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Editorial Office
230 Park Ave., 7th Floor, New York, NY 10169 (800) 543-6862
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DoD's New IP Rules May Impact Contractors' Rights in Computer Software and Technical Data

By Christian B. Nagel and Kelsey M. Hayes*

The U.S. Department of Defense has proposed revisions to the Defense Federal Acquisition Regulation Supplement designed to shift intellectual property rights terms from the current standard to terms that are more individualized by contract—resulting in ownership and license rights that are more favorable to the government and less favorable to contractors. The authors of this article discuss the proposed changes.

Defense contractors may soon face changes to their rights in computer software and technical data. The U.S. Department of Defense ("DoD") has proposed revisions to the Defense Federal Acquisition Regulation Supplement ("DFARS") designed to shift intellectual property rights terms from the current standard to terms that are more individualized by contract—resulting in ownership and license rights that are more favorable to the government and less favorable to contractors.

Among other changes, the new rules will require contractors to assign monetary value to their technical data and computer software in proposals.

The new rules also will encourage the government to negotiate for special license rights.

These proposed revisions, DFARS Case 2018-D071 and Case 2018-D018 (collectively the "DFARS Cases"), will revise the DFARS to comply with sections of the National Defense Authorization Act ("NDAA") for fiscal year ("FY") 2018.

In their current form, however, the revisions address a wide range of changes that extend beyond the requirements of NDAA FY 2018. Contractors should begin to plan now for implementation of the new rules.

STATUTORY PROVISIONS

The proposed DFARS revisions generally seek to implement three provisions from the NDAA FY 2018:

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* Christian B. Nagel is a government contracts partner at Holland & Knight LLP advising businesses on a broad range of legal issues involving their relationship with the government. Kelsey M. Hayes is a litigation associate at the firm focusing her practice on government contracts. The authors may be reached at christian.nagel@hklaw.com and kelsey.hayes@hklaw.com, respectively.

- *Section 835(c)*: Added subsection (f) to 10 U.S.C. § 2320, which creates a "preference" for "specially negotiated licenses." The subsection requires that DoD "negotiate and enter into a contract with a contractor for a *specially negotiated license for technical data* to support the product support strategy of a major weapon system or subsystem of a major weapon system" (emphasis added).

  The subsection also directs program managers, when assessing the long-term technical needs and establishing corresponding acquisition strategies "that provide for technical data rights needed to sustain such systems and systems," (required by subsection (e)) to "consider the use of specially negotiated licenses to acquire customized technical data appropriate for the particular elements of the product support strategy."

This provision represents a shift away from using the standard DFARS clauses and toward specially tailored contract provisions. The requirement that program managers consider the long-term technical needs and acquiring special licenses as part of the "product support strategy" suggests a refined focus on sustainment costs.

- *Section 835(a)(1) (as amended by Section 867 of the NDAA FY 2019)*: Enacted 10 U.S.C. § 2439, which requires DoD, "*before selecting a contractor* for the engineering and manufacturing development of a major weapon system, production of a major weapon system, or sustainment of a major weapon system," to "*negotiate [ ] a price for technical data* to be delivered" under the contract (emphasis added).

This provision places further emphasis on assigning a monetary value to a contractor's technical data—something already contemplated by DFARS 227.7103-1(b)(3), which requires solicitations and contracts to "establish separate line items, *to the extent practicable*, for the technical data to be delivered under a contract and require offerors and contractors to price separately each deliverable data item" (emphasis added).

The provision—and corresponding DFARS Case (discussed below)—indicate that DoD could be looking to use technical data pricing a discriminator among competing offerors.

- *Section 871*: Enacted 10 U.S.C. § 2322a, which requires DoD, "as part of any negotiation for an acquisition of noncommercial computer software," to consider acquisition of all software and related materials necessary to meet the needs of the agency. Said another way, DoD must consider acquiring the "complete package" when purchasing noncommercial computer software—something that would give DoD greater rights than it currently enjoys under DFARS 252.227-7014.

Under DFARS 252.227-7014, DoD already receives a "royalty free, worldwide, nonexclusive, irrevocable license" in the computer software (i.e., the source code and related material that would "enable the software to be reproduced, recreated, or recompiled") and the computer software documentation (i.e., the owner's manuals, installation instructions and other items "that explain the capabilities of the computer software or provide instructions for using the software"). Section 871, and DoD's proposed revisions to DFARS 227.7203-2, further chips away at contractors' rights.

PROPOSED RULES

Late in 2019 and early in 2020, DoD published Advanced Notices of Proposed Rulemaking ("ANPR") addressing the DFARS Cases. As of the date of this publication, both DFARS Cases are currently under review by the Defense Acquisition Regulation Council's ("DARC") Patents, Data and Copyrights Committee. The notice of proposed rulemaking ("NPRM") is forthcoming.

