

# NDIA Small Business Division Subcommittee on Improving IP Protection for Small Businesses

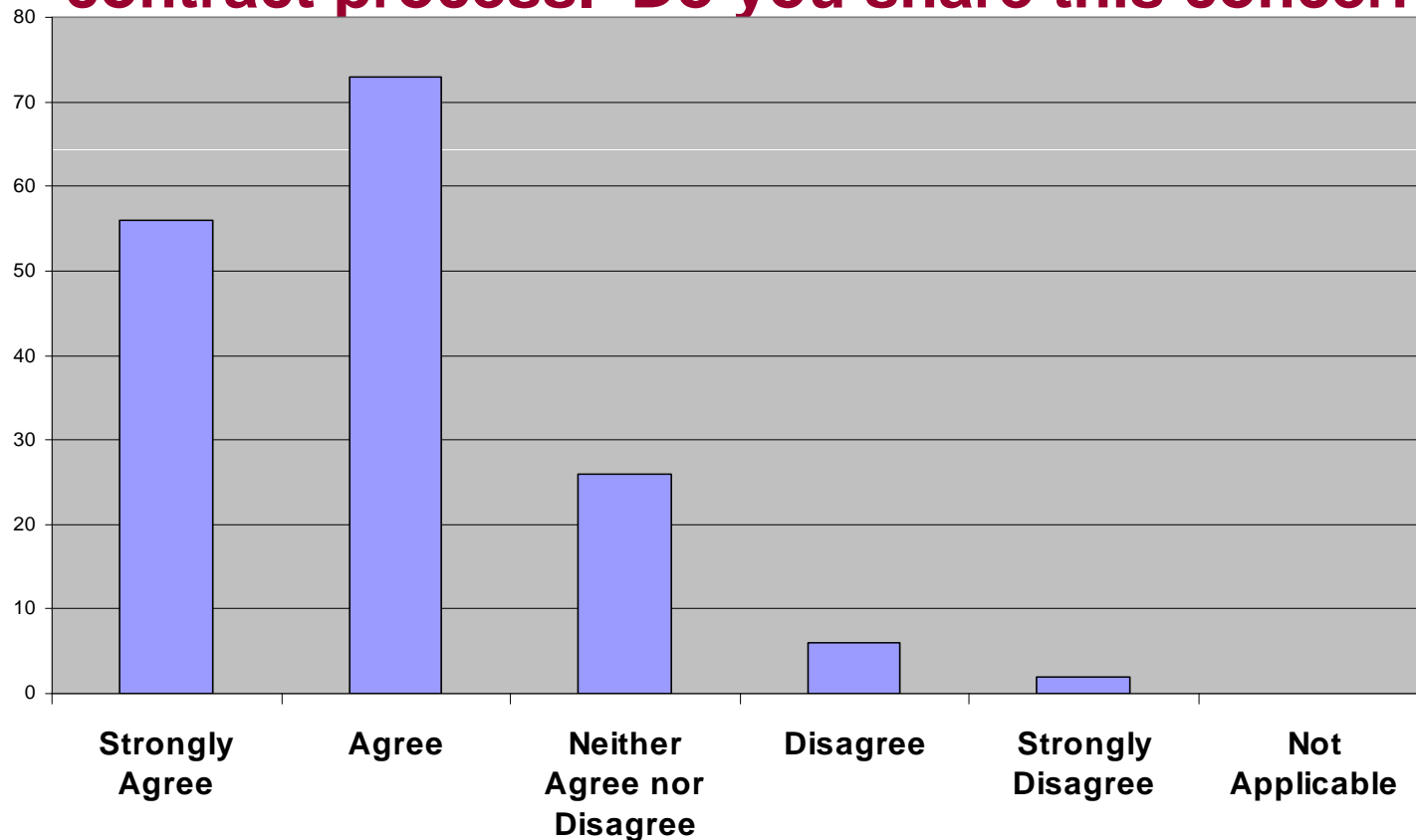
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**Secretary John Young USD(AT&L) has expressed concern that DOD's access to innovation is at risk because many small businesses feel their intellectual property is put at risk through the prime contract process. Do you share this concern?**



