

SBIR Data Rights: A Path to Wealth for SBIR Firms

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SBIR Data Rights: The Legal Basis

- SBIR Data Rights are set forth in:
 - The SBIR Reauthorization Act of 2011
 - The August 6, 2012 SBA SBIR Policy Directive
 - FAR Clause 52.227-20, and
 - DFARS clause 252.227-7018
- These laws provide rights to Small Business Concerns (SBCs) that are unique in all of Government Contracts
- These unique rights provide the basis for accumulating wealth in an SBC and for its owners

Value of SBIR Data Rights

- Unlike non-SBIR clauses, SBIR technical data cannot be disclosed
- This nondisclosure obligation preserves value
- These data rights can "roll over" indefinitely
- If competitors wish to gain access to SBIR data, they have to either purchase the company or the technology line the data supports
- However, SBIR data depends on SBIR status, and thus, we will review rules establishing SBIR status and for preserving these rights

SBIR Eligibility for Phases I and II

- What are SBIR eligible firms?
 - A Small Business Concern (SBC) definition (applies only to Phases I and II) is:
 - "Organized for profit"
 - No more than 500 employees, including affiliates
 - Owned and controlled more than 50% by individuals who are "citizens of or permanent resident aliens in" the U.S.; or is a firm that is itself more than 50% owned and controlled by such qualified citizens/individuals
 - Not owned more than 49% by a hedge fund, venture capital operating company or private equity fund
 - On the date of award of a Phase I or II
 - SBA Size standards are not applicable to Phase III

Summary of SBA's Final SBIR/STTR Eligibility Rule

- The Final Rule, among other things:
 - Eliminated the "domestic business concern" definition
 - Made the time of size determination for SBIR and STTR firms **time of award**, not time of proposal submission
 - Made the venture capital operating company (VCOC)/hedge fund/private equity group eligibility provisions applicable *only* to SBIR firms – not STTR firms
 - Established an SBIR/STTR-specific affiliation rule
 - Found **conclusive affiliation** for ownership of over 50% of an SBIR firm by an entity
 - Stated that SBA **may** find affiliation for ownership by an entity of 40% or more of an SBIR firm based on the totality of the circumstances
 - Required SBIR firms majority-owned by Investment Companies to register with SBA
 - Allowed size protests by SBA/contracting officers *after* award

SBIR Data Rights Apply to All Phases

- SBIR Data Rights apply to *all* SBIR funding agreements
- Phase I and II are obvious
- Phase III SBIRs are defined as:
 - Work that "derives from, extends, or completes effort(s) performed under prior SBIR funding agreements" and is funded by other than SBIR (Phase I or II) funds
- The SBIR Policy Directive does not apply to non-federally funded SBIR firm efforts – but a commercial contract *can be* a Phase III

All SBIR Funding Agreements Receive SBIR Data Rights

- All SBIR funding agreements must include the SBIR Data Rights Clause
 - Including Phase III agreements
 - Under the SBIR Data Rights Clause:
 - Agencies must protect all proprietary information, and must refrain from disclosing all information generated under an SBIR funding agreement, except for limited purposes
 - Protections last under the Directive "for not less than 4 years" — but for DOD contracts, 5 years
- The FAR clause is 52.227-20 – provides four years of protection
- The DFARS clause is 252.227-7018 – provides five years of protection

Phase IIIs Must Receive SBIR Data Rights

- The Directive states that: "A Phase III award is, by its nature, an SBIR award, has SBIR status, and **must be** accorded SBIR data rights." (See *Directive, Section 4(c)*)
- If an SBC wins a competition for work that "derives from, extends, or completes" that firm's work under a prior SBIR funding agreement, **then the new funding agreement is a Phase III and must be accorded all SBIR rights.** *Sec. 4(c)(2)*
- Phase IIIs can be subcontracts, purchase orders, or any other type of contract

SBIR Data Rights – What Are they?

- Agencies have a broad duty to protect SBIR Data
- Agencies **receive a royalty-free license** in technical data generated under SBIR awards "for Government use," but may not disclose SBIR technical data "outside the Government" – especially to the SBC's competitors -- during the protection period
- Under the DFARS clause, DOD may disclose SBIR technical data to support contractors – those firms that signed a nondisclosure agreement with DOD and cannot bid on contracts involving the technology or data
- SBIR firm retains **ownership rights** to data generated by the SBC in the performance of an SBIR award

SBIR Data Rights Are Non-Negotiable

- Agencies must insert the SBIR technical data rights clause in every SBIR award, including Phase IIIs
- SBIR technical data rights are non-negotiable
- Agencies may not in any way make issuance of an SBIR award, including a Phase III, conditional on data rights
- Agencies may not diminish or remove SBIR Phase III technical data rights during contract administration
- Transfer of technical data rights to the agency or any other party must be in a writing that can only be executed *after* the SBIR award is signed
- *SBA must immediately* report to Congress any attempt or action by an agency to condition, exclude or diminish SBIR data rights

Preserving Non-SBIR Data Rights

- SBIR contractors must affirmatively act to preserve rights in non-SBIR data that are more restrictive than SBIR rights:
 - IDENTIFY data that they bring to the contract
 - ASSERT rights to it
 - Describe the BASIS for the assertion
 - Provide the NAME/COMPANY asserting rights
- This four-column chart appears in the SBIR DFARS clause
 - but can be submitted under the FAR clause as well
- Failure to identify and assert rights to non-SBIR technical data submitted under a contract can result in forfeiture of rights in non-SBIR data brought to the contract

