



Boston Executive Briefing Series

INTELLECTUAL PROPERTY IN US GOVERNMENT CONTRACTS



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January 2007

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Protecting Your Intellectual Property

- It is essential to protect your IP both before signing the Contract and during contract performance
- In Government procurements there are three major IP components
 - Patents
 - Technical Data
 - Computer Software
- Other concerns
- With different types of IP, rights are classified and treated differently

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Utilizing Certain Agreements To Maximize Rights

- FAR applies to procurement contracts of most federal agencies
- Increased flexibility in “Other Transactions”
- Individual agency regulatory schemes should be reviewed to determine benefits of using cooperative agreements, CRADAs, grants, etc. (*Data and software only*)
- Be vigilant in protecting your “Crown Jewels” in whatever agreement you negotiate

Patent Protection

- Since 1980, patent provisions are “standard” based on statute (Bayh-Dole Act), which is implemented under the FAR
- Focus is on “subject inventions”
- U.S. contractors can obtain title to patented “subject inventions”
- Government gets a paid-up, royalty free, non-exclusive license (potentially broad application) to practice or have practiced
- Contractors can “lose” title if it does not report the invention or fails to commercialize

Patent Protection

- Understanding “subject invention” is critical –
 - “Invention of the contractor that is conceived or first actually reduced to practice in the performance of work under this contract.”

- Application: At Ends of the Spectrum –
 - An invention is conceived and developed at private expense, but government funding is provided to demonstrate the invention in its first reduction to practice
 - An invention is conceived under a government contract, but all development and reduction to practice is accomplished at private expense
 - Two Scenarios = Both Subject Inventions



Patent Protection

- Protect pre-existing rights
 - Notify the government in your proposal
 - Provide written notice after award
 - Try to obtain acknowledgement in the contract

- Helps avoid disputes during contract performance = Better customer-contractor relationships

- Recordkeeping and notice systems are also critical for protecting patent rights
 - Campbell Plastics Eng'g & Mfg. Inc. (Fed. Cir. 2004)



Setting the Scene

Technical Data and Computer Software

- Understanding the landscape will help determine how to treat data and software
- Unlike patents and corresponding “title” concerns, focus is on a “license” to use data or software and any related restrictions
- Rights are generally determined based on who funded the data or software developed or delivered in the performance of the contract

Technical Data and Computer Software

- Funding Sources
 - Unlimited (Government Funded)
 - Limited/Restricted (Contractor Funded)
 - Government Purpose (Mixed Funding)/DoD
- Government’s Standard License Rights
- Take advantage of special rules that apply to commercial items

Protecting Your Developments

- It is possible to segregate rights to the “part” without giving up the “whole” piece of data or software
- Doctrine of segregability clearly exists under the DFARS
- Generally, government’s rights will be determined by (1) why the IP was developed and (2) who paid for it at the **lowest component level**
- Possible, then, to have different components of a single system (or computer program modules) subject to varying rights

Protecting Your Developments

Module 1 Developed at Private Expense <u>Completion Date:</u> November 1, 2005	Module 2 Developed at Private Expense <u>Completion Date:</u> December 1, 2005
Module 3 Developed with Mixed Funding (Contractor/Government) <u>Completion Date:</u> January 1, 2006	Module 4 Developed Entirely at Government Expense <u>Completion Date:</u> February 1, 2006

- ◆ **Critical Lesson:** Establish a system to track and document development to ensure support for proper rights allocation
 - IR&D treated as a private expense (limited rights)
 - Make the work you are doing (and not doing) under the contract clear in your proposal and in the contract itself
- ◆ What system do you have in place to identify and preserve development and funding of your IP?

