

DOD's IP Strategy Puts More Pressure On Contractor Data

By **Dietrich Knauth**

Law360, New York (August 28, 2014, 3:10 PM ET) -- The U.S. Defense Department's recent guidelines on intellectual property rights could be a double-edged sword for contractors, potentially preventing some costly late-in-the-game disputes over the DOD's rights to access and use contractor technical data but also giving the government more leverage to demand up-front access, attorneys say.

The DOD published new internal guidelines Friday that seek to increase competition in contracting and combat common problems like poor market research, restricted access to contractor-developed intellectual property and avoidable barriers to entry in follow-up contracts. The new guidelines press contracting officers to consider from the get-go the types of intellectual property issues that could restrict competition in the later phases of a weapons procurement.

Better intellectual property management can protect the Pentagon from situations when a contractor unexpectedly goes out of business or jacks up its prices after the department is locked into a program, according to the handbook. When making sure it has the technical data and software it needs to sustain a program, the handbook says, the DOD also needs to consider its "data rights" — the specialized IP licenses that allow it to use or release the information to third parties for follow-up contract work.

Under standard contract clauses, the department has unlimited rights to use IP developed through DOD funding but no rights to use IP developed solely at a contractor's expense. For IP that is partially funded by DOD and partially contractor-funded, the department can claim broad "government use" rights, which can allow it to release the information to a contractor's competitors for future DOD contracts.

Contracting officers should negotiate contract options for intellectual property and technical data at the start of a contract competition rather than arguing about it after the Pentagon has already fully invested in a new technology, the guidebook says.

The DOD's suggestion is generally a good one, but it will bring new challenges for both the department and its contractors, attorneys say.

"I think that's a good recommendation, and it's one, frankly, that I'm surprised that DOD agencies don't seem to have used very much in the past," said David W. Burgett of Hogan Lovells LLP. "From an economic perspective, it makes sense because it gives DOD a basis to decide whether the rights are worth the additional costs, and on the other hand, it addresses contractors' concerns that their rights are valuable and they shouldn't be giving them up for nothing."

Historically, the DOD and its contractors haven't done a great job reaching early agreements on how to treat contractor intellectual property that is necessary for later contract work like maintenance and upgrades, attorneys say. Proactive planning hasn't really been a strong suit of the agency, which has often struggled to define its requirements for weapons systems and other major contracts, according to Marcia Madsen of Mayer Brown.

"It's doing this kind of homework first that's consistently been a thorn in the side of DOD," Madsen said. "You've got to know what you need before you start writing these contract clauses. If they get too aggressive, at least in my view, it's going to impact their ability to get access to commercial technology, so they have to figure out where this strategy is really needed."

And pricing those contract options could be difficult, according to Fernand A. Lavalley of Jones Day LLP. Specifics might not be available at the start of a program, so the option's languages may have to be open-ended, which could lead contractors to put a high price tag on intellectual property rights, Lavalley says.

"My sense is that that's kind of a glib solution that sounds good but is very difficult, if not impossible, to do," Lavalley said. "If DOD can't define with clarity what data it's going to need to sustain a system, pricing an option is going to be equally difficult."

The department must toe a fine line in asking for data rights options without making them mandatory or holding high prices against contractors that price the options more honestly than competitors, he says.

"That could ultimately end up being anti-competitive instead of enhancing competition," Lavalley said.

The DOD will have to think hard about what it's willing to pay and how much it expects the additional rights will save the agency in future contract competitions, Burgett says.

"I think procuring [officers] are going to find it very hard to judge how much weight to give to these priced options and to have any kind of benchmark to know whether it's a good price or whether it's a price worth paying," Burgett said. "It is very hard to know up front, and it can also be very difficult to estimate how much savings would be achieved by having data rights."

Moving the negotiations over data rights to the start of a contract competition can also change the balance of power, as the department has more leverage to make demands before it has fully invested in a program, attorneys said.

"It certainly could change some of the dynamics and the leverage points, moving those decisions earlier in the procurement process, and I think the guidelines acknowledge that," said Nicole Owren-Wiest, a partner at Wiley Rein LLP.

But the early negotiations could benefit both the government and its contractors by setting out clear expectations, Owren-Wiest said.

"It's better to be really clear about what expectations are and what the requirements are going to be from the very beginning," Owren-Wiest said. "I think that mitigates the potential for disputes."

The handbook also cautions contracting staff to carefully consider the costs and benefits of acquiring greater rights, including a warning: "The department should not make an unnecessary 'grab' for

proprietary rights." The DOD is legally barred from using coercion to force contractors to give up more data and more rights.

"It's nice to see that caution," Owren-Wiest said. "I think it could have been worded a little more strongly, but it's nice to see that brought to their attention."

Despite the challenges, the new guidelines have the potential to improve the DOD's acquisitions and avoid costly disputes over data, Lavallee says.

"I'm glad to see the [guidebook], but it's not a silver bullet, nor was it necessarily intended to be," Lavallee said. "As helpful as it is, it also underscores how much more work we need to do, both the government and contractors, in this area. ... It's really a wake-up call to contractors to make sure they have their own strategy in place to protect their own IP."

--Editing by Kat Laskowski and Philip Shea.