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ESSAYS

PROTECTING TECHNICAL DATA AND COMPUTER SOFTWARE RIGHTS IN GOVERNMENT CONTRACTS

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I. INTRODUCTION

High technology companies are increasingly becoming first-time contractors and suppliers to the United States government. When negotiating a contract with the government, the contractor, subcontractor and supplier need to understand how to protect their rights in technical data and computer software.

Because of the "Rights in Technical Data and Computer Software" clause, the government may acquire rights to technical data and software, different and often greater than rights which accrue in commercial contracts.

This essay will set forth the regulatory framework by which the government obtains rights in technical data and computer software, and examine negotiation strategies which can be utilized to protect the contractor, by minimizing the government usage rights in the contractor's technical data and computer software. The essay will concentrate on the rules and policies used by the Department of Defense (DOD) as set forth in the DOD supplement to the Federal Acquisition Regulation (FAR).

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II. THE GOVERNMENT'S RIGHTS

Included as a standard provision in government contracts is the “Rights in Technical Data and Computer Software” clause.\(^2\) Use of the clause establishes the circumstances under which the government can obtain unlimited rights in both technical data and computer software, limited rights in technical data, and restricted rights in software.

A. Definitions

To examine the rights the government may acquire in a contractor's technical data and computer software, it first is necessary to define several terms.

1. Technical Data

Technical data is defined as all "recorded information, regardless of form or characteristic of a scientific or technical nature."\(^3\) Examples of technical data include research and engineering data, engineering drawings and associated lists, specifications, standards, process sheets, manuals, technical reports, catalog item identifications and related information. Technical data also may include drawings or photographs.\(^4\)

Technical data does not include financial, administrative, cost, pricing, management data, or other information incidental to contract administration.\(^5\)

2. Computer Software

DAR describes software as “computer programs and data bases;” it further defines computer programs as:

[A] series of instructions or statements in a form acceptable to a computer, designed to cause the computer to execute an operation or operations. Computer programs include generating systems, assemblers, compilers, interpreters, data management systems, utility programs, sort-merge programs, and ADPE maintenance/diagnostic programs, as well as application programs such as payroll, inventory control, and engineering analy-

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\(^2\) 42 CFR 45 (9 July 1984); and the DOD's Defense Acquisition Regulation (DAR). DAR 9-200, et seq., 9-500, et seq., 9-600, et seq. The Federal Acquisition Regulations is a single, Government-wide procurement regulation. The FAR was promulgated on September 19, 1983, with an effective date of April 1, 1984. The FAR can be found in Title 48 of the CFR.
\(^3\) DAR 7-104.9(a).
\(^4\) 42 CFR 45 (9 July 1984); and the DOD's Defense Acquisition Regulation (DAR). DAR 9-200, et seq., 9-500, et seq., 9-600, et seq. The Federal Acquisition Regulations is a single, Government-wide procurement regulation. The FAR was promulgated on September 19, 1983, with an effective date of April 1, 1984. The FAR can be found in Title 48 of the CFR.
\(^5\) DOD FAR Supp. 52.227-7013(a).
sis programs. Computer programs may be either machine
dependent or machine independent, and may be general purpose
in nature or designed to satisfy the requirements of a particular
user.6

It should be noted that computer software documentation, in-
cluding computer listings and printouts, also is considered techni-
cal data (as discussed above).7

B. Scope of Government Rights

1. Unlimited Rights

When the government acquires unlimited rights in technical
data or computer software, through the “Rights in Data” clause,
the government has the right to use, duplicate, or disclose technical
data or computer software in whole or in part, in any manner and
for any purpose whatsoever, and to have or permit others to do so.8

The government can acquire unlimited rights in technical data
if the development of the data has been funded in whole or in part
by the government. Specifically, the DOD clause provides that the
government acquires unlimited rights in technical data which re-
results directly from the performance of experimental developmental
or research work which is called for specifically by government con-
tract, and

(a) is necessary to enable others to manufacture end-items (or
components) or perform processes developed under a research
and development contract, or
(b) pertains to “form, fit and function” data — e.g., specification
control drawings, catalog sheets, envelope drawings, etc. — for
end-items prepared or required to be delivered under any govern-
ment contract.9

The purpose of this provision is to assure that the government
obtains full rights to use and disclose all data which flows directly
from the research and development work paid for by the govern-
ment under the contract.