Intellectual Property Protection and Recovery ¹¹ of IR&D Costs. ATK Thiokol Inc. v. United States, 68 Fed. Cl. 612 (2005)

- Issue: When is R&D not “required in the performance of a contract”?
- Court held answer is in CAS, the FAR and the terms of the contract.
- Facts: Thiokol included IR&D costs of a commercial rocket motor as IR&D cost. DCAA argued tooling and equipment should be a direct cost of the first contract for the motor. The dispute involved questions of allocation of IR&D costs, the treatment of depreciation, and the status of the contractor’s CAS disclosure statement. From a data rights perspective, defeating the government’s argument that “implicitly” required efforts should be charged as a direct cost to the contract allows the Contractor to treat such costs as allowable IR&D.

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ATK Thiokol Inc. v. United States (Cont’d.)

- IR&D costs are treated as “private expense” allowing the contractor to retain the maximum rights in technical data.
- Best practice: Make it clear in the contract what is/is not “required in the performance of a contract” in order to maximize the protection of IR&D funding.

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Importance of Markings

- If you fail to mark, you can lose your rights
- Use the appropriate restrictive legend from the FAR
- Not a time for creative writing
- Onerous outcomes
 - Three Cases:
 - Xerxe Group (Fed. Cir. 2002)
 - General Atrionics Corp. (ASBCA 2002)
 - Spotless Janitorial Services (GAO 2005)

“Commercial” Technical Data and Computer Software

- FAR Part 12 provides contractors the opportunity to negotiate special license rights
 - Permits use of standard commercial license rights
 - Rights are even more generous for subcontractors
- Leverage the FAR definition of a Commercial Item at FAR 2.101
 - Broad definition that is more expansive than COTS
 - No sales requirement
 - May include “evolved” products through advances in technology or performance, and
 - Product modifications
- “CI” Treatment of Computer Software & Technical Data Under the DFARS and FAR

Recent Developments in Commercial Item Data Rights

- 2007 DoD Appropriations Act, Section 802
 - DoD must assess data rights requirements and establish appropriate strategies to ensure availability.
 - For major weapons systems, subsystems and components modifies 10 U.S.C. 2321 (f) presumption that data pertaining to commercial items is “developed exclusively at private expense.” Presumption now is the reverse (NOT developed at private expense), so contractor must establish funding source.



Concluding Considerations

- Continued use of improper IP provisions – therefore, scrub the contract
 - Especially true at the subcontract level
- Subcontractor Concerns
 - Commercial Item flowdowns
 - Direct contact with government customer (“spokes in a wheel” application of the FAR’s provisions)
 - Primes are not supposed to use their leverage to obtain rights in sub’s IP, but can do so as part of a larger arrangement with separate consideration
 - Often, their standard flow-down attempts to obtain rights in the sub’s IP, contrary to the FAR
- Plan ahead with the use of IR&D, recordkeeping, clarity in your proposals, and protections in the contract.





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ORGANIZATIONAL CONFLICTS OF INTEREST (OCI)



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January 2007

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OVERVIEW

- Addressed in the FAR in FAR Subpart 9.5, “Organizational and Consultant Conflicts of Interest”
- No standard clause in the FAR
- Key Principles
- Three Categories
 - Unequal Access to Information
 - Biased Ground Rules
 - Impaired Objectivity
- Example Contract Provisions

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KEY PRINCIPLES OF OCI

- Prevent the existence of conflicting roles that may bias a contractor's judgment
- Prevent an unfair competitive advantage
 - Proprietary information of others
 - Source selection information
- Burden is on the Contracting Officer to "identify", "evaluate", "avoid", "neutralize", and "negotiate" potential conflicts prior to award
- Anticipating OCI issues, Contractors should develop their own mitigation plan to "sell" when questions arise

CATEGORY 1 – Unequal Access to Information

- Access to "non-public information" that leads to a competitive advantage
 - Being the incumbent contractor alone is not enough
- GAO has focused on:
 - Did the bidder have useful information beyond that of an ordinary incumbent?
 - Can the information be identified using "substantial facts and hard evidence"?
 - Was the information proprietary to another company, or was it freely disseminated?

