INTELLECTUAL PROPERTY RIGHTS UNDER DEPARTMENT OF DEFENSE "OTHER TRANSACTIONS"
By Richard N. Kuyath

The Department of Defense (DoD) has special authority under 10 U.S.C. § 2371 to enter into what are known as "other transactions" (OTs). They may be used to fund basic, applied, and advanced research projects (hereafter "OTs for research"). They may also be used to carry out prototype projects that are directly relevant to weapons or weapons systems proposed to be acquired or developed by DoD (hereafter "Section 845 OTs").[1]

OTs offer the potential to be of tremendous benefit to both the Government and industry. Because an OT is not a procurement contract, grant, or cooperative agreement, it is not subject to the laws and regulations that apply to such traditional contracting instruments.[2] This allows DoD to issue OTs that permit commercial companies to use their commercial practices almost entirely in the performance of DoD-funded research projects. This authority enables DoD to enter into R&D agreements with commercial companies that refuse or are unable to enter into traditional government cost reimbursement contracts, grants or cooperative agreements.

OTs offer tremendous potential for reducing DoD's R&D costs[3] and for allowing leading edge, high technology commercial companies to participate in DoD-funded R&D programs in situations where they otherwise would not do so. Use of OTs also offers DoD a way to obtain the latest in state-of-the-art, dual-use technologies. Use of OTs also allows both commercial firms and traditional defense contractors to perform the Government R&D program without having to comply with Government-unique contract requirements (e.g., Cost Accounting Standards, Truth in Negotiations Act, FAR cost principles).

A recent study compared DoD RDT&E contract awards with the Business Week R&D scorecard and the Fortune 500 Industrials. The study found that more than 92% of the industry leaders that invested the greatest percentage of their sales in R&D received insignificant or no DoD RDT&E awards. These firms were usually the leaders in their industry in technology development.[4]

The rigid and complex statutes and regulations governing Government intellectual property rights under procurement contracts, grants and cooperative agreements prevent some commercial companies from performing Government-funded R&D projects. One of the principal advantages of OTs is that they are generally not subject to any laws or regulations regarding Government intellectual property rights that apply to procurement contracts, grants, and cooperative agreements. This flexibility enables DoD and industry to negotiate intellectual property rights that satisfy the Government's minimum needs and encourages

industry to commercialize the technology developed under the OT. Both commercial companies and traditional defense contractors have been able to benefit from this flexibility to negotiate different intellectual property rights under OTs.[5]

The purpose of this article is to discuss the principal statutes and regulations governing intellectual property rights under DoD-funded research projects and their relationship to OTs. Although these statutes and regulations do not apply to OTs, DARPA and other DoD agencies have developed model OT agreements that include patent rights and data rights clauses that are based, at least in part, on such statutes and regulations. The purpose of this article is also to suggest some possible changes to be negotiated to the model OT patent rights and data rights clauses.

♦ Patent Rights — The Bayh-Dole Act

The Bayh-Dole Act (35 U.S.C. §§ 200-212) sets forth the Government's policy regarding allocation of patent rights to inventions conceived or first actually reduced to practice under contracts, grants, and cooperative agreements with small business firms and educational and other nonprofit organizations ("subject inventions"). This patent policy has been extended to large businesses by Presidential Memorandum dated February 18,1983 and Executive Order No. 12591 dated April 10, 1987. The contractor (or recipient, in the case of grants and cooperative agreements) is permitted to elect to retain title to subject inventions, subject to certain conditions, minimum rights for the Government, and exceptions. The conditions include timely disclosure of subject inventions to the agency, election of right to retain title, and filing of domestic and foreign patents. The Government's minimum rights include a nonexclusive, irrevocable, paid-up license to practice for or on behalf of the United States any subject invention throughout the world. The Government may receive title to any subject inventions in which the contractor does not elect to retain rights or fails to elect rights within a reasonable time. The Government also reserves march-in rights and the right to limit exclusive licenses to subject inventions to situations where there is domestic manufacturing of the invention or the product embodying the invention.

The Bayh-Dole Act is applicable when research is conducted under a Government "funding agreement," which is defined in the Act at 35 U.S.C. § 201(b) to be a contract, grant or cooperative agreement.

March-in rights enable the Government to require a contractor that has elected title to a subject invention to grant a nonexclusive, partially exclusive or exclusive license in any field of use to a responsible applicant, upon terms that are reasonable under the circumstances, in the event the contractor has not commercialized the invention within a reasonable period

of time to the satisfaction of the Government, or if certain other specified conditions occur.

Specifically, the Government can require such compulsory licensing:

1. When the contractor or its assignee has not taken and is not expected to take effective steps to achieve practical application of the subject invention within a period of time that the federal agency considers reasonable;

2. To alleviate health or safety needs not being satisfied by the contractor, its assignees or licensees;

3. When requirements for public use are not being met;

4. When the contractor failed to comply with the obligation to obtain an agreement, from a licensee of the exclusive right to use or sell any subject inventions in the U.S., to manufacture products embodying the subject invention or produced through use of the invention substantially in the U.S.; or

5. When the exclusive licensee is in breach of its agreement to manufacture products embodying the subject invention or produced through use of the invention substantially in the U.S.