DFARS CASE 2018-D071

DFARS Case 2018-D071,[1] the first ANPR published on November 12, 2019, will implement Sections 835(a)(1), as amended by Section 867 of NDAA FY 2019[2] and 835(c).[3]

Negotiation of Price for Technical Data (10 U.S.C. § 2439)

Notably, while 10 U.S.C. § 2439 only requires price negotiations for data for major weapon systems, DoD's proposed rule would expand the regulatory requirement to "include commercial technical data, noncommercial technical data, and computer software (and associated license rights)[.]" According to the ANPR,

> DOD policy is to acquire needed technical data and computer software and associated license rights under contracts for the acquisition of supplies, services, and business systems. Accordingly, the primary proposed change would extend the scope of regulatory coverage to encompass contracts other than those for engineering and manufacturing development, production, or sustainment (including services contracts).

DoD primarily is proposing to revise DFARS 215.470(a), which will direct contracting officers to require offerors provide estimates of the prices of data and associated licenses rights in order to evaluate cost to the government.

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[1] https://www.federalregister.gov/documents/2019/11/12/2019-24585/defense-federal-acquisition-regulation-supplement-negotiation-of-price-for-technical-data-and.

[2] 10 U.S.C. § 2439.

[3] 10 U.S.C. § 2320(f).

The revision provides that "*before making a source selection decision or awarding a sole-source contract*, the contracting officer *shall* negotiate a price for data (including technical data and computer software) and associated license rights to be . . . provided *under a contract for the development, production, or sustainment of a system, subsystem, or component; or services*" (emphasis added). The proposed rule states that "such negotiations should be based upon the use of appropriate intellectual property valuation practices and standards."

Preference for Specially Negotiated Licenses (10 U.S.C. § 2320(f))

While 10 U.S.C. § 2320(f) announces a "preference" for specially negotiated licenses, DoD's ANPR takes it a step further, including an "affirmative requirement" that the parties must enter into negotiations whenever either party desires a special license.

The "affirmative requirement" will be included in DFARS 227.7102-2(b), which, as revised, provides that the parties "*should negotiate* special license rights whenever doing so *will more equitably address the parties' interests* than the standard license rights provided in the clause. To the maximum extent practicable, if *either party* desires a special license, the parties *shall enter into good faith negotiations*" (emphasis added).

According to DoD, "it is only in the case when neither party desires a special license agreement (e.g., because neither party anticipates doing so would more equitably address the parties' relative interests), that the parties are not required to negotiate."

Effectively, however, the rule forces the contractor to engage in negotiations with the government, providing DoD with leverage to seek more rights and forcing the contractor to decide just how much it is willing to give away to secure the award.

DFARS Case 2018-D018

DFARS Case 2018-D018,[4] the second ANPR published on January 14, 2020, will implement Section 871.[5]

DoD again proposes regulatory reform beyond the scope of the statute. As stated in the ANPRM, "although the statute focuses on detailed aspects of the delivery requirements for noncommercial computer software, the proposed DFARS revisions also recognize that the government must consider and acquire appropriate license rights in order to utilize those deliverables." DoD stated

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[4] https://www.federalregister.gov/documents/2020/01/14/2020-00430/defense-federal-acquisition-regulation-supplement-noncommercial-computer-software-dfars-case.

[5] 10 U.S.C. § 2322a.

that, for this reason, it included references to "necessary license rights" and "associated license rights" throughout the proposed revisions.

DoD is proposing to add the requirements of 10 U.S.C. 2322a, subsection (a) to DFARS 227.7203-2(b) nearly verbatim, requiring that the government's "needs determination" address "the acquisition at appropriate times in the life cycle of all computer software, related data, and *associated license rights* necessary to" (emphasis added) meet the government's needs for life cycle activities (e.g., reproducing, building, recompiling, testing, and deploying the software).

The requirements of subsection (b) are to be included under DFARS 227.7203-2(c), making contracting officers responsible for ensuring that solicitations and contracts require "that any computer software, related data, and *associated license rights* identified in the needs determination" (1) include software in digital format; (2) not rely on external or additional software or data; and (3) when the negotiated terms do not permit the inclusion of external or additional software or data, "include sufficient information to support maintenance and understanding of interfaces and software revision history, along with all necessary license rights" (emphasis added).

As noted above, DFARS 252.227-7014 already provides DoD with substantial rights in noncommercial computer software and documentation. With this new DFARS provision, DoD seeks to expand its intellectual property rights even further.

CONCLUSION

Whether these proposed changes survive DARC's review, the notice rulemaking period and ultimately end up in the DFARS remains to be seen. DoD is taking an aggressive stance when it comes to rights in technical data and computer software—evidently with strong Congressional support.