The contractor’s proprietary rights to data developed at private
expense is protected by the requirement in the clause that the data
must “result directly” from the performance of research or develop-

7. See Briefing Papers No. 82-4 (Joseph. “Government Rights in Computer
Software”). Compare DOE FAR Supp. 952.227-75(a), NASA FAR Supp. 19-52,227-74(a),
with DOD FAR Supp. 52.227-7013(a).
8. DAR 7-104.9(a).
9. DOD FAR Supp. 52.227-7013(b)(1).
ment work. The specifics of this requirement usually make up the key issues in negotiating rights with the government. A more detailed discussion of what constitutes "private expense" will be addressed later in this essay.

Computer software to which the government is entitled to unlimited rights, is software that:

(a) results directly from performance of an R&D contract,
(b) is developed under a government contract or generated as a part of that contract,
(c) contains data bases,
(d) changes or corrects other government software,
(e) is in the public domain, or
(f) is the subject of a contract provision granting the government unlimited rights.  

This clause is significant because it extends the government's unlimited rights to any software, even if not "specified", which is generated under the contract. The government would acquire such rights when the software is delivered, whether on this or a subsequent contract.

2. Limited Rights

If it does not fall into one of the unlimited rights catagories described above, it is possible to claim limited rights for unpun
lished technical data or software documentation pertaining to items, components or processes developed at private expense. Unpublished, as applied to technical data and software documentation, means that which has not been released to the public nor furnished to others without restriction on further use or disclosure.

"Limited Rights" gives the government the right to use, duplicate or disclose technical data, in whole or in part, for the government's internal use. However, the government cannot, without written permission,

(1) release or disclose the data outside the government,
(2) use the data for manufacture, or
(3) allow it to be used by a third party — except for (a) emergency repair or overhaul work, or (b) release to a foreign government for information or evaluation or for emergency repair or overhaul work.  

Limited rights will be effective provided that only the portion

10. DAR 7-104.9(b).
11. DOD FAR Supp. 52.227-7013(b)(2).
12. DOD FAR Supp. 52.227-7013.
or portions of each piece of data to which limited rights are to be attached are identified (for example, by circling, underscoring, or a note), and the specific data is marked with the legend below:

**LIMITED RIGHTS LEGEND**

Contract No. ______________
Contractor: ______________
Explanation of Limited Rights Data
Identification Method Used ___

If the restrictive legends are not in the prescribed form, the contractor is notified and has 60 days to correct the markings. Otherwise the government may, with notification to the contractor, correct or cancel the markings and use the technical data accordingly.

If your data is subject to limited rights, the government may attempt to negotiate to purchase it with unlimited rights. The regulations permit this only if there is a specific written determination that the data clearly is needed for reprocurement and will result in a net savings to the government.\(^3\)

3. Restricted Rights

If software to be delivered under the contract is developed at private expense and does not fall into one of the unlimited rights categories discussed above, restrictions with respect to the government’s right to use, duplicate, or disclose it can be negotiated prior to award or included in a modification to the contract before delivery.

Any such restrictions must be set forth and clearly defined in the contract, and will be acceptable only if they permit the government to fulfill the need for which such software is being procured. The contractor may use a standard commercial license agreement as an attachment to the contract, assuming the agreement reflects the rights negotiated with the government.\(^4\)

Computer software also must be marked with a restrictive legend to protect against unauthorized disclosure or use. Below is the prescribed form for restricted rights and licensing of software:

**RESTRICTED RIGHTS LEGEND**

Use, duplication or disclosure is subject to restrictions stated in
Contract No. ______________

\(^3\) DOD FAR Supp. 27.403-2(f).

\(^4\) Briefing Papers No. 82-4 (Joseph. “Government Rights in Computer Software”).
The contractor is required to have written procedures “sufficient to assure” that legends are applied properly to data and software. A quality assurance system in this area and the appointment of a specific individual responsible for meeting these contract requirements is also required.15

C. Challenging Restrictive Legends

contained in the standard DOD “Rights in Data” clause is a provision under which the government can challenge the restrictions already negotiated.16 The contractor should be aware of this because there is no time limit on the government’s right to contest the restrictions set forth on the data. It is not uncommon for the government to contest the contractor’s classification of data five to ten years after the original contract is complete.17

When the government does question the propriety of limited rights markings, the burden is on the contractor to show by clear and convincing evidence that the limited rights legend is proper under the terms of the “Rights in Data” clause.18

The contractor is expected to provide accounting and engineering records showing when the data was developed and that the government did not directly pay for creating the end-item for which the technical data was generated. For this reason, good record keeping by the contractor is one of the best protections for technical data and software.

