Expert Analysis

Considerations For Federal Contractor Trade Secret Protection

By **Kurt Kappes and Daniel Straus** January 31, 2019, 9:46 PM EST

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Most federal government procurement contracts require contractors to grant the government unlimited license rights in certain technical data and computer software related to contract performance. After granting the government unlimited rights, contractors retain valuable ownership rights in their trade secrets, technical data and computer software. A recent case from the Armed Services Board of Contract Appeals, Appeals of The Boeing Company, ASBCA Nos. 61387, 61388, highlights the importance of contractors taking proactive steps to protect their ownership rights in trade secrets, technical data and computer software during contract formation, rather than waiting to resolve such issues during contract performance.[1]

Background

The data rights clauses in the Federal Acquisition Regulation, or FAR, and the Defense FAR Supplement, or DFARS, which define the government's rights to the technical data and computer software of its contractors, are long and complex. The clauses set out different rules and procedures for contracts with civilian agencies[2] and defense agencies.[3]

The FAR clause generally requires contractors to grant the government unlimited rights in data created during contract performance unless developed exclusively at private expense.[4] Similarly, DFARS clauses generally require contractors to grant the government unlimited rights in any technical data or computer software developed exclusively with government funds.[5] In addition, both the FAR and DFARS clauses require contractors to grant the government unlimited rights in certain other types of technical data and computer software related to contract performance, such as form, fit or function data, and operations or maintenance manuals, even when developed at private expense.[6]

Granting the government unlimited rights authorizes the government to use, disclose, reproduce, modify or release technical data or computer software in any manner and for any purpose, and to have or permit others to do so.[7] In other words, unlimited rights are broad license rights rather than ownership rights. Thus, even if a contractor grants the government unlimited rights, the contractor retains ownership rights to the trade secrets, technical data or computer software —

unless specified otherwise in the contract. Indeed, the DFARS clauses describe a grant of unlimited rights as a "royalty free, world-wide, nonexclusive, irrevocable license," and state that "[a]ll rights not granted to the Government are retained by the Contractor."[8] Similarly, the FAR clause states that the contractor retains the rights to use, release, reproduce and distribute trade secrets, data or software delivered pursuant to a contract unless otherwise specified.[9]

In practice, the value of a contractor's residual ownership rights can be significantly impaired by the government's right to distribute technical data and computer software to third parties. Nothing in either the FAR or DFARS clauses explicitly prohibits the government from authorizing third parties to use unlimited rights in technical data or computer software for commercial purposes. What's more, the standard clauses limit the contractor's ability to use restrictive legends on data and software deliverables. The FAR clause prohibits contractors from asserting copyright in unlimited rights data without the contracting officer's, or CO's, authorization, and authorizes the government to "cancel or ignore" any "restrictive or limiting markings not authorized by" the contract.[10] While the DFARS clauses permit contractors to include copyright legends,[11] the clauses prohibit contractors from including any restrictive markings unless explicitly authorized by the contract.[12]

The Facts in Boeing

In 2015 and 2016, the government awarded Boeing two contracts, each containing DFARS 252.227-7013, to perform work under the F-15 Eagle Passive/Active Warning Survivability System. During contract performance, Boeing submitted data deliverables containing a legend with a copyright notice and a statement that "NON-US GOVERNMENT ENTITIES MAY USE AND DISCLOSE ONLY AS PERMITTED IN WRITING BY BOEING OR BY THE US GOVERNMENT."

On July 31, 2017, the CO issued a final decision stating Boeing's inclusion of the legends, as well as two proposed alternate legends, violated the contract's marking requirements set out in DFARS 252.227-7013(f), instructing Boeing to remove the legends from the data deliverables at its own expense. Boeing appealed the CO's final decision to the ASBCA and moved for summary judgment seeking a declaration that DFARS 252.227-7013(f)'s restrictions on markings failed to protect its intellectual property rights, including trade secrets, as required by 10 U.S.C. Section 2320. Section 2320 prohibits U.S. Department of Defense regulations from impairing any right of any contractor with respect to patents or copyrights, or any other right in technical data otherwise established in law, including trade secrets.

The ASBCA's Decision

The board denied Boeing's motion for summary judgment.

First, the board found that the data rights clause prohibited Boeing from including any legends besides the legends specified in DFARS 252.227-7013(f), and that none of Boeing's proposed legends were specified in DFARS 252.227-7013(f).

Second, the board held that the record was not sufficient for summary judgment because it remained unclear what intellectual property rights, if any, the clause's marking restrictions impaired. The board concluded that because Boeing granted the government unlimited rights in the technical data deliverables, and the contract granted the government the right to release or disclose the data to third parties without restriction, Boeing likely lacked trade secret protections for the data.

