

# Improving IP Protection for Small Businesses

**Breakfast Meeting Panel Discussion  
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**Alison Brown**

President and CEO, NAVSYS Corporation  
14960 Woodcarver Rd, Colorado Springs, CO 80921  
[abrown@navsys.com](mailto:abrown@navsys.com) 719-481-4877 x102

# Why we are here

- Protecting Intellectual Property (IP) is challenging for small businesses
- The current trend of bundling contracts indicates that many small businesses are partnering with large prime contractors to sell their innovative solutions to Government customers.
- Unfortunately, during the acquisition process, the small business IP rights become “at risk” as teaming agreements and other documents are signed without adequate legal protection.
- To meet this challenge, NDIA’s Small Business Division has established a Government-Industry subcommittee to explore the many issues of IP protection specifically in the area of Prime/Subcontractor relationships

# NDIA IP Protection

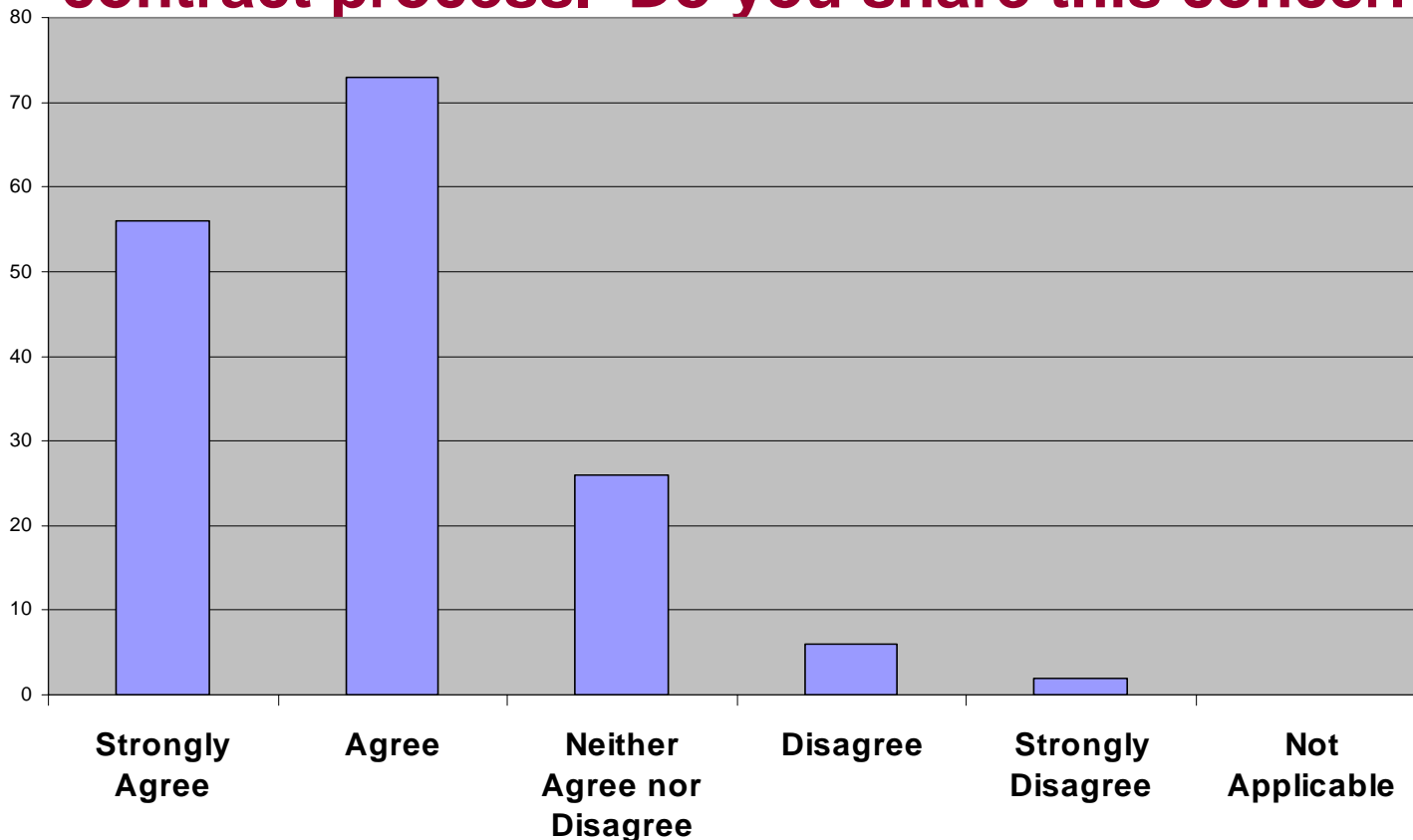
## Subcommittee Actions to Date

- Held three subcommittee meetings with panel discussions on related topics
- Sent survey to industry/government to identify issues of concern
- Established three working groups to address:
  - Methods of IP protection
  - Best practices within industry and government
  - Issues related to SBIR IP Protection

