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SBIR Data Rights: One 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 rights accumulate value in an SBC and provide a path to wealth 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 Phase III 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, 13 CFR 121.702, 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 obviously SBIR funding agreements invariably include the SBIR data clauses: FAR clause 52.227-20 (non-military) and 252.227-7018 (military)
- SBIR Data Rights also apply to Phase IIIs
- Identification of Phase IIIs is critical: it is the key to preserving data rights in procurements that may not look like an SBIR but are Phase IIIs
- Once a Phase III is identified, the law supplies Phase III rights and obligations, including Phase III Data Rights

All SBIR Funding Agreements Receive SBIR Data Rights

- 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
- The FAR clause is 52.227-20 – provides four years of data protection from the end of the contract
- The DFARS clause is 252.227-7018 – provides five years of data protection from the "end of the project" – which means from the date of the last deliverable

Phase III Rights

- Phase III offers:
 - SBIR Data protection from disclosure in SBIR contracts and subcontracts, and "roll-over" of SBIR Data Rights
 - Sole source federal contracts, sparing federal agencies and prime contractors the burdens of competitions and protests
 - Phase III Preference rights
 - Opportunities for SBCs to establish markets
- Proper Phase III administration ("Phase III Process") involves 1) proper **identification** of the Phase III requirement, 2) **handling** it properly, and 3) **marking** the SBIR Data, all in accordance with the law

Identification of Phase IIIs

- 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 – which is critical for purposes of the “roll-over” provision
- This definition is very broad, is not limited to an agency, size of firm, type of contract, or research – its focus is on 1) prior SBIR work and 2) non-SBIR funds

Identification of Phase IIIs

- **"Derives from"** is a very broad test that refers to work that traces back to SBIR efforts performed under prior SBIR funding agreements
 - These prior SBIR agreements can be prior Phase I, II, or III contracts, grants, or other funding vehicles
 - "Derives from" is at the most basic level of the prior SBIR work – not the application, data, or reports, but the basic SBIR hypothesis that was tested for feasibility in Phase I
- **"Extends"** means the work can be for *other applications* not researched or performed in prior SBIR efforts
- **"Completes"** means commercialization of the prior SBIR research into a commercial product or application
- These are three different tests because of the word **"or"**

Identification of Phase IIIs

- "[B]ut is funded by sources other than the SBIR Program" means that funds from the agency set aside for the SBIR Program (used for Phases I and II) cannot be the source of funding
- Thus, a Phase III many times looks like a regular procurement:
 - A Phase III can be funded by procurement, O&M, construction, research, *or any other type of agency funds (except SBIR Program funds)*
 - It can be *any type* of contract, including a subcontract, and may result from competition

Identification of Phase IIIs

- This concept can be confusing
- For instance, contracting officials are conditioned that the nature of a contract dictates its funding:
 - A construction contract is funded by construction funds
 - An operation and maintenance contract is funded by O&M funds
 - A research contract is funded by research funds
- For Phase IIIs, the CO is asked to accept that a **Phase III SBIR contract** is funded by *non-SBIR funds*
- Many acquisition officials conclude that because the requirement is not funded by the SBIR Program (setaside) funds, it cannot be an SBIR Phase III – which is simply wrong
- ***The very fact*** that the requirement is *not* funded by SBIR Program funds makes it a Phase III, if it meets one of the other elements

Identification: A Phase III Can Be of Any Type

- A Phase III can be for *any* type of activity
- A Phase III can be for non-research work
- The Directive states that: "Phase III work may be for products, production, services, R/R&D, or any such combination." (Sec. 4(c)(4))
- A subcontract can be a Phase III and a Phase III can be a subcontract (Sec. 4(c)(5) states this expressly)
 - In fact, a Phase III can be any type of contract or funding vehicle
 - It can be a purchase order under an IDIQ or GSA Schedule contract, a grant, a subgrant, a subcontract, or any other type of funding agreement