Johnson Controls World Services (GAO 2001)

- Contract concerned an A-76 outsourcing of base maintenance operations at Fort Benning, GA. Competition was for low cost, technically acceptable offeror to compete with the MEO.
- JCWS alleged winning offeror, IT Corp., had an impermissible OCI based on “non-public information” obtained from a teaming partner/subcontractor, INNOLOG.
- INNOLOG built and maintained logistical EMSI data base for relating to maintenance activities worldwide (including Benning), and helped Army to evaluate logistical needs under another ISM contract.



Johnson Controls World Services (GAO 2001) (Contd.)

- GAO factual assessment:
 - The information INNOLOG had would be valuable to a bidder:
 - INNOLOG had much more detailed information than in the RFP as to weapons repaired and parts used, permitting refined/reduced staffing.
 - INNOLOG was “embedded in the Government organization,” and “knows everything that goes on” as to maintenance and supply.
 - Information was more than that possessed by ordinary incumbent:
 - INNOLOG’s work included analysis/evaluation of how the work is and should be performed, and an incumbent would not ordinarily know how an agency evaluates its work.



Johnson Controls World Services (GAO 2001) (Contd.)

- GAO rejected Army arguments that:
 - EMSI database was “only good” and did not give much information to be of use.
 - Army had previously raised the OCI concern with INNOLOG.
 - IT and INNOLOG had a firewall.
 - Hearing revealed information sharing/facilitation by IT/INNOLOG staff.
 - OCI mitigation was required, but none done.



Mechanical Equipment Co. (GAO 2003)

- Five-year small business development/production contract for the CAMEL by TACOM.
- Chenega (ANC) awardee; OCI was alleged through its subcontractor, Radian.
- Radian a “long-term support contractor” at TACOM, provided support for the CAMEL program.
- Lack of “substantial facts and hard evidence”:
 - Information Radian possessed had been made public or was outdated by events.
- GAO acknowledges that TACOM and Radian personnel worked “side-by-side” on the CAMEL program, but found no evidence of actual access.



CATEGORY 2 – Biased Ground Rules

- Occurs when a contractor has “set the ground rules” for a subsequent contract by, for example, writing the Statement of Work or specification.
- GAO focuses on:
 - Did the bidder “set the ground rules” for a competition by having a substantial role in the SOW or specification?
 - Did the firm receive an “actual benefit” in the competition because of their prior role?
 - Was the firm responsible for design and development of the overall system? (Note this is an “exception”)

Lucent Technologies World Services (GAO 2005)

- ID/IQ contract to supply Army with TETRA wireless radios for first responder network (AFRN) in Iraq.
- Lucent involved in AFRN project and TETRA technology, and developed solicitation.
- When Army sought Lucent’s help to respond to offeror questions, Lucent refused on the ground it planned to be a bidder.
- Army CO finds an OCI and excludes Lucent from bidding.
- GAO rejected Lucent arguments that:
 - RFP changes precluded an OCI.
 - Commercial items/NDI precluded an OCI.
 - OCI did not arise because Lucent did not make the TETRA devices.
 - Lucent was exempt under the developmental contractor exemption.
- GAO also rejected Lucent position that CO still had a duty to mitigate OCI, because Lucent chose to challenge the OCI determination.

American Management Systems (GAO)

- Actual benefit not shown where relationship between winning bidder, Oracle, and agency's "integration systems partner" KPMG (who set the contract grounds rules), was only a "Marketing Alliance Agreement."



CATEGORY 3 – Impaired Objectivity

- Can the firm render impartial advice to the government, or will it appear to be effected by its relationship with the evaluated entity?
- GAO focuses on:
 - Does the Contract require the exercise of judgment by the Contractor?
 - If so, will the firm ever be in a position to evaluate itself?
 - Will providing impartial advice adversely impact any of the firm's economic interests?



