### Intellectual Property

An intangible or proprietary idea, invention, process or an asset such as a patent, copyright, trademark or trade secret.

### Irrevocable

Unable to cancel or recall; that which is unalterable or irreversible.

### Limited rights

Data may be reproduced and used by government, but not without written permission, be used or disclosed outside of the government – must be MARKED (privately funded).

### March-In Rights

Allows the funding agency, on its own initiative or at the request of a third party, to effectively ignore the exclusivity of a patent and

grant additional licenses to other “reasonable applicants.”

### Negotiated Rights

The contractor and the government negotiate the terms of the government’s right to use intellectual property for governmental purposes on a case-by-case basis.

### Nonexclusive

The permission granted by competent authority to exercise a certain privilege that, without such authorization, would constitute an illegal act, a Trespass or a Tort. The certificate or the document itself that confers permission to engage in otherwise proscribed conduct.

### Nontransferable

A contract that allows the owner the legal action of engaging in certain specific activities and to exclude others from doing so except with the permission of the owner.

### Paid-up License

The licensee has paid you a fixed amount up front.

The licensee is taking all the risks of business, and your only concerns are collateral obligations the licensee might have relative to the licensed technology

### Patents

Are granted by the U.S. Government to provide individuals with legal protection for their discoveries (inventions), and covered by federal law.

### Subject Invention

Any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement.

### Trademarks

Provide protection for words, symbols or a combination used by a manufacturer or merchant to identify a source of goods in commerce. If properly used and renewed, protection can last indefinitely.

### Trade Secrets

Effective only if kept confidential, and last indefinitely as long as the secret is kept.

### Unlimited Rights

Rights obtained by the government are determined, in most situations, based upon a “source of funds” test. The government considers the nature of the funding used for the development not whether the technical data was required for performance of the contract. Government obtains “Unlimited Rights” in technical data or related items that were or will be developed exclusively with government funds.

### Purpose of Bayh-Dole Act (35 U.S.C.):

- Establishes uniform federal patent policy;
- Uniform guidelines for granting licenses;
- Government retains a non-exclusive license and march in rights;
- Promotes collaboration between commercial entities and non-profits, including universities;
- Universities must file patents they elect to own;
- Universities may retain title to inventions.

Office of Management and Budget (OMB) Circular A-124 (February 10, 1982) issued policy guidance to federal agencies so that

a standard patent rights clause was established (found at FAR 52.227-11). In 1984 the FAR was amended to insure that all R&D agencies would implement the Bayh-Dole Act.

Under the Federal Acquisition Regulation (FAR) 52.227-11<sup>6</sup> and the Defense Federal Acquisition Regulation Supplement (DFARS) 252.227-7038<sup>7</sup> the contractor may retain the entire right, title, and interest throughout the world to each subject invention.

Any subject invention in which the contractor retains title, the federal government shall have a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States throughout the world.

Any subject invention which the government has title, the contractor shall retain a revocable, nonexclusive, royalty-free license throughout the world, except if the contractor fails to disclose the subject invention to the Contracting Officer within the specified time. Contractor's license may be revoked or modified to the extent necessary to achieve practical application of subject invention. Requires written notice – contractor is allowed 30 days to show cause why license should not be revoked.

The government encourages the maximum practical commercial use of inventions (FAR 27.104 (a), and the use of inventions in performing government contracts even though the inventions may be covered by U.S. patents FAR 27.104(c). Contract awards will not be refused on grounds that a contractor may infringe a patent FAR 27.104(b).

Failure to follow reporting rules can result in forfeiture of title in a

patent and loss of all rights.<sup>8</sup> Failure to follow marking rules (use of restrictive legends) can result in third parties obtaining broad use rights for free (i.e., a royalty-free, unlimited license).<sup>9</sup>

- as needed ⇒ Implement Employee Agreements;
- within 60 days ⇒ Disclose Each Invention;
- within 8 months ⇒ Resolve Election or Waive of Title (FAR 52.227-12 clause);
- within 1 yr ⇒ File Patent of election, and Indicate Govt. Support on Patent;
- within 2 years ⇒ Resolve Election or Waive of Title (FAR 52.227-11 clause);
- upon title election ⇒ Provide License to the Govt;
- required ⇒ Product Manufacturing in U.S.;
- annually ⇒ Report on Invention Utilization;
- at close out ⇒ Final Invention Report.

Although failure to comply with these requirements results in No Title, a non-exclusive license may be retained.

**March-in Rights (35 U.S.C. § 203):**

Government can exercise the “March-In,” when no steps toward practical application have been taken by the contractor; requirements for public use are not being met; breaches in agreement to manufacture; contractor fails to alleviate health or safety needs, or fails to obtain necessary license rights to manufacture in the U.S.