The board further concluded that additional fact-finding was needed to determine the specific nature of the intellectual property right that Boeing claimed was impaired by the data-rights clause.

Takeaways

The standard FAR and DFARS clauses grant the government unlimited license rights in contractor-owned data and software. The clauses do not restrict the government from providing copies to third-party competitors. And while there are some limitations on using certain unlimited rights technical data or computer software "by or on behalf of the Government" as a practical matter, recipients may well use the data for commercial purposes. Moreover, the clauses strictly limit the legends that contractors may affix to data or software deliverables. As demonstrated in Boeing, contractors may wish to mitigate these issues during contract formation; it may be too late to address them during contract performance.

The Boeing decision was a denial of summary judgment. Future proceedings may lead to a more favorable resolution for Boeing. Indeed, as the board observed, "Boeing's compromise legend clearly states that the government has unlimited rights and can grant authority to others so it is not clear what type of 'downstream confusion' this might cause."[13] How the matter ultimately gets resolved does not detract from the observation that heartache and expense might be avoided on the "front end" of contract formation.

To that end, contractors may wish to encourage agencies to include specially negotiated license rights authorizing contractors to affix special rights legends to data, trade secrets and software

deliverables stating: (i) the contractor possesses ownership rights in the technical data, trade secrets, or computer software and (ii) third parties must obtain a license from the contractor or the government to use the technical data or computer software in any way.

The DFARS clauses specifically allow defense agencies to negotiate such special rights.[14] While the FAR clause does not include a special rights provision, nothing in the FAR prohibits the government from including a clause authorizing the inclusion of such a special-rights notice. Indeed, FAR 27.402(b) recognizes that "[c]ontractors may have proprietary interests in data," and instructs agencies to "balance the Government's needs and the contractor's legitimate proprietary interests." The inclusion of such legends may enhance a contractor's ability to maintain trade-secret protections and discourage competitors from engaging in unauthorized use of the contractor's technical data or computer software. At the very least, it would demonstrate that the contractor took reasonable measures to protect its trade secrets.

For contracts with civilian agencies, contractors should also seek the inclusion in the contract of FAR 52.227-14 Alternate IV, which states,

"the Contractor may assert copyright in any data first produced in the performance of this contract. When asserting copyright, the Contractor shall affix the applicable copyright notice of 17 U.S.C. § 401 or 402 . . . to the data when such data are delivered to the Government[.]" Otherwise, civilian-agency contractors must seek prior approval from their COs during contract performance to affix copyright notices to their technical data or computer software deliverables. The standard DFARS clauses permit the contractor to use copyright notices. The inclusion of copyright notices will put third parties on notice that the contractor has rights in the technical data or computer software.[15]

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[1] Appeals of The Boeing Company, ASBCA Nos. 61387, 61388, 2018 ASBCA LEXIS 352 (A.S.B.C.A. Nov. 28, 2018), 2018 WL 6705542 (Nov. 28, 2018).

[2] FAR 52.227-14, “Rights in Data-General.”

[3] DFARS 252.227-7013, “Rights in Technical Data-Noncommercial Items” and DFARS 252.227-7014, “Rights in Noncommercial Computer Software and Noncommercial Computer Software Documentation”.

[4] FAR 52.227-14(b).

[5] DFARS 252.227-7013(b)(1); DFARS 252.227-7014(b)(1).

[6] FAR 52.227-14(b); DFARS 252.227-7013(b)(1); DFARS 252.227-7014(b)(1).

[7] FAR 52.227-14(a); DFARS 252.227-7014(a)(16); DFARS 252.227-7014(a)(16).

[8] DFARS 252.227-7013(b); DFARS 252.227-7014(b).

[9] FAR 52.227-14(d).

[10] FAR 52.227-14(c)(1); FAR 52.227-14(e).

[11] DFARS 252.227-7013(f); DFARS 252.227-7014(f).

[12] DFARS 252.227-7013(f)(4); DFARS 252.227-7014(f)(4).

[13] ASBCA No. 61387, 2018 ASBCA LEXIS 352 (A.S.B.C.A. Nov. 28, 2018), 2018 WL 6705542 (Nov. 28, 2018).

[14] DFARS 252.227-7013(f)(4); DFARS 252.227-7014(f)(4).

[15] For further discussion of the topics discussed in this alert, see Postscript II: Protecting Unlimited Data Rights, 33 N&CR ¶ 4; Postscript: Protecting Unlimited Rights Data, 22 N&CR ¶ 28; Protecting Unlimited Rights Data: The Inadequate Clauses, 18 N&CR ¶ 21.