For the government’s challenge to succeed, the data must have more than some tangential connection to the government work — i.e., the clause requires direct government funding of the work which produced the data.19 Courts have tended to approach this determination liberally and have found that the Federal Government has the right to use those ideas, improvements, discoveries

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15. DOD FAR Supp. 52.227-7018, NR 464.
16. DOD FAR Supp. 52.227-7013(d).
18. DOD FAR Supp. 52.227-7013(d).
and inventions — "crystallized during performance of the federal contract — which have a 'close and umbilical relationship' to the work and research funded by the United States."20

III. METHODS OF PROTECTING PROPRIETARY DATA

A. Private Expense

As discussed earlier, a determination of what constitutes development "at private expense," is important in securing limited and restricted rights in technical data and computer software to be delivered to the government.

To establish that a particular piece of data is subject to limited rights, the contractor must trace the funds used to develop the end-item or process required by the contract, rather than tracing only the funds used to create the data or software.21 Private expense is basically the opposite of government expense, and all data which is not directly a product of government expenditure is, for purposes of the "Rights in Data" clause, developed at private expense.

Some problems do arise, however, when both government and private funds are used for development of technical data or software. In this situation every effort should be made to sever the government funded portion from the privately funded. In this context "sever" can be interpreted to mean:

1. Specifically identify the government funded portion in the contract; or
2. Actually segregate the private funded data from the government funded, or
3. Use the predetermination of rights procedure (discussed below) to identify specifically and segregate any mixed data.

The government has taken the position that "mixed" funds give the government unlimited rights in all of the data. The Comptroller General has usually sided with the government; but if the privately funded portion is clearly severable and useful standing alone — the contractor can retain unlimited rights in the privately funded portion.22

22. Decision of the Comptroller General B-194986 (Jan. 15, 1980); Decision of the Comptroller General B-190798 (April 5, 1982).
B. Predetermination of Rights

When negotiating with the government, the use of the predetermination of rights procedure is an effective method to identify and protect proprietary data. This procedure permits early identification of data and software which is intended to be delivered with limited rights. Since the government obtains rights only to data actually delivered, the best way to avoid giving up rights is to convince the government to agree that delivery of proprietary data is not essential to meet the government’s legitimate needs. This agreement benefits both the contractor and the government by determining their respective rights in advance of the contract award, and thereby minimizes the possibility of disputes in the future.

In contrast to the predetermination of rights in regard to technical data, the DOD requires predetermination of all software to be delivered under a negotiated contract with restricted rights.23

During the predetermination stage the contractor should attempt to identify and segregate (if possible) all items of software which were developed at private expense. If the contractor is unable to exclude a software system entirely, every effort should be made to sever the components and negotiate usage rights separately for each component, i.e. assemblers, compilers, interpreters.

1. Licensing

A license is another effective method of protecting data, and in some cases, an alternative to the government acquiring limited rights or purchasing technical data or software outright.24 This option permits the negotiation of a nonexclusive license enabling the government to use the data for its purposes.

A licensing agreement has the advantage of acknowledging the contractor's proprietary rights in the data, and allowing proper compensation and restrictions on the scope of the license. Licensing is preferable to government acquisition of proprietary data, because the terms of the license can effectively control the use and dissemination of technical data and software.

C. Delivery

Technical data and software is best protected by avoiding the obligation to deliver it to the government altogether. Sometimes, the government will negotiate limitations on its data delivery re-

23. DOD FAR Supp. 52.227-7019.
quirements or rights (or both). It also may be possible to negotiate with the procuring agency to limit delivery to non-proprietary items.

If the government does not have a genuine need to receive proprietary data which is initially listed in the contract, the danger of disclosing valuable data or software can be eliminated by negotiating to delete this data from the list of deliverable items. To accomplish this, the contractor must sometimes educate the government contracting officer concerning realistic operation of the government/commercial interface and its affect on the government's "genuine need." For instance, some data may be unnecessary, too costly, or too burdensome to deliver immediately to the government.