166 Responses

## IP SubCommittee Actions

- Kick-off meeting held in Sept 2008
- Issued two Web Surveys on IP Protection Issues
- Held 5 meetings with invited panel discussions
- Held 3 working group meetings
- Web site includes reference material and minutes from meetings
- IP Protection training material is being presented after NDIA 6<sup>th</sup> Annual SB Conference
  - June 3<sup>rd</sup> from 1-3 pm

# Key Issues Identified

- IP compromised during the solicitation or contracting process when provided in a technical or pricing proposal or delivered with proprietary markings
- Patent infringement occurring on Government contracts without proper levels of compensation due to FAR 52.227-1 Authorization and Consent clause
- Reports of various DOD labs appropriating properly marked proprietary IP and disseminating for use for procurement and other unauthorized purposes
- Reports on general ignorance or lack of enforcement of Non-Disclosure Agreements by Government personnel and others privy to proprietary IP
- Reports of failure to protect SBIR contract technical data in follow-on contracts

# Prime/Sub IP Protection Issues

- Novel ideas for solving problems are often in conflict with technology solutions being developed by the prime itself
- IP data rights provisions are often flowed down on prime contracts from the Government which can be over restrictive in requiring access to proprietary data
- Elimination in the bid process can occur if subcontractors don't agree to prime conditions on IP rights even if statutory rights should be non-negotiable
- Small businesses cannot afford to enforce IP protection with either the primes or the government
- Ethical business dealings respecting the value of Intellectual Property are essential to encourage innovative small businesses companies to participate in Government acquisitions

# IP Protection Methods

- Training on IP Protection Methods prepared by IP Methods Working Group
  - Proprietary Agreements
  - Data Rights Markings
  - Trade Secrets, Patents, Copyright
- Best Practices Review Process
  - Capture internal processes and procedures at major Prime Contractors for IP Protection
  - First Best Practices Review Panel held at NGC in April 2009

# Key IP Protection Metrics (KIPM)

1. Corporation has an established policy for IP Protection of their suppliers
2. Corporation provides training material to their suppliers on their policy
3. Corporation provides internal training on their policy
4. Corporation has an identified individual responsible for implementing policy
5. Contact information provided for Corporate individual empowered to deal with reported IP Protection issues
6. Corporation have committed to a small business subcontracting plan
7. DCMA and SBA audit results show Corporation is meeting Small Business subcontracting goals

# Patent Issue: FAR 52.227-1 Authorization and Consent

- (a) *The Government authorizes and consents to all use and manufacture, in performing this contract or any subcontract at any tier, of any invention described in and covered by a United States patent—*
- (1) *Embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract; or*
  - (2) *Used in machinery, tools, or methods whose use necessarily results from compliance by the Contractor or a subcontractor with (i) specifications or written provisions forming a part of this contract or (ii) specific written instructions given by the Contracting Officer directing the manner of performance.*

## **28 U.S.C. 1498(a)**

*Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture. . .*



# Experience of Tenebraex

- Developed and patented innovative method of hiding reflections from soldier's optics (ARDs) using own investor's capital (no government money used for R&D)
- At request of a major contractor, designed and built ARDs they used to meet a requirement in their response to an Army solicitation
- Contractor won solicitation and informed Tenebraex that they would make the ARDs themselves
  - “ Due to the Authorization and Consent clause of the Federal Acquisition Regulation 52.227.1, we have no need to examine either the coverage or the referenced patent or its validity.”
- Patent holder cannot sue the infringer - only recourse is to sue government in Court of Federal Claims
  - Suit for a royalty and legal fees >\$1.5 million
  - File Administrative Action for royalty only >\$150K

# AF/Spectrum CRADA Experience



**Purpose was to develop a new  
Munitions Assembly Conveyor (MAC)**

# AF agreed to protect Spectrum's pre-CRADA IP

UNIT agrees that any designs, technologies, or the integration of technologies developed under COLLABORATOR funds are proprietary to COLLABORATOR.

<sup>12</sup> Consistent with these provisions, an internal Air Force e-mail, dated on or about September 27, 2000, recognized – “Any preexisting proprietary data was specifically excluded under the CRADA as outlined in the work plan. Therefore, the CRADA has nothing to do with Spectrum data rights on data not generated under the CRADA. The government is under obligation to protect from release any pre-existing proprietary data.”