The Government has substantial discretion under march-in rights. The compulsory license may be given to a competitor of the contractor. In addition, the Government has the right to determine whether the invention has been reduced to "practical application" and whether it has been done so "within a reasonable period of time." Commentators have pointed out that it is questionable whether the Government is capable of making such determinations, which are largely driven by business and market considerations. In addition, the factors to be considered by the Government in making such determinations are not specified under the statute or regulations.[6] As a result of concerns over march-in rights, some commercial companies will not perform Government-funded R&D under contracts, grants or cooperative agreements. This is true despite the fact that march-in rights have not been successfully exercised in any reported case.[7]

Another problem with the Bayh-Dole Act is its definition of "subject invention." An "invention" is any invention or discovery which is or may be patentable or otherwise protectable under 35 U.S.C. 1 et seq. A "subject invention" is any invention of the contractor conceived <u>or</u> first actually reduced to practice in the performance of work under a contract, grant, or cooperative agreement. An invention can be patented before it is reduced to practice. As a result, the Government can obtain

rights in an invention that is first actually reduced to practice under a Government contract, even though it was conceived and patented prior to the contract.[8] The former Chief Patent Counsel of Minnesota Mining & Manufacturing Company testified before Congress that this right is too broad and prevents some commercial companies from participating in Government-funded research programs.[9]

Another problem with the Bayh-Dole Act is that the contractor must take certain administrative steps to obtain title to a subject invention. A contractor must first timely disclose the invention to the Government, then make an election to file a patent application, and finally file a patent application. Failure to comply with these requirements may result in forfeiture of title to the Government.[10]

Some companies do not patent any inventions under their intellectual property right practices, preferring instead to keep such inventions as trade secrets. The Bayh-Dole Act conflicts with these companies' practices because it requires the contractor to file for patents on patentable inventions. If the contractor does not elect title, it must give the Government the right to elect title, with the contractor receiving a royalty-free, nonexclusive license. Failure to comply with these requirements may result in the contractor forfeiting all rights in the invention.[11] There is no ability to keep a patentable invention a trade secret under the Bayh-Dole Act.

Some companies will not participate in Government-funded R&D because the Government receives a paid-up, nonexclusive license for Government purposes in subject inventions under the Bayh-Dole Act. The Government purpose license dilutes the value of the patent in some markets, particularly where the Government is the primary or only customer.[12] Some commercial companies (or parts thereof) will not participate in Government-funded R&D because of the Government-purpose license, even when their principal or exclusive market is commercial.

The Bayh-Dole Act applies to "funding agreements," which are defined in the act to include contracts, grants and cooperative agreements.[13] The legislative history of the statute authorizing "other transactions" (10 U.S.C. § 2371) expressly indicates that the Bayh-Dole Act is not intended to apply to such transactions because they are not a procurement contract, grant or cooperative agreement.

The conference report of the House and Senate Armed Services Committees on the National Defense Authorization Act for Fiscal Year 1992 reads as follows:

> The conferees also recognize that the regulations applicable to the allocation of patent and data rights under the procurement statutes may not be

> appropriate to partnership arrangements in certain cases. The conferees believe that the option to support "partnerships," pursuant to section 2371 of title 10, United States Code, provides adequate flexibility for the Defense Department and other partnership participants to agree to allocations of intellectual property rights in a manner that will meet the needs of all parties involved in a transaction.[14]

Additionally, the House Armed Services Committee report on the 1995 National Defense Authorization reads as follows:

> It is the general policy of the Technology Reinvestment Project (TRP) to negotiate intellectual property rights in "partnerships" so as to optimize the chances of successful commercialization. TRP policy provides that the Federal Government should avoid acquiring rights if that will impede commercialization. Foreign access to technology is scrutinized and, if deemed necessary, restricted. Broad exposure of the technology among partnerships participants is encouraged.
>
> The Advanced Research Projects Agency (ARPA) can fully effectuate these policies because it has great flexibility to tailor patent and other intellectual property rights provisions under its "other transactions" authority. Other TRP agencies are to some degree constrained by their organic statutes; government-wide policies applicable to technology developments supported by contracts, grants, or by cooperative agreements, or by agency policies developed years ago. The committee encourages the other DoD agencies participating in the TRP and the non-DoD agencies cooperating in the TRP to review their policies on intellectual property rights."[15]

At the request of Congress, the General Accounting Office ("GAO") conducted an extensive study of DARPA's use of "other transactions" for research. GAO interpreted the Bayh-Dole Act as not applicable to "other transactions." *See* U.S. General Accounting Office, Publication No. NSIAD-96-11 (B-270789), "DOD Research-Acquiring Research by Non-traditional Means" (March 29, 1996), at 13.

In 1996, a DoD Integrated Product Team (IPT) conducted a study of the military services' use of "other transactions" and Section 845 prototype authorities. The study agreed with DARPA's and GAO's interpretation that the Bayh-Dole Act does not apply to other transactions for research and Section 845 other

transactions. *See* "Final Report of the Integrated Product Team on the Services' Use of 10 U.S.C. 2371 'Other Transactions' and 845 Prototype Authorities" (1996), at 10.

DARPA has drafted model OT agreements for single parties and for consortia that contain a Patent clause based on the standard FAR 52.227-12, "Patent Rights-Retention by the Contractor," clause.[16] The OT patent rights clause contains provisions relating to "Preference for U.S. Industry" and Government "March-In Rights" similar to corresponding provisions in FAR 52.227-12 which are required under the Bayh-Dole Act.[17] The contractor may elect to retain title to any inventions conceived or first actually reduced to practice in the performance of the OT and DARPA receives a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced on behalf of the United States such inventions throughout the world.

