WHITE PAPER:

The Hidden Landmines in Government IP

MARTENSEN

The Law Firm for Innovative Companies

For companies pursuing SBIR Phase II or III awards, the proposal is more than a vehicle to secure funding—it becomes a blueprint that may become contractually binding. Likewise, missteps in using a contractual workforce can result in IP rights vanishing. Inadvertently, businesses grant the U.S. government extensive intellectual property (IP) rights or the ability to circumvent those rights that compromise future opportunities, licensing potential, and even exit value.

This white paper exposes the lesser-known risks inherent in SBIR proposal language, explains how technical volumes become contract terms, highlights common workforce management missteps, and provides a strategic roadmap to protect IP assets.

In SBIR Phase II and III awards, the proposal is not just evaluated, but it also typically becomes incorporated, often verbatim, into the contract. This shift can expose companies to unintended IP risks that may arise later during investor due diligence, commercial licensing, or litigation.

The High Cost of Overlooking Proposal Language

Startups and growing tech companies often prioritize technical merit and innovation clarity in their proposals. It is, after all, a marketing document designed to persuade the government to select your technology over the competition.

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How Proposals Become Binding Commitments

Proposals often contain technical objectives, methods of implementation, milestones, reports, deliverables, and data descriptions. These items become the basis of the government's offer in the form of a contract reciting the contractor's obligations under the statement of work.

Included in the contract is a long list of FAR and DFARS clauses which, when read in conjunction with the statement of work, define the rights the government gains in the deliverables. The government may claim rights based on the proposal language, particularly if the proposal:

- Lacks proprietary markings
- Uses terms like "design," "develop," or "create"
- Describes preexisting proprietary methods or data without limitations

The government can claim rights in technical data or inventions described in the proposal if the content is interpreted as being developed and delivered under a government contract.

The government's rights during the SBIR/STTR protection period (20 years) are limited rights in data and restricted rights in software developed or generated under the contract.

IP Rights Framework—FAR and DFARS Overview

Government data rights are governed by Federal Acquisition Regulation (FAR) and a set of supplemental regulations specific to the agency involved, for example, the Department of Defense (DoD) uses the Defense Federal Acquisition Regulation Supplement (DFARS). Key rights include the following:

Unlimited rights. The right to use, modify, reproduce, release, perform, display, or disclose in any manner and for any purpose and to have or authorize others to do so.

Government purpose rights. The right to use, modify, reproduce, perform, display, or disclose within the government without restriction and to release or disclose outside the government and authorize the person to whom the release has been made to use, modify, reproduce, perform, or display for government purposes. (This category is only used within the DoD.)

Limited/Restricted rights. The right to use, modify, reproduce, release, perform, display or disclose within the government. The government may not, without permission of the party, release or disclose the data outside of the government, use the data for manufacturing, or authorize the use of the data by another party. Software use is restricted to a single copy kept on a single machine.

SBIR/STTR data rights. The government's rights during the SBIR/STTR protection period (20 years) are limited rights in data and restricted rights in software developed or generated under the contract.

Patents. For any invention either conceived or first actually reduced to practice in performance of the contract, the government gains a nonexclusive, nontransferable, irrevocable, paid-up license to practice, or have practiced on behalf of the United States, the subject invention.

KEY CLAUSES

DFARS 252.227-7013: Rights in Technical Data

DFARS 252.227-7014: Rights in Noncommercial Software

DFARS 252.227-7018: Rights in Technical Data and Computer Software – SBIR/STTR Program

DFARS 252.227-7038: Patent Rights

FAR 52.227-11: Patent Rights

As in any contract, certain words have key meanings. In commercial contracts, words acquiring special meaning are typically defined and capitalized. While the FAR and DFARS do not follow the capitalization convention, key words are defined.

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Words such as develop, make, generate, create and others carry special meaning in the FAR/DFARS and accordingly in government contracts. For example, in the DFARS with respect to computer software, the term "developed" means a computer program that has been successfully operated in a computer and tested to the extent sufficient to demonstrate to [a] reasonable person skilled in the art that the program can reasonably be expected to perform its intended purpose.

The DFARS goes on to define criteria by which the government shall have unlimited rights in computer software when the software was paid for exclusively with government funds. Certainly, funding is a key factor in determining what rights the government receives under the DFARS, but so are the other criteria that are often overlooked.

Proposals that discuss developing, fostering, creating, producing, etc., a computer program enable the government to seek broad rights. Indeed, the burden to deny the government unlimited rights rests with the contractor. Such a burden can be eliminated by delivering an obligation and meeting the government's need without needlessly providing the government rights in IP that would hinder a company's future competitive advantage both in the government and commercial marketplace.

Just as the wording in a government contract drives the government's rights in IP, so too does the wording in workplace relationships. The FAR and DFARS protect the rights of subcontractors. Data rights sections in both regulations convey that when technical data is to be submitted by a subcontractor with other than unlimited rights, then that subcontractor may bypass the prime contractor and submit the technical data directly to the government.