# CRADA Data is protected by Law

Per DFAR 252.227-7018(b)(4), *for 5 years from completion of the project*, the Government cannot disclose SBIR Data or Software except

- as expressly permitted by Contractor
- for evaluation purposes
- when necessary for emergency repair or overhaul of items operated by the Government

## IP Rights breached in post-CRADA Procurement

- AF disclosed Spectrum's pre-CRADA IP to Gov't personnel drafting a RFP
- Provided Spectrum's IP to outside contractors in both draft and final RFP
- Despite Spectrum's complaints that they included its IP
- Contract awarded to competitor

## Court's Ruling

“The court need go no further. Based on the foregoing, it finds that the Air Force repeatedly breached the CRADA and that defendant should be held liable therefor.”

“The court has little doubt that the breaches here resulted in recoverable damages – at least sufficient enough to move this case into its next phase.”

“[T]he parties shall conduct at least one serious discussion regarding settlement.”

# Issues with Equal Access to Justice Act

- Equal Access to Justice Act (Public Law 96–481; 94 Stat. 2325 et seq.)  
“EAJA”
  - Was intended to make the justice system more accessible to individuals of modest means, small businesses, and nonprofit organizations through limited recovery of their attorneys fees when they prevail in disputes with the Federal Government;
- EAJA retains formidable barriers to attorneys’ fees recovery as well as inefficient and costly mechanisms for determining the fees recovery
  - “Substantial justification defense”, whereby the Government can deny attorneys’ fees recovery to prevailing small parties if the Government can show that its position, although proven illegal, was not abusive or entirely unreasonable;
  - Hourly rate cap on attorneys’ fees of \$125, which is well below the market rate for competent legal services in many legal markets (especially for complex and high-risk litigation against the Federal Government) and thus prevents fair reimbursement of attorneys’ fees for small parties and discourages competent counsel from undertaking meritorious cases on a contingency or reduced-fee basis; and
  - Outdated small business eligibility requirements, which have not increased or indexed for inflation the net worth threshold of \$7,000,000 established in 1985

# Protecting SBIR Developed IP

- Goal of SBIR program is to increase the number and quality of companies competing for DOD projects by improving the protection of IP
- DoD SBIR Program provides \$1B R&D investment annually for Small Business IP development
- NDIA survey highlighted specific areas of concern regarding improper IP protection when SBIR technology is transitioning into other DOD acquisition programs



# SBA SBIR Policy Directive IP Restrictions

- Government retains a royalty free license for Gov use of technical data resulting from SBIR
- Agency must refrain from disclosing SBIR technical data to outside the Government (except reviewers) and especially to competitors of the SBC
- Agency must not use the information to produce future technical procurement specifications that could harm the SBC that discovered and developed the innovation

# Phase III SBIR Contracts

- SBIR Phase III status should be given for work that derived from, extends, or logically concludes work begun under a Phase I/II contract.
- Contractor should receive Preference for Phase III work
- Contract should be designated as an SBIR Phase III in FPDS.
- SBIR Data Rights Clauses should be included
- Agencies are making different determinations on what constitutes a Phase III

# SBIR IP Issues Findings & Recommendations

- IP Protection Issues
  - “Pass-through” of Small Business IP to other contractors
  - Government use of Small Business IP in generating competitive procurements
  - Government or FFRDC use of Small Business IP in their own research
  - Misuse of material protected with SBIR data rights
- SBA Procurement Center Representative Role
  - Working Group assisted in developing training for PCR in SBA SBIR Policy Directive
  - Training for SB in role of SBA PCR in identifying when acquisitions should be Phase III set aside

# Consequences of IP Violations

- IP misuse can be considered a Federal Trade Secret's act violation
  - Punishable by fine and/or imprisonment and removed from office or employment
  - **But** - No documented cases could be found of Federal employees ever being prosecuted for misuse of a company's IP
- Federal Claims Court Actions
  - Damages can be awarded
  - **But** - Equal Access to Justice Act limits cost reimbursement for legal fees to significantly below market rates
- Small businesses cease sharing IP with Primes & Labs
  - Programs lose innovations that could benefit warfighter

# **NDIA IP Protection SubCommittee Meeting June 3<sup>rd</sup> BallRoom D**

- 1:00 – 1:30 pm, Alison Brown, Overview of NDIA IP Protection Survey Results
- 1:30 – 2:15 pm, John Moran, Training in Methods of IP Protection
- 2:15 – 3:00 pm, Alison Brown, Role of an SBA PCR in SBIR Phase III Transitions