DARPA's OT guidance provides that DARPA initially requires the inclusion of a standard Patent Rights clause, based on the Bayh-Dole Act, in all OTs.[18] The OT Guidance further notes, however, that individual situations may warrant exceptions to the standard allocation of rights. Such exceptions are open to negotiation by the parties upon a detailed explanation of need by the contractor. DARPA has granted concessions based on such a compelling justification in areas including delaying the effective date of the Government-purpose license (e.g., license begins 5 years after expiration of the term of the OT), specifically defining what are the reasonable efforts toward practical application that preclude exercise of march-in rights, and permitting the company to retain the invention as a trade secret for an unspecified period of time under certain circumstances.[19]

Significantly, the DARPA OT Patent Rights clause does not contain paragraph (g) of the FAR 52.227-12, Patent Rights clause, which provides that the subcontractor shall retain all rights provided for the prime contractor in the clause and the prime contractor shall not, as part of the consideration for awarding the subcontract, obtain rights in the subcontractor's subject inventions. Language similar to paragraph (g) has been interpreted as prohibiting grant-backs to the prime contractor of even a nonexclusive license in the subcontractor's subject inventions.[20]

The Department of Commerce, which is responsible for issuing the regulations implementing the Bayh-Dole Act, takes the position that paragraph (g) of FAR 52.227-12 places the same restrictions on prime contractors. The same paragraph (g) is found in the Bayh-Dole Patent Rights clause prescribed for use in grants and cooperative agreements at 37 CFR 401.14(a). This means that in contracts, grants and cooperative agreements containing the Bayh-Dole Act Patent Rights clause, the prime contractor cannot obtain in the subcontract itself any rights in

an R&D subcontractor's subject inventions. To obtain such rights, the prime contractor must either (1) enter into a separate licensing agreement with the R&D subcontractor with separate consideration given for such rights, (2) obtain an exceptional circumstance determination from the agency pursuant to 35 U.S.C. § 202 (a)(ii) permitting the prime contractor to obtain rights in subcontractor subject inventions in the subcontract itself when the R&D subcontractor is a small business firm or nonprofit organization, or (3) obtain a waiver from the agency permitting the prime contractor to obtain rights in subcontractor subject inventions in the subcontract itself where the R&D subcontractor is not a small business firm or nonprofit organization.

Another alternative would be for the Government to modify paragraph (g) of the Patent Rights clause to read similar to the following:

> (g)(4) Notwithstanding paragraph (g)(1) of this clause, and in recognition of the contractor's substantial contribution of funds, facilities and/or equipment to the work performed under this Agreement, the contractor is authorized, subject to the rights of the Government set forth elsewhere in this clause, to:
>
> (i) Acquire by negotiation and mutual agreement rights to a subcontractor's subject inventions as the contractor may deem necessary to obtaining and maintaining such private support; and
>
> (ii) Request, in the event of inability to reach agreement pursuant to paragraph(g)(4)(i) of this clause, that the Government invoke exceptional circumstances as necessary pursuant to 37 CFR 401.3(a)(2) if the prospective subcontractor is a small business firm or organization or nonprofit organization.

NASA has modified its Bayh-Dole Act Patent Rights clause for cooperative agreements for commercial concerns to read similar to the above.[21] The American Bar Association has recommended that DoD modify paragraph (g) of the standard Bayh-Dole Act Patent Rights clause for DoD cooperative agreements to read like the NASA clause.[22]

During negotiations, the author has requested DoD agencies to issue an exceptional circumstances determination for FAR-covered contracts permitting the prime contractor to obtain rights in its R&D subcontractors' subject inventions in the

subcontracts themselves when the subcontractor is a small business firm or non-profit organization. The author has also requested waivers to obtain such rights from R&D subcontractors that were neither small business firms nor non-profit organizations. The requests were denied without explanation. As a result, the only practical way for the prime contractor to comply with the restrictions in paragraph (g) is to negotiate a separate licensing agreement with the subcontractor, with separate consideration given for rights in the subcontractor's subject inventions.

If a restriction similar to paragraph (g) of FAR 52.227-12 were included in the "other transaction," it would be inconsistent with the goals of both the Government and the contractor, i.e., for the contractor to develop new technologies and intellectual property rights to strengthen and broaden the United States technological and industrial bases and to make the contractor more competitive in the world marketplace. A restriction similar to paragraph (g) of FAR 52.227-12 would result in the contractor being required to negotiate separate licensing agreements with its subcontractors—with no guarantee that they would be successful in such negotiations. It would be inequitable to saddle the contractor, which is obligated to share costs under the program, with the specter of future license negotiations and the potential inability to practice the technology it helped to pay to develop if it is unsuccessful in its licensing negotiations.

One statutory provision arguably may be interpreted as limiting the issuance of an exceptional circumstance determination to cases where the prime contractor seeks to obtain title to its subcontractor's subject inventions.[33] However, the General Accounting Office and the Department of Commerce take the position that license rights can be equivalent to title and, therefore, an exceptional circumstance determination can be issued to permit prime contractors to receive license rights in subcontractor subject inventions.[34]

Set forth below are some possible changes to be negotiated in the DARPA model OT Patent Rights clause:

1. In paragraph A, "Definitions," in the definitions of "made" and "subject invention, "delete the words "or first actually reduced to practice." This will prevent inventions that are conceived prior to the OT from being deemed to be subject inventions.

2. In paragraph B, "Allocation of Principal Rights," revise the Government-purpose license so that it does not begin until, e.g., five years after the expiration of the term of the OT. This will give the contractor exclusive rights in the subject invention for both

commercial and Government markets until the Government-purpose license becomes effective.

Alternatively, narrow the Government-purpose license to only make, use and sell weapons systems. This will give the contractor exclusive rights in Government markets except for weapons systems.

3 In paragraph C, "Subject Invention Disclosure, Election of Title, and Filing of Patent Application," make the following changes:

a. Revise subparagraph C1 to give the contractor more time to notify the Government of an invention, from the time the inventor discloses it to the company personnel responsible for patent matters (e.g., revise "4 months" to read "6 months").

b. Revise subparagraph C2 to give the contractor more time to notify the Government whether it intends to take title to an invention (e.g., revise "8 months" to read "24 months"). This change would also be consistent with the longer time period specified in the FAR 52.227-11 Patent Rights clause for small businesses and nonprofit organizations.

c. Revise subparagraph C4 to read as follows:

> "4. Requests for extension of the time for disclosure, election, and filing under paragraph C of this Article, may, at the discretion of DARPA, and after considering the position of the contractor, be granted <u>and will normally be granted unless DARPA has reason to believe that a particular extension would prejudice the Government</u>."