Federal agencies have the right to require a contractor, an assignee or exclusive licensee to grant a nonexclusive, partially exclusive,

or exclusive license in any field of use to responsible applicants if the contractor or assignee has not achieved practical application of invention Health & safety needs not satisfied by contractor or assignee public use specified by public regulations is not satisfied by contractor or assignee.

The government can require the grant of a non-exclusive, partially exclusive or exclusive license in a subject invention by the contractor if:

- Preference for U.S. Industry not obtained/waived;
- Necessary because contractor has not or is not expected to take effective steps within a reasonable time to achieve practical application of the subject invention;
- Necessary to meet requirements for public use specified by federal regulations and such requirements are not satisfied by the contractor, assignees or their licensee.

There are three different levels of access for government rights to technical data and computer software:

- Unlimited Rights – government has rights to data for any purpose, and to have or permit others to do so (solely government funded). The government no longer considers whether the technical data was required for performance of the contract – just the nature of the funds used to fund the development;
- Government Purpose Rights – government has rights and may permit others those rights, but must be on behalf of government (government and third party funded);

- **Limited Rights** – data may be reproduced and used by government but may not without written permission be used or disclosed outside of government – must be MARKED (privately funded).

Campbell Plastics Engineering (2004) failed to properly inform the government. The Patent Rights clause required Campbell to disclose the invention within two months of disclosing it to its own patent personnel. The contractually prescribed means of doing this was by submission on a DD Form 882. The invention was not disclosed in the contractually prescribed manner.<sup>10</sup>

The Pfizer's Xalatan (2004) case involved a glaucoma treatment

developed jointly by Columbia University and Pharmacia, which was later bought by Pfizer. This product was FDA approved, and covered by a patent exclusively licensed by Columbia University to Pfizer. The price of the drug was higher in the United States than in Canada or Europe. Members of the public expressed concern over that pricing and petitioned the NIH to exercise march-in rights. In a written decision very similar to the 2004 case of Abbott Lab's Norvir, the NIH declined to intervene.<sup>11</sup>

### Marking Requirement:

In Dowty Decoto, Inc. v. Dept. of Navy (9<sup>th</sup> Cir. 1989)<sup>12</sup> subcontractor to Northrop Grumman for parts only marked all drawings with "limited

rights" markings. The Navy wanted to use the data to obtain competitive bids from 3<sup>rd</sup> parties. However; properly marked and privately developed prevents the Navy from disclosing the data to 3<sup>rd</sup> parties.

In Bell Helicopter-Textron<sup>13</sup>, a subcontractor asserted limited rights protection in components of a launcher it had developed under a government contract. The ASBCA recognized that limited rights under a contract can inhere in portions of a modified drawing and remanded the case to the parties with instructions to negotiate the rights to the drawings or separable portions thereof.

In Night Vision Corp. v. United States<sup>14</sup>, prior to delivering a prototype, affix the appropriate data

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rights legend to prototype itself to protect any technical data, and have a patent/contractual agreement to further protect prototype.

### Approval of Nonprofit Assignments (Bayh-Dole Act):

- Approval of the Federal Agency required for assignments by “Nonprofit Organizations” which includes universities under an STTR
- Exception “where such assignment is made to an organization which has as one of its primary functions the management of inventions (provided that such assignee shall be subject to the same provisions as the contractor).” 35 U.S.C. § 202 (c)(7)(A)
- Nonprofits would retain a reversion of rights if the subject invention is no longer pursued by the management organization. ■

#### BIOGRAPHY

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- The Xerxe Group, Inc. v. United States, 278 F. 3d 1357 (Fed. Cir. 2002).

#### FOOTNOTES

- 1 37 C.F.R. § 401.1 – 401.17
- 2 Article I, Section 8, of the U.S. Constitution
- 3 [http://www.uspto.gov/web/offices/pac/mpep/consolidated\\_laws.pdf](http://www.uspto.gov/web/offices/pac/mpep/consolidated_laws.pdf)
- 4 Under Secretary Of Defense For Acquisition, Technology And Logistics Version 1.1 October 15, 2001, INTELLECTUAL PROPERTY: Navigating Through Commercial Waters Issues And Solutions When Negotiating Intellectual Property With Commercial Companies <http://www.acq.osd.mil/dpap/Docs/intelprop.pdf>
- 5 Madey v. Duke University, 307 F.3d 1351, 1362 (Fed. Cir. 2002)
- 6 [http://www.acquisition.gov/far/current/html/52\\_227.html](http://www.acquisition.gov/far/current/html/52_227.html)
- 7 <http://www.acq.osd.mil/dpap/dars/dfars/html/current/252227.htm#252.227-7038>
- 8 Campbell Plastics, ASBCA No. 53319, 2003 WL 1518313 (March 18, 2003)
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