Celadon Labs (GAO 2006)

- SBIR NIH Phase I grant case.
- Celadon proposal involved siLNA technology concerning small molecules that modulate protein in cancer cells.
- Celadon knew the NIH peer-review panels members and complained to NIH that each had a “real conflict of interest” under NIH rules because they worked/were affiliated with segments of the biotech industry aligned with siRNA, a competitive technology.
- The NIH peer-review panel found Celadon’s proposal technically unacceptable.
- Celadon complained to NIH again; NIH rejected Celadon complaints again and GAO protest followed.
- GAO sustained protest because NIH merely accepted reviewers self-assessment of no conflicts and failed to undertake its own determination.
- Prejudice is presumed from a conflict, so burden is on agency to refute prejudice.

Alion Science and Technology (GAO 2006)

- Three GAO protests plus Court of Federal Claims case. Ultimately, Alion lost.
- Award by DISA to ITT for electromagnetic spectrum engineering services.
- ITT makes and markets a host of multiple spectrum-dependent electromagnetic products, thus its work on the engineering contract could be influenced by its other financial interests (i.e., pushing its own products, rejecting competitor products) (“impaired objectivity”).
- After first protest, DISA took corrective action. Second protest followed and GAO sustained.
- In second round of “corrective action” ITT offered to use “fire-walled” subcontractors to perform conflicted portions of the contract. DISA accepted this even though it also found that one-third of the contract effort involved conflicts. Third protest followed.
- GAO found “fire-walling” approach sufficient, denied third protest.
- COFC denied injunctive relief.

How to Deal with OCI Issues

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- Assess your contracts that involve access to other's proprietary information or provide unusual insight into an agency's decision making process in making a contract award
- Consider OCI implications before accepting an award, and the steps that should be taken to mitigate OCI concerns before they occur
- Does this procurement (or a subsequent procurement) contain issues related to Unequal Access to Information, Biased Ground Rules or Impaired Objectivity?
- Develop a mitigation plan/approach for each of the three categories of OCI

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EXAMPLES OF OCI CONTRACT PROVISIONS

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- A. USPS Purchasing Manual, Clause 1-7
- B. Department of Commerce FAR Supplement, Clause 1352.209-71
- C. Department of Health and Human Services, Center for Medicare & Medicaid Services, recent RFP Clause
- D. Modified FAA Conflict of Interest Clause
- E. Employee and Subcontractor Non-Disclosure Agreements in Support of a Contractor's Mitigation Plan

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Federal SBIR/STTR Grant Funding Programs



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January 2007

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WHY SBIR/STTR PROGRAMS ARE IMPORTANT

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- Free R/R&D money for small businesses.
- Best IP protection afforded government contractors.
- Justifies (but does not require) sole source contracts for R/R&D and production.
- Massachusetts firms are major participants.

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Small Business Innovation Research (SBIR) Program

- Federal small business R&D contract/grant funding program.
 - Established in 1982.
 - Reauthorized in 2000 until 2008.
- Covers each federal agency with “extramural” R&D budget in excess of \$100 million; 2.5% of the agency’s R/R&D funds reserved for award to small business.
- About 5,000 SBIR grant awards, totaling as much as \$1.5 billion, made annually.

- Eleven federal agencies have SBIR programs:
 - Agriculture
 - Commerce
 - Defense
 - Education
 - Energy
 - National Institutes of Health/Health and Human Services
 - Homeland Security
 - Transportation
 - Environmental Protection Agency
 - National Aeronautics and Space Administration
 - National Science Foundation

- Each agency publishes research topics of interest to the agency and a solicitation for research proposals.
 - Two/three annual proposal cycles.
 - Omnibus solicitations.
 - Initial screening, then peer reviewed.
 - Competitively scored and ranked.
 - Tentative award/final award.
 - Unsuccessful firms may obtain the evaluations.