Identification: Competition Can Result in a Phase III

- If an SBC wins a *competition* for work that "derives from, extends, or completes efforts made under prior SBIR funding agreements, **then the funding agreement for the new work Phase III and must be accorded all SBIR Phase III status and data rights.**" *Sec. 4(c)(2)*
- If an SBC offers its SBIR technology in a Broad Agency Announcement ("BAA") competition, and wins, the resulting contract award is a Phase III (*Sec. 4(c)(2)*)
- In that case, the solicitation may not call for Phase III work but simply requests solutions to a generally described problem – ***but the award is a Phase III***
- However, if the solicitation includes SBIR Data, then the solicitation can be challenged as calling for a Phase III

Identification: A Phase III Can Result From a Competition

- The law (and definition of a Phase III) makes the award in such a case a Phase III because the *work proposed* derives from, extends, or completes prior SBIR work
- The solicitation is not law and cannot supersede the Phase III status the law affords the award
- A competitive solicitation cannot incorporate SBIR Data
- If the solicitation, unlike the BAA, which solicited a solution to a generally described problem, incorporates SBIR Data to describe the requested work, then the *solicitation itself* defines Phase III work and requires the agency to afford an SBIR Preference prior to issuance to the SBIR developer (*See Directive, Section 4(c)*)

Identification: Phase IIIs Are Flexible

- A Phase I can go straight to a Phase III
- A Phase III can follow another Phase III
- A Phase III can be for any amount
- A Phase II and a Phase III can be awarded at the same time, but from different funds
- A Phase III can be a modification to a Phase I or II – the Phase III is the amendment funded with non-SBIR funds
- A Phase III can be other than the agency that awarded the Phase I, II, or prior Phase III
- Size standards do not apply to Phase IIIs – Phase IIIs are exempt from the 500 employee size standard and the affiliation rule

The Effect of Phase III Status

- Once a Phase III is identified, the law requires that it be provided SBIR rights
- The Directive states: "A Phase III award is, by its nature, **an SBIR award**, has SBIR status, and **must be** accorded SBIR data rights..." (*Directive, Sec. 4(c)(2)*)
- At the point of identification of the work as a Phase III, the agency or prime contractor must accord the solicitation or work SBIR status and SBIR rights and obligations attach to it
- Thus, once a Phase III is identified, the law "kicks in" and SBIR rights and obligations flow from there

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

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 an 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)
- 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
- Restrictive or Limited Rights data that cannot be separated from SBIR Data must be marked with a Restrictive/Limited rights legend because such data can never be disclosed

Preserving Non-SBIR Data Rights

- SBC's must affirmatively act to preserve rights in **non-SBIR** data – most commonly developed at private expense
- Such data receives rights more restrictive than SBIR rights:
 - **IDENTIFY** data developed at private expense and not developed under the SBIR contract that the SBC may bring to the contract
 - **ASSERT** rights to the data
 - Describe the **BASIS** for the assertion
 - Provide the **NAME/COMPANY** asserting rights
- This four-column chart appears in the SBIR DFARS clause –the FAR clause instructs not to submit proprietary data
- Failure to identify and assert rights to non-SBIR technical data submitted under a contract can result in forfeiture of rights in privately developed (non-SBIR) data

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 or proprietary data
- Sketches or drawings should have the SBIR legend on them
- Place the legend on the title page -- state on following pages that they are covered by the title page legend

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 38 slides
- If the Agency requests more than the title to the program or a general description, then you can provide it

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 practicably ***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, more secure, more 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 if one set of data 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 (DFARS 227.7202)
- Achieve commercial status by offering for sale or actually selling your SBIR-developed product or technology
- 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 long-term data protection
- SBIR data rights "roll over" to the end of the protection period of the latest SBIR contract
- The SBIR Data protection period can be perpetual – it can keep extending with new SBIR Phase III 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 prior protection periods have "rolled over" to the new date

The Role of the Directive

- 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:
 - specifically reference Phase III SBIR contracts or define them
 - prohibit negotiation of SBIR data rights
 - state that subcontracts can be Phase IIIs
 - prohibit conditioning or diminishing SBIR Data Rights in Phase IIIs
- 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 re-submission