# Panel Members

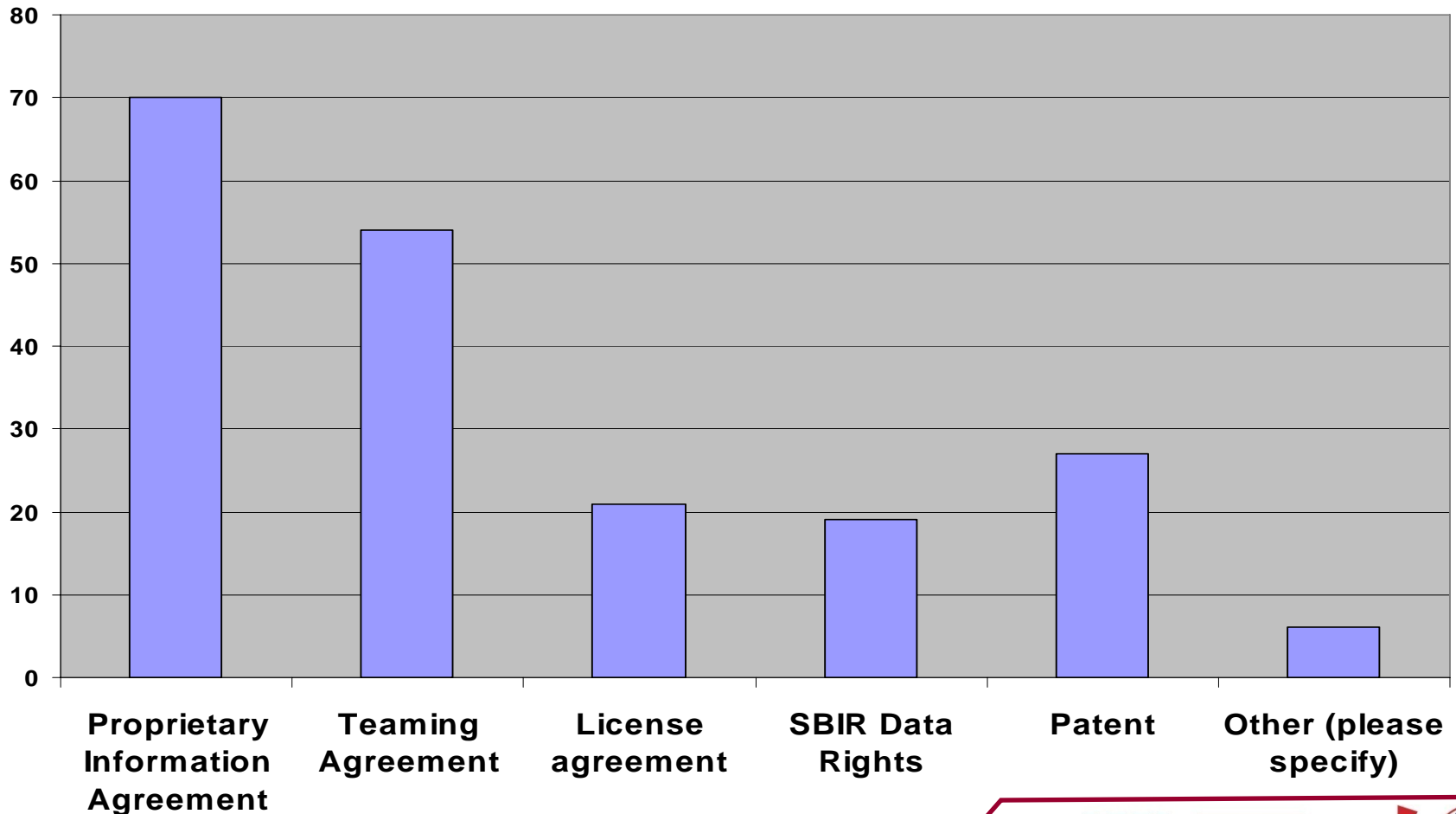
- Alison Brown, IP Subcommittee Chair
  - Overview of Survey Results & Key Findings
- Edsel Brown, SBA
  - SBIR IP Protection Issues
- Carol Van Wyk, IP WG Chair
  - Government & Industry Best Practices
- John Moran, Holland & Knight
  - Case study on IP protection issues when working with the Government