Addition of the underlined portion will make subparagraph C4 read like the corresponding subparagraph in FAR 52.227-12.

4. In paragraph E, "Minimum Rights to the Contractor and Protection of the Contractor's Right to File," make the following changes:

a. In subparagraph C1, add a definition of the term "affiliate" used in that subparagraph.

b. In subparagraph C3, add the following:

"The contractor has the right to appeal, in accordance with applicable licensing regulations and 37 CFR 404 concerning its licensing of Government-owned inventions, any decision concerning the revocation or modification of its license."

The above sentence is in FAR 52.227-12.

5. In paragraph H, "Reporting on Utilization of Subject Inventions," narrow the types of data and information required to be included in the annual reports on the utilization of subject inventions.

6. In paragraph J, "March-in Rights," make the following changes:

   a. In the first and second lines, add the following after "DARPA has the right": "in accordance with the procedures in 37 CFR 401.6 and any supplemental regulations of the Federal agency."

   The above change will make paragraph J read like FAR 52.227-12.

   b. In subparagraph J, specifically define what are effective steps to achieve practical application of the subject invention.

   c. Insert a minimum time period (e.g., 6 years after expiration of the OT) before march-in rights may be exercised.

7. Add a paragraph K to read as follows:

   "K. Other Inventions. Nothing contained in this clause shall be deemed to grant to the Government any rights with respect to an invention other than a subject invention."

   Addition of paragraph K is consistent with paragraph K in FAR 52.227-12 and will make it clear that the Government obtains no rights in background inventions.

- **DoD Guidance on When and How the Bayh-Dole Patent Clause Can be Modified**

In December 1997, DoD issued supplementary guidance on what are called "technology investment agreements" (TIAs). TIA is a new name for a class of assistance instruments for use in carrying out research projects. It replaces two instruments that the Military Departments and DARPA used under the 1994 guidance

on grants, cooperative agreements, and OTs issued by the Director of Defense Research and Engineering (Anita K. Jones) on February 8, 1994. The Military Departments previously issued what were called "flexible cooperative agreements" under Part 37 of the DoD Grant and Agreement Regulations. In contrast, DARPA issued what were called "consortium agreements" as OTs.[35]

The December 1997 DoD guidance provides that "flexible cooperative agreements" and "consortium agreements" are to be combined into one instrument called a "technology investment agreement" (TIA). The TIA is to be issued as a cooperative agreement under 10 U.S.C. 2358 unless Bayh-Dole factors require it to be issued as an OT for research under 10 U.S.C. 2371.[36]

The December 1997 DoD guidance on TIAs provides guidance on when and how the standard Bayh-Dole Patent clause set forth in 37 CFR 401.14 for cooperative agreements can be modified. The DoD guidance also provides that if the TIA's patent clause is modified beyond the requirements of Bayh-Dole, the TIA is to be issued as an OT under U.S.C. 2371.[37]

The DoD guidance provides that patent licenses of different scope may be negotiated under OTs when necessary to accomplish program objectives and foster the Government's interests. Factors to be considered when negotiating patent licenses of a different scope include past investments funded by the contractor or the Government, present contributions, and potential commercial markets. If the Government has been the predominant contributor in prior years to the R&D that provides the foundation to the planned research, the DoD guidance provides that the OT patent rights clause should be at or close to the standard Bayh-Dole Act clause. If, however, the contractor has contributed more substantially through prior investments in the particular technology, the OT patent rights clause may be less restrictive, to allow the contractor to more directly benefit from its investments.[38]

The DoD guidance sets forth the following examples of the ways in which the Government may wish to provide more flexibility than would be available under Bayh-Dole: (1) give the contractor more time to notify the Government of an invention, (2) give the contractor more time to notify the Government whether it intends to take title to the invention, and (3) give the contractor more time to commercialize the invention before the Government-purpose license rights in the invention become effective.[39]

The DoD guidance also provides that, in nearly all cases, the OT patent rights clause must provide for march-in rights to allow the Government to license subject inventions to third parties for commercial purposes if the title holder fails to take effective steps to achieve practical application of the subject invention within a reasonable period of time or if other specified circumstances occur. Exceptions may be made in rare

circumstances (e.g., if the contractor is providing most of the money for the research project, with the Government providing a much smaller share).[30]

- **Authorization and Consent**

The DARPA model OT does not contain an "authorization and consent" clause such as the clause found at FAR 52.227-1 (Alternate 1). It is DARPA's position that it cannot legally include such a clause in an OT for research because the research work is not being performed "for" the Government within the meaning of 28 U.S.C. 1498 (Authorization and Consent). With respect to Section 845 OTs, however, DARPA takes the position that an authorization and consent clause may be appropriate if the research work is being performed for the Government.[31]

- **Data Rights**

In 1984 Congress enacted 10 U.S.C. §2320 and 10 U.S.C. § 2321. 10 U.S.C. § 2320 is included in Chapter 137, Title 10. U.S. Code, which is applicable only to procurement contracts. 10 U.S.C. § 2320(a)(1) requires DoD to prescribe regulations to define the legitimate interest of the U.S. and of a contractor or subcontractor in technical data pertaining to an item or process. 10 U.S.C. § 2320(a)(1) also requires that such regulations be made a part of the Defense FAR Supplement. The FAR and its supplements only apply to procurement contracts.[32] Therefore, it is clear that 10 U.S.C. § 2320 and its implementing regulations do not apply to "other transactions."