The Prime Contractor's Role in Phase IIIs

- A large contractor that awards a Phase III subcontract must ***insert*** the SBIR clause into its subcontract
- The large prime does not flow down the clause because it does not have it in its prime contract – but the law requires the clause in a Phase III SBIR subcontract – so ***it is inserted, not flowed down***
- The prime contractor need not fear a reaction from the customer agency for this – the answer is that the law requires the SBIR clause in an SBIR contract
- The prime contractor benefits because its prime contract now will produce technical data that is non-disclosable to others –giving them an advantage in re-procurements
- The prime can also take credit for Phase III success stories with SBC subcontractors or purchased firms

Prime Contractor Rights

- Prime contractors can also benefit from purchasing SBIR firms or their technologies
- Size standards/affiliation rules do not apply to Phase IIIs
- Agencies can procure sole-source work that derives from, extends, or completes prior SBIR work from these large contractors that have purchased SBIR firms
- They can also purchase individual SBIR technology lines
- SBIR Data in such acquisitions provide large primes an advantage in re-procurements of their programs – the Government cannot disclose SBIR Data to competitors
- The Government also cannot incorporate this SBIR Data from subcontracts into solicitations – the Data becomes an edge in re-procurement competitions for the prime

Phase III Sole-Source Rights

- The Phase III sole-source rights are the Government's -- not the SBC's -- this is widely misunderstood
- The Government has the absolute right to issue Phase III sole-source contracts (*Directive, Sec. 4(c)(3)*)
- The Justification and Approval (J&A) merely needs to state that the work "derives from, extends, or completes prior SBIR efforts and is funded with non-SBIR funds"
- This saves countless hours of competitive procurement time and needless protest time and effort – Phase III awards cannot be successfully protested
- Prime contractors also can award Phase III subcontracts on a sole-source basis

Agency "Push-Back" on SBIR Data Rights

- Why do Agencies resist recognizing or acknowledging Phase IIIs and SBIR Data Rights?
- The answer is that mission personnel want maximum flexibility with data and contracting personnel believe that openly available data leads to cheaper prices
- When push-back is encountered, the SBIR firm must:
 - First establish Phase III SBIR status
 - Do this either by a "technology tree" that shows prior SBIR lineage of the SBC's SBIR technology, or by a "side-by-side" showing similar language, metrics, functionality, etc., between the agency requirement and the SBC's past SBIR effort

Agency "Push-Back" on SBIR Data Rights

- Draft a comprehensive letter demonstrating the Phase III status of the agency requirement, including the technology tree and/or the side-by-side analysis -- cite the Directive, which has the force of law
- Send the letter to the contracting officer
- Once Phase III status is established and acknowledged, the law provides SBIR Data Rights
- This may be a demanding and complex process, but if the agency requirement “derives from, extends, or completes” prior SBIR effort, and is funded with non-SBIR funds, the agency has no choice in the matter but to acknowledge the requirement’s Phase III status

Are Phase IIIs a "Slippery Slope" for Agencies?

- Some agency officials are concerned that Phase IIIs are a "slippery slope" – once awarded, future contracts will derive from the initial Phase III and "it will never end"
- If stated as a criticism, this is unjustified:
 - SBIR law protects SBIR-developed innovations just as the patent laws protect technology inventions
 - It is the law -- Congress wants it that way
 - If the SBC is completing the work **on time and within budget**, the agency could ask for nothing more from any other firm
 - SBIR solutions are commonly cheaper and more efficient than large firm, legacy approaches
 - The most common critics of Phase III sole-source contracts are larger firms with out-moded approaches and methods that Phase IIIs replace – Phase IIIs encourage large firm innovation and penalize legacy firm complacency

Summary

- Identifying Phase III status of a contract, grant, or other funding agreement is the admission ticket to Phase III rights
- The definition of Phase III comes from the Directive, not the SBIR clauses
- Once Phase III status is determined, all Phase III rights, including SBIR Data Rights, flow from it
- Mark your SBIR Data and provide notice of roll-over of SBIR Data Rights when awarded Phase IIIs
- SBIR Data Rights add value to the SBIR firm and accumulate wealth for its owners

SBIR Data Rights: A Path to Wealth for SBIR Firms



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