SBIR Regulatory Structure

- SBA regulations (13 C.F.R. subpart 700) govern the program.
- SBIR policy directive (Sept. 24, 2002) located at www.sba.gov/sbir/SBIR-PolicyDirective.pdf.
- Agency SBIR manuals.
- Grants/Contracts/CA awarded in three phase process:
 - Phase I:
 - Up to \$100,000 (guideline), six months duration.
 - Show capability.
 - Test Technical feasibility.
 - Demonstrate larger agency investment warranted.
 - Phase II:
 - Up to \$750,000 (guideline), two years duration.
 - Principal research effort.
 - Must have gone through Phase I.
 - Open competition/public notice not required.



- Phase III:
 - Commercial applications.
 - No SBIR funding, but other federal funding, including R&D funding permitted.
 - No limit on number, duration, dollar value, or type of Phase III award. May be awarded anytime after Phase I.
 - Size limits do not apply.
 - Proposal must have gone through Phase I, but not necessarily Phase II.
 - Open competition/public notice **not** required.
 - May include production contracts.



Summary of SBIR eligibility requirements

- Qualified small business concern:
 - Any legal form.
 - For-profit entity.
 - 51% owned and controlled by individuals who are U.S. citizens/permanent residents, or owned by a concern that meets that test (special rules for joint ventures, ESOPs and trusts).
 - 500 employees or fewer, counting the small business and any affiliated firms. (SBA's complex affiliate rules at 13 C.F.R. § 121.103).
 - Place of business in U.S.
 - Operate primarily in U.S. or make a significant economic contribution to U.S. economy.



- Principal Investigator's primary employment (one-half of working time) must be with small business.
- Minimum level of effort required by small business:
 - Phase I – small business: two-thirds of research work.
 - Phase II – small business: one-half of research work.
- R/R&D work must be performed in the U.S.
- Eligibility determined at time of award (or at date of request by CO if award pending).



SBIR IP rights

- Patent rights same as other U.S. government contracts (Bayh-Dole).
- Technical data rights protections are very generous; retained by the SBC for four years after government acceptance of all delivered items.
 - FAR 52.227-20 Rights in Data – SBIR Program clause applies.
 - Government allowed to use technical data for government purposes only, cannot disclose outside of the government (including for competitive procurements) without contractor permission (except to support contractors).
 - After four-year period, government has royalty-free license to use, and authorize others to use on its behalf, data for government purposes, including competitive procurements; government has no liability for third-party use.



- DOD uses DFARS 252.227-7018, extends the exclusivity period to five years; thereafter, government has unlimited data rights.
- Data rights protection carries into/may broaden in Phase III, potentially very long duration, may include production contracts.
- Data rights protections alone warrant SBIR consideration.



Sole Source Awards

- Due to the data rights limitations, government is authorized to make sole-source awards for Phases II and III to Phase I contractors.
- Sole source awards of production contracts can issued under Phase III or under 41 U.S.C. § 253(c)(1), 10 U.S.C. § 2304(c)(1) and FAR § 6.302-1.
- Only after expiration of the data rights limitation period does the sole-source authority cease.
- Warning - SBIR awards can be protested



Small Business Technology Transfer (STTR) Program

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- Designed to promote cooperation between research institutions and small business in R&D development, and get federal research innovation to the marketplace.
- Percentage of federal R&D funding reserved for award to small business and nonprofit research institution partners.
- Five federal agencies required to reserve: DOD, DOE, NIH/HHS, NASA, NSF.
- Three phase process, similar to SBIR program.

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■ Eligibility requirements similar to SBIR program, except:

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- Small business concern need only perform 40% of the R&D work.
- Small business must partner with non-profit entity.
- Non-profit entity must:
 - Have place of business in U.S.
 - Be a:
 - Non-profit college or university,
 - Domestic non-profit research organization, or
 - Federally-funded R&D center.
 - Perform at least 30% of the R&D work.

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- Small business and non-profit generally get to keep IP rights, but must have written agreement addressing the issue.
- Major differences with SBIR Program:
 - Partnership required with research institution, and written consortium agreement.
 - No minimum employment requirement for principal investigator.