10 U.S.C. § 2321 (technical data validation procedures) is also included in Chapter 137, Title 10, U.S. Code, which is applicable only to procurement contracts. 10 U.S.C. §2321 states that it applies to any contract for supplies or services entered into by DoD that includes provisions for the delivery of technical data.

10 U.S.C. §§ 2320 - 2321 were implemented in the October 1988 DFARS interim rule pertaining to technical data and in the June 1995 final rule. The FAR and its supplements apply only to procurement contracts.[33] Therefore, it is clear that 10 U.S.C. §§ 2320 - 2321 and their implementing regulations don't apply to "other transactions."

The legislative history cited above with respect to the non-applicability of the Bayh-Dole Act to "other transactions" also indicates that 10 U.S.C. §§ 2320-2321 and their implementing regulations don't apply to OTs.[34] Therefore, DoD is free to negotiate rights in technical data without regard to the restrictions in those statutes and regulations.

DARPA has drafted a "Data Rights" clause[35] for its model OT agreement that is generally much easier to comply with and more

equitable to contractors than DoD's technical data regulations and clauses for FAR-covered contracts.[36] The DARPA "Data Rights" clause is a little over one page in length. In contrast, the applicable DFARS technical data and computer clauses for a standard FAR-covered contract take up approximately 17 pages in the regulations.[37]

The DARPA "Data Rights" clause provides that because the OT involves mixed Government-contractor funding, the Government obtains Government-purpose rights (GPR) in data delivered under the OT. "Government-purpose rights" are defined as the rights to use, duplicate, or disclose data, in whole or in part and in any manner, for Government-purposes only, and to have or permit others to do so for Government purposes only. "Data" are defined to mean recorded information, regardless of form or method of recording, which includes but is not limited to, technical data, software, trade secrets, and mask works. The term does not include financial, administrative, cost, pricing, or management information and does not include subject inventions.

The DARPA "Data Rights" clause does not contain a time limit on GPR in data. This is in contrast to the 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," clauses for FAR-covered procurement contracts. Those clauses provide that the Government automatically obtains GPR in technical data and computer software developed with mixed funding under the contract for five years after execution of the contract. After the time period expires, the Government obtains unlimited rights in such data and software. The DFARS provides, however, that the five year period can be extended by negotiation.[38]

The DARPA "Data Rights" clause does not address the Government's rights to data that were generated entirely at private expense that are delivered under the OT, nor to data that were generated under an earlier Government contract. If such data will be delivered under the OT, the clause should be modified to specify what rights the Government receives in such data and what legends are to be placed thereon.

The DARPA "Data Rights" clause provides that, in consideration for Government funding, the contractor agrees that it intends to reduce to practical application items, components, and processes developed under the OT. An unusual section pertaining to Government march-in rights is also included in the "Data Rights" clause. If the Government exercises its march-in rights to subject inventions under the Patents clause, the contractor agrees, upon written request from the Government, to deliver, at no additional cost to the Government, all data necessary to achieve practical application within sixty days from the date of the written request. The Government obtains "unlimited rights" in such data. The term "unlimited rights" is

defined to mean rights to use, duplicate, or disclose data, in whole or in part, in any manner and for any purposes whatsoever, and to have or permit others to do so. Note that the Government receives "unlimited rights" in the data, instead of Government-purpose rights, or the right to require that a license be granted to a third party to use the data under terms that are reasonable under the circumstances. During negotiations, the contractor may want to revise "unlimited rights" to be "Government-purpose rights." Alternatively, the contractor may want to revise the clause to more closely track the march-in-rights section of the Patents clause.

Under the "Data Rights" clause, the contractor also agrees that, with respect to data necessary to achieve practical application, DARPA has the right (similar to march-in rights) to require the contractor to deliver all such data to DARPA in accordance with its reasonable directions if DARPA determines that such action is necessary: (1) because the contractor or assignee has not taken effective steps, consistent with the intent of the OT, to achieve a practical application of the technology developed during the performance of the OT; (2) to alleviate health or safety needs that are not reasonably satisfied by the contractor, assignee, or its licensee; or (3) to meet requirements for public use that are not reasonably satisfied by the contractor, assignee, or licensee. The contractor further agrees to retain and maintain in good condition for a negotiated number of years (e.g., three) after completion or termination of the OT all data necessary to achieve practical application.

The above-described provisions pertaining to march-in rights for data are not found in FAR-covered contracts.

The DARPA "Data Rights" clause does not contain the restrictions set forth in paragraph (k) of the DFARS 252.227-7013 data rights clause or in paragraph (k) of the DFARS 252.227-7014 rights in computer software clause for procurement contracts. Paragraph (k) of these clauses obligates the prime contractor to flow these clauses down in its subcontracts, without alteration, except to identify the parties. It also prohibits any other clause from being used to enlarge or diminish the rights of the Government, prime contractor, or a higher-tier subcontractor in a subcontractor's technical data, computer software, or computer software documentation. The prime contractor and higher-tier subcontractors are also prohibited from using their power to award contracts as economic leverage to obtain rights for themselves in technical data, computer software, or computer software documentation from their subcontractors.

Paragraph (k) in both DFARS 252.227-7013 and 252.227-7014 pose a problem similar to that discussed above with respect to paragraph (k) of the FAR 52.227-12 Patent Rights clause, i.e., the prime contractor is prohibited from obtaining rights for itself in intellectual property developed by its subcontractors

unless it negotiates separate licensing agreements with its subcontractors, with separate consideration given for such rights.

The DARPA "Data Rights" clause must be flowed down to all subcontracts for experimental, developmental, or research work.