Moreover, the prime contractor shall not use their power to award contracts as economic leverage to obtain rights in technical data or computer software. And the prime cannot use its obligation to recognize and protect subcontractor rights in technical data or computer software as an excuse for failing to satisfy its contractual obligation to the government. Lacking prior consideration and management of the workplace roles, a subcontractor, 1099, or independent contractor can find itself as the owner of and in control of key IP. With such control of IP, the government and other contractors may work directly with your subcontractors, circumventing commercial and governmental opportunities.

COMMON LANDMINES

While several types of mistakes can compromise a proposal, some of the most common errors include:

Over-Disclosure of Proprietary Methods

Including detailed technical descriptions can allow the government to claim rights to technology or argue that the information is no longer confidential and is freely available to everyone. A better approach is to draft a proposal that omits technical details that form a company's competitive advantage.

Discussing what a product can do rather than exactly how it is done is often just as persuasive and maintains a company's hold on its intellectual property. Another good practice is to place any necessary technical details in a separate appendix, properly marked as proprietary.

Failure To Use Restrictive Legends

Without proper markings, proprietary information may not be protected. The proposal is a marketing document. It is designed to persuade the government to present an offer to the contractor to deliver that which was proposed. While proposals are held in confidence by the government, confidentiality is predicated on correctly identifying material within the proposal that is confidential and proprietary.

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Committing To Deliver Proprietary Data

Terms like "we will deliver X system" may be interpreted as delivering data with unlimited rights. Clarity over what will be delivered and what rights the government will possess is an essential aspect of the proposal. Lacking such assertions, the government assumes it will gain unlimited rights. While it is possible to go back and correct the omission of an assertion, it can lead the contracting office to reconsider the award. The best practice is to include any necessary assertions the first time.

Unclear Cost Accounting

If it is unclear what was developed with private vs. public funding, the government may assume it funded everything. Consequently, keeping meticulous records is crucial. Document, document, document. Since the government's right to specific deliverables is established by the origin of funds used for development, the government reserves the right to audit financial records. In some cases, it can look back seven years to determine if documents support an assertion that a deliverable was developed "entirely at private expense." Many companies lack an accounting system to identify who funded the purchase of materials or, more typically, who paid for the hours of work their researcher completed.

Lack of Subcontractor Management

Certainly, work-for-hire clauses and invention assignment provisions should be included in any 1099 or independent contractor agreement. But a statement of work management is also vital. Having employees engage in development and creative work while contractual support assists in refinement, validation, testing, and productization is a means by which to ensure IP remains within the bounds and under the control of the company.

Case Study—IP Contamination Stalls Acquisition

A startup in the defense tech space received a Phase III SBIR award that attracted acquisition interest from a large prime contractor. During due diligence, the acquirer discovered that the startup's SBIR proposals had implicitly granted the government unlimited rights to the core technology,

and that key aspects of the IP were developed by independent contractors. The lack of proper and timely data assertions, a clear chain of title, along with inconsistent marking on the deliverable increased a perceived risk that the government, or a competitor, could successfully challenge the sole source award of the Phase III contract.

Result: The deal was delayed six months for legal remediation, and the valuation dropped by 20%.

Best Practices for SBIR Contractors

When developing a proposal, it is essential to involve counsel who is familiar with both government contracting and intellectual property to ensure proper protection and compliance.

When developing a proposal, it is essential to involve counsel who is familiar with both government contracting and intellectual property to ensure proper protection and compliance. Proprietary sections should be clearly marked using consistent legends such as “Proprietary” and/or “Confidential / Private” to safeguard sensitive information.

All descriptions within the proposal must be precise, avoiding vague or overly broad commitments that could lead to unintended obligations. Delivery of items to the government with less than unlimited rights should be identified, asserted, and marked appropriately.

It is also important to document internal product development and cost contributions carefully, distinguishing which aspects of the development were funded privately and by which category of workforce was the IP developed. Before proceeding to Phase III, a thorough audit of all prior submissions, including Phase I and II proposals, should be conducted to ensure consistency and to protect intellectual property rights.

Martensen—The Legal Partner for Government and Commercial IP Protection

When your business success depends on defending your intellectual property in the government contracting space, you can’t afford generic legal advice. You need a law firm that understands both the value of your innovation and the complexity of government procurement.

At Martensen, we specialize in the critical intersection of intellectual property and government contracts. We help companies draft and negotiate proposals and statements of work that proactively protect IP rights—preserving commercial value, securing exclusive market opportunities, and limiting unnecessary government or competitor use of your proprietary technology.

Unlike traditional firms, we don’t treat IP and government contracting as separate concerns. We understand and address both, delivering tailored legal strategies that adapt to your company’s size, industry, and growth stage. Whether you’re a startup or a mature contractor, our methodical, detail-oriented approach ensures your competitive edge is protected today and strengthened for the future.

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Our team combines deep legal expertise with real-world technical and military/federal experience, delivering the caliber of work you'd expect from a top-tier firm without the inflated cost. We help leadership teams navigate risk, make confident decisions, and stay focused on growth, not legal guesswork.

Schedule a free 30-minute consultation with Martensen to review your SBIR proposals, assess current exposure, and ensure your innovations are protected. https://tinyurl.com/3hvervuy

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