**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

# What types of IP protection did you have with the Prime Contractor?



# Remarks on Patent Issues

- **Tenebraex:** We designed and built bid samples of our technology for a large prime used in their bid for an Army contract, only to be informed after they won that they would make the accessory themselves, despite our having a valid patent because of FAR 52.227.

## ***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*

# Findings: Out of Date Legislation

- Statute 28 U.S.C. 1498 (1948)
  - On any contract with the Government, a contractor may use any US patent with the authorization and consent (A&C) of the Government
  - Current Policy implementation does not even require explicit A&C by Government
  - Infringee has to sue Gov for recourse and can only receive “reasonable” royalties (If foreign company is the infringer, the IP owner cannot even get royalties)
  - Statute provides strong economic disincentive for Private companies to invest in developing IP for DoD applications
- Statute does not address other IP Protection
  - For example, copyrighted SW or SW licenses are not covered
  - Inconsistent IP protection is to the Government and Industry’s disadvantage

# Remarks on Prime/Sub IP Issues

- You are eliminated at the bid process if you do not agree to prime conditions. They do not generally negotiate
- Prime contractor conditioned award on relinquishment of small business SBIR Data Rights - The prime refused to budge and we walked away.
- We lost contracts in large part for asserting SBIR data rights. If you don't concede to the Prime's demands, you won't get the work.
- If asked to give up IP rights this is a deal-breaker and we would rather not have the business
- Protect rights as trade secrets, avoid disclosing

# Findings: Prime/Sub IP Issues

- Negotiating IP protection up front was best
  - SBs often reported though that they were required to give up IP protection in order to get the business
- If a dispute arose, successful outcomes resulted generally from internal dispute resolution
  - Legal action on SB part was rarely successful
- Primes generally respond how their Government customers want them to respond
  - Educating PEOs on value of innovative IP from SBs is key to successful IP protection with Primes

# Remarks on IP Issues with Gov

- We discovered our procedures in use at a competitors establishment.
- We had to accept Government Purpose Rights so they could take our design and send it to the lowest bidder for future production phases
- Gov't gave our hardware to others to reverse engineer
- Prime/Gov rewrote code to eliminate IP
- Gov lab cancelled funded contract in order to use \$\$\$ to duplicate capability themselves

# Findings: IP Issues with Gov

- Govt researchers & program managers do not have a clear understanding of IP rights
  - Better education is needed on what can and cannot be done with protected IP
  - Policy Directives are needed with specific guidance to enforce IP protection
- Gov/Primes often negotiate IP rights on contracts that are non-negotiable by law
  - Policy Directive states that contract award cannot be made conditional on relinquishing SBIR data rights
  - Better education is needed to Contracting Officers on what rights can legally be negotiated

# Findings: SBIR IP Protection

- Definition of a Phase III SBIR contract is being interpreted differently within DoD
  - “derives from, extends or logically concludes effort(s) performed under prior SBIR funding agreements”
  - Need reference examples by SBA to provide guidance
- Contracting Officers need training on SBIR Policy Directive
  - Requirement for issuing Preference
  - Allowance for sole-source award
  - Non-negotiable SBIR Data Rights
- Recent SBIR Program Phase III Guidance issued by DUSD(AT) is a good step forward

# Next Steps

- **IP Protection Methods WG**
  - Recommendations for improved A&C language
  - Training material with standard options for IP protection between Primes and Subs
- **Best Practices WG**
  - Capturing Prime Best Practices for IP protection and methods for dispute resolution
  - Defining “Report Card” for Gov Best Practices particularly in SBIR Phase III IP transition
- **SBIR WG**
  - Collecting case studies to assist SBA in providing reference examples on how Policy Directive should be followed
  - Assisting DAU and SBA PCR's in preparing training material
- Plan is to use NDIA forums for educating communities on issues and potential solutions