- **Foreign Access to Technology**

The DARPA model OT contains a "Foreign Access to Technology clause that places certain restrictions on access by foreign firms or institutions to technology developments made under the OT.[39]

The clause implements DARPA's policy that the principal economic benefit of OT research efforts must be to the United States economy.[40] The controls established by this clause are in addition to those imposed by the International Traffic in Arms Regulations (22 CFR Part 121 et seq.), the DoD Industrial Security Regulation (DoD 5220.22R), and the Department of Commerce Export Regulations (15 CFR Part 770). Significantly, transfers by the contractor of technology developed under the OT to a foreign firm or institution are subject to DARPA approval and may be prohibited if there are adverse consequences to the national security interests or economic vitality of the United States.

"Technology" is broadly defined to include discoveries, innovations, know-how, and inventions, whether patentable or not, including computer software, recognized under United States law as intellectual creations to which rights of ownership accrue, including, but not limited to, patents, trade secrets, mask works, and copyrights developed under the OT.

"Transfers" include the sale of a company and sales or licensing of Technology. Transfers do not include: (1) sales of products or components, (2) licenses of software or documentation related to sales of products or components, (3) transfers to foreign subsidiaries of the contractor for purposes related to the OT, or (4) transfers which provide access to Technology to foreign entities which are approved sources of supply or sources for the conduct of research under the OT, provided that such transfers shall be limited to those necessary to allow the foreign entity to perform its approved role under the OT.

Transfers to foreign firms or institutions are prohibited for a negotiated time period, such as three years after expiration of the OT. Severe penalties are imposed if this clause is violated. If a transfer of Technology is made without the approval of DARPA during the period the restrictions on transfer are in effect, the contractor must (1) refund to DARPA the funds paid for the development of the Technology, and (2) the Government obtains a non-exclusive, nontransferable, irrevocable,

paid-up license to practice or have practiced on behalf of the United States the Technology throughout the world for Government and any and all other purposes, particularly to effect the intent of the OT.

DARPA's OT guidance states that the "Foreign Access to Technology" clause describes restrictions to be imposed during the term of the OT and for a reasonable time thereafter on foreign access to research findings and technology developments that arise under the OT.[41] Although DARPA prefers the standard "Foreign Access to Technology" clause, the provisions of this clause are open to negotiation. The contractor will be required to present a compelling case that any proposed change will retain most of the manufacturing capability and know-how associated with the developed Technology in the United States. Any existing licensing agreements that the contractor may have with foreign entities or other arrangements for foreign access to the contractor's technologies can be addressed in a provision added to the end of the clause or in a side agreement. DARPA's preferred method for addressing industry's concerns is to negotiate advance approval within the terms of the clause for any planned foreign access.[42]

The restrictions on transfer of Technology in the "Foreign Access to Technology" clause can be a severe burden on companies that customarily license their technology to obtain royalties. Such restrictions also may conflict with pre-existing licensing agreements with foreign entities. In addition, restrictions on transfer of technology can impose a significant burden on global companies that share technology with their foreign subsidiaries or that subcontract the manufacture of certain components of their products outside the United States for cost-competitive reasons when transfer of the technology to the foreign subcontractor is required. In some cases, U.S. suppliers may not exist. The restrictions can be even a more difficult problem for foreign companies that are prime contractors or subcontractors under the OT.

Depending on the technology involved and other circumstances, the restrictions in the "Foreign Access to Technology" clause can make the clause the most difficult and time-consuming provision to negotiate in the OT. Fortunately, under appropriate circumstances, DARPA is willing to negotiate a side letter that grants advance approval for certain transfers of technology to be made to certain foreign entities. DARPA is also willing to grant post-award approval when adequate justification is provided and this has proven to be a workable approach for contractors. DARPA is apparently most concerned with establishing a manufacturing capability in the United States for such technology and preventing manufacturing know-how from being transferred outside the United States.

Significantly, FAR-covered procurement contracts do not contain the "Foreign Access to Technology" clause.

This clause is to be flowed down in all subcontracts for experimental, developmental, or research work.

DoD guidance requires that OTs for research must include a "Foreign Access to Technology" clause that provides, at a minimum, that the contractor may not sell or exclusively license subject inventions to foreign firms that would allow the manufacture in foreign countries of products that result from the OT, without first obtaining Government approval. The DoD guidance also provides that, before granting Government approval, a reimbursement of Government investments shall be sought and a reasonable license shall be negotiated for Government use of the technology being sold or exclusively licensed to a foreign firm.[43]

- **Nondisclosure of "Other Transaction" Proposal Information**

Recent legislation amended 10 U.S.C. § 2371 to add a new subsection (i), "Protection of Certain Information from Disclosure." This new subsection (i) exempts from disclosure under the Freedom of Information Act (5 U.S.C. § 552) the following types of information submitted to DoD in a competitive or noncompetitive process having the potential for an award of an OT: (1) a proposal, proposal abstract, and supporting documents, (2) a business plan submitted on a confidential basis, and (3) technical information submitted on a confidential basis. The foregoing types of information are exempt from release under FOIA for five years after the date the information is received by DoD.[44]

- **Conclusion**

In conclusion, OTs offer tremendous flexibility to the parties to negotiate intellectual property rights that not only satisfy the Government's minimum needs but also grant sufficient rights to encourage contractors to commercialize the technology developed under the OT. This flexibility enables DoD to attract more firms to perform Government-funded R&D, particularly those commercial firms that, in the past, have been unwilling to perform Government-funded R&D.