Identifying Non-SBIR Data

- Identify technical data developed at private expense, developed outside of SBIR funding agreements, or brought to the contract, sufficiently so the Government can ascertain where data generated under the contract starts and ends
- Example: Dave Metzger's copyrighted Power Point presentation entitled "SBIR Data: A Path to Wealth for SBIR Firms," consisting of 24 slides
- If the Agency requests more than the title to the program or a general description, then you can provide it

Identifying Non-SBIR Data

- No need to describe source code or engineering level detail, or other technical level details
- For data from patents, cite the "data developed in connection with [list the patent number]," but do not list the patent itself – patents are not data
- Describe copyrighted materials (sketches, drawing, engineering plans), by title, if it exists
- Describe other trade secret data

Data Developed at Private Expense

- Pre-existing, non-commercial data developed at private expense is ***not*** SBIR Data, even if delivered under an SBIR contract – if it was not generated under the SBIR contract
- Deliver and mark data developed at private expense with the Limited Rights legend (or with the Restricted Rights legend for non-commercial computer software)
- The FAR clause encourages firms not to deliver restricted data – the DFARS clauses encourages marking it
- If you must deliver it, then mark it with the Restrictive or Limited Rights legend to indicate that it was *not generated* under the SBIR contract, and therefore, is not SBIR Data

Nonseverable Data

- Data ***nonseverable*** from SBIR Data developed at private expense should be delivered with Limited or Restricted Rights
- For example: a new version of code debugged under the SBIR contract is ***nonseverable*** from the original code developed at private expense
- The reason for the more restrictive marking: the two codes cannot be separated – the Government can ***never*** disclose proprietary code (or data) while it can disclose SBIR data after the protection period expires – but since they cannot be separated, and one can never be disclosed, they both can never be disclosed, so they must be marked with the more restrictive marking
- The rationale has to do with the nondisclosure obligation of the Government – not the nature of the code

Nonseverable Data

- The Government gets a royalty-free license only in what is developed under the SBIR Contract, not in what was developed at the SBIR owner's private expense
- The Government does not receive SBIR data rights in improvements if they are developed at the SBIR developer's private expense
- Due to the nondisclosure requirement, the Government cannot disclose SBIR Data, even after expiration of the nondisclosure period, that is permanently attached to something the Government can never disclose – the effect of the nondisclosure clause is to elevate SBIR Rights to Restricted or Limited Rights
- This nondisclosure obligation can be used affirmatively as well as to defend existing privately developed data

Nonseverable Data

- For example, you can add nonseverable data developed at private expense to your SBIR developed technologies to elevate their data status
- Some examples of possible improvements to generate at private expense: make the technology faster, cheaper, more rugged, secure, up-to-date, interoperable; temperature, vibration, or water resistant; or scalable
- Nonseverable changes, made at private expense, level up data protection to a more restrictive status because one cannot be disclosed without the other

Commercial Items

- Commercial items have different rules
- For instance, commercial software is governed by the terms of its commercial license
- This sale completely by-passes the Data Rights clauses – they no longer apply
- Even if developed with government funds – if software (or any item) achieves commercial status – ***is sold or offered for sale*** – it is governed by the commercial license or other terms of sale and not by the clauses

SBIR "Roll-Over Rights"

- "Roll-over" rights are vital to wealth creation
- SBIR data rights "roll over" to the end of the protection period of the latest SBIR contract
- Because of Phase IIIs, SBIR protection can theoretically be perpetual – keep rolling over with new contracts
- Because of the "roll-over" clause contained in Section 8 of the Directive, *provide notice* of subsequent awards to agencies from which you have received prior SBIR funding agreements, and the new protection period, so that the prior funding agencies are aware that your rights have "rolled over" in prior SBIR funding agreements to the new date

SBIR Data Rights Clauses

- The SBIR data rights clauses, FAR 52.227-20 and DFARS 252.227-7018, have not been conformed to the Directive
- For instance:
 - the clauses do not acknowledge or take into account the "roll-over" provision
 - The DFARS does not yet specifically prescribe inclusion of the SBIR clause in Phase III contracts
 - The DFARS does not prohibit negotiation of SBIR data rights
- These protections and others are only in the Directive
- Keep the Directive handy to protect SBIR Data Rights

Mark Your Data

- SBCs must **mark** all SBIR data (generated under an SBIR contract) with the data rights legends contained in:
 - DFARS 252.227-7018 for defense agency contracts; and
 - FAR 52.227-20 for non-defense (civilian) agencies
- Use the exact wording from those clauses
- Annotate the date to indicate the "roll-over" – "...subject to Section 8 of the SBA SBIR Directive of August 6, 2012"
- "Mark it or lose it" when it comes to data rights
- There is no deadline in the DFARS or FAR clause for marking – you can "cure" a failure to mark – re-submit your deliverable with the SBIR marking on it
 - If any disclosure took place while it was unmarked, you have no recourse, but no disclosure can be made after your submission

Summary

- Generating SBIR Data generates wealth
- Combining SBIR Data with Non-SBIR Data and elevate the restrictive status generates wealth
- Marking SBIR Data preserves wealth
- Rolling over data preserves wealth
- Notifying agencies of roll-over rights in your data preserves wealth

Concluding Advice

Go enrich lives with your innovations – including your own

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