1. Deferred Delivery and Ordering

The government's precise need for computer software and documentation may not be known at the time the procurement negotiations begin. In such cases the government may provide for deferred delivery or ordering of technical data and software.

Once the government has determined which data and software it needs, but not the time and place of delivery, it can require delivery of the data and software any time during performance of the contract, or within two years of (a) acceptance of all deliverable items other than data and software or (b) termination of the contract — whichever is later.25 The DAR requires the contractor to price the software and documentation at the time of contracting, and to incur the cost of preparation prior to the government's call for delivery. In order for the government to secure the right to deferred delivery, it must include the "Deferred Delivery of Technical Data & Computer Software" clause in the contract.26

When computer software and technical data is generated during contract performance, but the government does not know which software and documentation it wants to receive, it may delay ordering the software or data until the need becomes clear. When deferred ordering is necessary, the contract must include the "Deferred Ordering" clause.27

These clauses are potentially good protection because the government may:

25. DAR 9-502(b).
26. DAR 7-104.9(d).
27. DAR 7-104.9(m).
1. Neglect to order the listed items, or
2. the need to order may diminish or disappear in time, (i.e. technology changes, etc.), whereas the data and software may still be commercially viable for the contractor.

Rights in data issues can persist long after a particular contract is complete. Generally, the government has the ability to order delivery of data for two to five years from contract completion. Thus it is important that the contractor negotiate limits to the government's rights in any proprietary data which may become of interest to the government, even though it is not part of the contract's original delivery requirements.

D. Judicial Remedies

Even where the contractor follows all suggested procedures for protecting technical data and software, the contractor must remain alert for violations of the restrictions placed on the government regarding usage.

If the government misuses or improperly discloses technical data or computer software to any competitors, the contractor may (1) seek an injunction to prevent further disclosure of the data, and (2) file a claim for money damages for improper disclosure. If a competitor comes into possession of software or technical data provided to the government, the contractor may have an action against the competitor for (1) damages, and (2) injunctive relief to prevent further disclosure.28

A contractor may also have a contractual theory of recovery —such as a breach of contract or equitable adjustment claim — for wrongful disclosure of proprietary data. The contractor may pursue this claim before a Board of Contract Appeals under the authority of the Contract Disputes Act of 1978.29 But, it should be noted that pursuing a remedy through this avenue is far from satisfactory. The process can be slow and the Boards of Contract Appeal have no authority to issue injunctive or declaratory relief.

IV. Conclusion and Strategies

Because of the time and expense required to develop technical data and computer software, the contractor should be prepared to protect its rights during the contract negotiations. The contractor

should strive to relinquish to the government only the minimum rights necessary to fulfill the contract. The following are suggested negotiating strategies, in order of priority, which may be helpful in securing the maximum protection for the contractor with regards to proprietary data and software.

1. Since the government may obtain rights to only that data or software actually delivered, the way to avoid giving up any rights is to convince the government that delivery of the proprietary data is not essential to the performance of the contract. This can be accomplished by convincing the government (1) it does not need the data or software, (2) it does not own the data or software (i.e. developed at private expense), or (3) the material would be too expensive or cumbersome to deliver.

2. The contractor should attempt to grant a license to the government for the items which were not excluded from delivery. This alternative protects the contractor’s proprietary interest while also providing a royalty for the government’s use of the data and software.

3. A contractor should request the predetermination of rights procedure to establish proprietary rights before accepting a contract. Under this procedure, the contractor should identify and segregate those items developed at private expense from the entire system (i.e. compilers, assemblers, etc.). The contractor should attempt to delete the private expense items and segregate the items for which limited rights may be attached.

4. If the contractor cannot establish limited rights to the technical data or software, it should negotiate to classify the items for deferred ordering or delivery. The advantage of this classification is that as the contract progresses, the government’s needs may change, or once sufficient time has lapsed the delivery of the contractor’s data may no longer be harmful to its interests. For instance, new technology may be developed which would make disclosure of the prior data inconsequential.

5. Finally, the least favorable alternative is for the government to acquire unlimited rights in the contractor’s technical data and software.