[1] 10 U.S.C. § 2371 (note). Other transactions may also be used for many other purposes. Examples include: (1) Bailment agreements involving the lending or borrowing of equipment, typically with a sharing of research or test results, (2) parallel or coordinated research agreements involving sponsoring a research project that is related to one or more research projects funded by others and involving an arrangement to share results or to coordinate the research so as to enhance the end result of each project, (3) consortia agreements with multiple parties when those parties have agreed to join together to perform research as a consortium, (4) joint funding arrangements with others to finance a third party to conduct research, (5) reimbursable arrangements that involve DoD providing services (such as transportation services on an experimental space launch vehicle, experimental air vehicle, or experimental underseas vehicle). The user would typically provide one or more of its experiments to be conducted during a test mission. The amount of reimbursement to DoD could be fixed depending on the extent to which the user's experimental data is to be shared with DoD and the extent to which it supports a DoD program. Richard L. Dunn, *Using Other Transactions in Cooperative Government-Industry Relationships to Support the Development and Application of Affordable Technology,* at 7.

[2] The statues applicable to procurement contracts are found primarily in Title 41, U.S. Code, and Chapter 137, Title 10 U.S. Code. Grants and cooperative agreements with universities and nonprofit organizations are governed by a number of Office of Management and Budget (OMB) circulars, such as OMB Circular A-110. Few laws or regulations apply to grants or cooperative agreements with profit-making organizations. ADVANCED RESEARCH PROJECTS AGENCY, QUESTIONS AND ANSWERS ABOUT ARPA OTHER TRANSACTIONS 3 (1995) (available from ARPA, 3701 North Fairfax Drive, Arlington, VA 22203-17134). "Other transactions" for research are not traditional procurement contracts because they are not used to acquire goods or services for the direct benefit of the Federal Government. Therefore, DoD is not required to include the customary Federal Acquisition Regulation (FAR) and Defense FAR Supplement (DFARS) clauses in "other transactions," but is free to negotiate provisions that make sense for the particular project being supported by each agreement and that are mutually agreeable to both the Government and the performer or consortium of performers. ADVANCED RESEARCH PROJECTS AGENCY, DRAFT GUIDANCE FOR USE OF OTHER TRANSACTIONS 1 (February 1995).

DARPA interprets 10 U.S.C. § 2371 to mean that "other transactions" are a class of transaction separate from the procurement and financial assistance categories and not subject to the laws and regulations applicable to procurement contracts, grants, and cooperative agreements. DARPA cites in support of this interpretation the fact that Congress has re-enacted 10 U.S.C. § 2371 five times (1991, 1993, 1994, 1996 and 1997) (making only minor changes) and appropriated millions of dollars for DARPA's use since 1989 (the year DARPA was given "other

transaction" authority) with the knowledge of DARPA's interpretation. Therefore, DARPA argues that Congress has ratified DARPA's interpretation of its authority, citing TVA v. Kinzer, 142 F 2d 264 (6th Cir. 1972) *cert. den.*, 409 U.S. 337 (1972). Richard L. Dunn, *Using Other Transactions in Cooperative Government-Industry Relationships to Support the Development and Application of Affordable Technology,* at 5-6 (available from DARPA). The sparse legislative history of the changes made to 10 U.S.C. §§ 2358 and 2371 in 1994 by Section 1301 of the Federal Acquisition Streamlining Act of 1994 (P.L. 103-355, 108 Stat. 3243) supports DARPA's position. It states that the intent of Congress in revising 10 U.S.C. § 2371 and 10 U.S.C. § 2358 was merely to make "technical amendments" in the R&D authorities of DoD. Therefore, Congress arguably intended no change in the manner "other transactions" have been issued by DARPA. *See* H.R. Conf. Rep. No. 103-712, 103d Cong., 2d Sess. 190 (1994).

[3] A study conducted jointly by Coopers & Lybrand and TASC (The Analytic Sciences Corporation) on compliance with non-value added DoD regulations and oversight found that such compliance resulted in an 18 percent cost premium on defense contracts. Nearly half of the cost premium is attributable to ten key cost drivers, as follows: (a) MIL-Q-9358A (10 percent); (b) Truth in Negotiations Act (7.5 percent); (c)Cost/Schedule Control System(5.1 percent); (d) configuration management requirements (4.9 percent); (e) contract-specific requirements (4.3 percent); (f) DCAA/DCMA interface (3.9 percent); (g) cost accounting standards (3.8 percent); (h) material management accounting system (3.4 percent); (i) engineering drawings (3.3 percent); and (j) Government property administration (2.7 percent). 62 Fed. Cont. Rep. (BNA) No. 22, at 615, 616 (Dec. 19, 1994). *See also Postscript: The Cost of Oversight in Defense Procurement,* 9 NASH AND CIBINIC REPORT ¶ 37 (June 1995).

[4] Robert C. Spreng, *Increasing the Effectiveness of Government/Industry R&D Investment,* Contract Management (May 1997), at 28.

[5] GAO Report (B-270789), "DoD Research, Acquiring Research by Nontraditional Means" (March 29, 1996), at 8 (footnote 10).

[6] Marcia G. Madsen and Stephanie P. Gilson, *So You Want the Government to Buy Your Technology?,* INTELLECTUAL PROPERTY: YOURS OR THE GOVERNMENT'S? (AMERICAN BAR ASSOCIATION, 1994), at 35.

[7] The Government's march-in rights with respect to subject inventions made under a contract, grant, or cooperative agreement have not been successfully exercised in any reported instance. RALPH C. NASH AND STEVEN L. SCHOONER, The Government Contracts Reference Book 254 (1992). In 1997, Cell Pro Inc. petitioned the Department of Health and Human Services to give it a license under Bayh-Dole's march-in rights to patents owned by Johns Hopkins University, and licensed to Bectron Dickenson and Co. and Baxter Healthcare Corp. The petition was denied. Corporate Legal Times (January 1998), at 19-20.

[8] Note 7 supra, at 7 (footnote 14).

[9] William L. Geary, Jr., *Protecting the Patent Rights of Small Businesses - Does the Bayh-Dole Act Live Up to Its Promises?*, 29 IIPLA Q.J. 29-30 (1992).
[10] 35 U.S.C. § 202 (c)(1), (c)(2). FAR 52.227-12(d), (n)(3).
[11] 35 U.S.C. § 202 (c). FAR 52.227-12(d), (e).
[12] Thomas E. Harrison, Jr., *Government's Patent Policies Effects on a Company's Licensing Program,* 7 APLA Q.J. 65 (1979).
[13] 35 U.S.C. § 201(b).
[14] S. REP. No. 311, 102d Cong. 676 (1992).
[15] H.R. REP. No. 499, 103d Cong., 2d Sess. 285 (1994).
[16] DARPA MODEL OTHER TRANSACTION AGREEMENT (COMPANY MODEL), Article VII, contained in materials from March 17-18, 1997 DARPA Acquisition Conference on Use of the 10 U.S.C. 2371 and Section 845 Authorities.
[17] 35 U.S.C. § 203, 35 U.S.C. § 204.
[18] ARPA DRAFT GUIDANCE FOR USE OF OTHER TRANSACTIONS 9, (February 1995). See also DARPA memorandum entitled "Intellectual Property," at web site http://www.darpa.mil/CMO/pages/intellectual.html.
[19] Note 5, supra, at 7-8. Note 18 supra.
[20] RAWICZ AND NASH, PATENTS AND TECHNICAL DATA 220, 221 (1983). It is Government policy that contractors shall not use their ability to award subcontracts as economic leverage to acquire rights for themselves in inventions resulting from subcontracts. FAR 27.304-4(c). This policy has been criticized as possibly jeopardizing the contractor's future businesses if it has disclosed its technology to a subcontractor. Harrison, *Patent Policy Effects on a Company's Licensing Program,* 7 AM. PAT. L.J. 65 (1979).
[21] 61 Fed. Reg. 13398, 13401, and 13410 (March 27, 1996).
[22] American Bar Association, Section of Public Contract Law, letter dated October 24, 1996 (John T. Kuelbs) to Office of Director of Defense Research and Engineering Re: Proposed Rule, DoD Grant and Agreement Regulations (DoD GARs), 61 Fed. Reg. 43867 (Aug. 8, 1996).
[23] 35 U.S.C. § 202 (a)(ii).
[24] GEN. ACCT. OFF., REP. NO. GAO/RCED-84-26, at 7. Telephone interview with John H. Raubitschek, Patent Counsel, U.S. Department of Commerce (March 1995).
[25] DoD Guidance on "Technology Investment Agreements" for Military Departments and Defense Advanced Research Projects Agency (DARPA) dated December 2, 1997 (Supplement to 1994 Interim Guidance for 10 U.S.C. 2371), attached to Director of Defense Research and Engineering (G. T. Singley, III) Memorandum for the Secretaries of the Military Departments, Attn: Service Acquisition Executives, and Director, Defense Advanced Research Projects Agency (December 2, 1997).
[26] Id. at 2.
[27] Id. at 7.
[28] Id. at 6.
[29] Id.

[30] Id.
[31] Materials from DARPA Contracting Officer Representative Course dated December 1997.
[32] FAR 1.01, 1.301 and 2.101 (definitions of "acquisition" and "contract"). ADVANCED RESEARCH PROJECTS AGENCY, DRAFT GUIDANCE FOR USE OF OTHER TRANSACTIONS (February 1995), at 1.
[33] Id.
[34] Notes 14 and 15 supra.
[35] DARPA MODEL OTHER TRANSACTION AGREEMENT (COMPANY MODEL), ARTICLE VIII, DATA RIGHTS (JANUARY 31, 1997), note 16 supra.
[36] Some of the administrative burdens found in the DFARS technical data and computer software regulations and clauses include (1) giving the Government written notice whenever the company is about to enter into a DoD contract that would require the delivery of technical data or computer software that the contractor intends to deliver with less than unlimited rights, (2) giving an additional notice during contract performance if the contractor determines that it will deliver any additional technical data or computer software with less than unlimited rights, (3) reaching an agreement with the Contracting Officer to list in the contract all technical data and computer software to be delivered with less than unlimited rights, and (4) establishing and maintaining written procedures to ensure that restrictive markings are used only when authorized by the DFARS 252.227-7013 "Rights in Technical Data—Noncommercial Items" clause and the DFARS 252.227-7014 "Rights in Noncommercial Computer Software and Noncommercial Computer Software Documentation" clause.
[37] DFARS 252.227-7013, Rights in Technical Data—Noncommercial Items; 252.227-7014, Rights in Noncommercial Computer Software and Noncommercial Computer Software Documentation; 252.227-7019, Validation of Asserted Restrictions-Computer Software; 252.227-7030, Technical Data-Withholding of Payment; 252.227-7036, Declaration of Technical Data Conformity; 252.227-7037, Validation of Restrictive Markings on Technical Data.
[38] DFARS 252.227-7013, subparagraph (b)(2); 252.227-7014, subparagraph (b)(2)(ii).
[39] DARPA MODEL OTHER TRANSACTIONS AGREEMENT (COMPANY MODEL), ARTICLE IX, FOREIGN ACCESS TO TECHNOLOGY (JANUARY 31, 1997), note 16 supra.
[40] ARPA DRAFT GUIDANCE FOR USE OF OTHER TRANSACTIONS 10 (FEBRUARY 1995). See also DARPA memorandum on Foreign Access to Technology at web site http://www.darpa.mil/CMO/pages/foreign.html.
[41] Id.
[42] Id.
[43] Note 25 supra, at 6.
[44] 111 STAT 1842, PUB. L. 105-85 (November 18, 1997).