

ARNOLD & PORTER LLP

SBIR – Past, Present, Future

Presented at the 2012 SBIR/STTR National Conference
Portland, Oregon

November 13, 2012

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The Basics

- The SBIR program provides funding for small, high-tech businesses to research, design, develop and test new technology ideas to meet specific needs
 - Provides funding that might not otherwise be available
 - Introduces small business solutions to the government market
- SBA estimates SBIR/STTR funds approximately \$2.5b per year for small business R&D

Phase I	Competitive award, conceptual design & feasibility study	Was \$100,000 → Now \$150,000
Phase II	Extended research on the idea - detailed design, simulation, prototyping and evaluation	Was \$750,000 → Now \$1,000,000
Phase III	SBC takes the idea to products , production, manufacturing, commercialization, creation of a commercial item or marketable product	Continues to be unlimited

History

- Established in 1982
 - Small Business Innovation Development Act (P.L. 97-219)
 - Small Business Technology Transfer Act of 1992
- Serial reauthorizations
 - 2000 – 2008
 - 2008 → 14 extensions
 - 12/31/11 – Happy New Year!
 - President Obama signed the FY'12 National Defense Authorization Act (NDAA), which contains the SBIR/STTR Re-Authorization Act
 - Long-term extension through 9/30/2017
 - Did not alter technical data rights

Overview

- It has proven to be a **good** program
- Cost to the Government/taxpayer: none
- Unique aspects:
 - *Competitive* research in Phases I and II
 - Data rights for Small Business Concerns (SBCs)
 - Sole-source contracts in Phase III
 - Data protection in all Phases
- Phase III: an opportunity build wealth for SBC owners because of unique data rights

Who Gets What Under SBIR Awards?

- **The Government Receives:**

- A non-exclusive, royalty-free, paid up, world-wide license to use SBIR technical data generated under SBIR awards for government purposes
- The “non-exclusive” license means that both the Government *and* the SBIR contractor can use the SBIR Data
- The Government’s use is limited to Government purposes
- “Royalty-free” and “paid-up” both mean the Government does not have to pay for that use

Who Gets What Under SBIR Awards?

■ Contractors Get:

- **Better data rights** than any other federal clauses provide to contractors
 - Government **may not disclose** SBIR data outside of Government during the protection period – a huge limitation
 - SBIR Data Rights apply to **all** SBIR awards, **including** subcontracts to such awards, that fall within the definition of Phases I, II, or III
 - Protection period starts on contract start date and lasts for:
 - 5 years for defense contracts after the end of the project
 - And 4 years for non-Defense contracts after the end of the contract
- **\$\$\$\$\$**
 - The SBIR preference may lead to increased sole-source awards
 - Large firms may pay top-dollar for small firms whose SBIR technologies are a critical component of their technology road map

The SBA SBIR Policy Directive

September 24, 2002 SBA SBIR Policy Directive



August 6, 2012 SBA Policy Directive

New directive, but key issues remain the same

- Has the force of law
- Solidifies Phase III rights

The Directive favors SBIR firms, but SBIR firms must know of its provisions to protect their rights

SBIR Eligibility Requirements

- What are SBIR eligible firms?
 - Small Business Concern (SBC) definition (applies only to Phases I and II):
 - "Organized for profit"
 - Not to exceed 500 employees, including affiliates
 - *At least 51% of concern is owned and controlled by individuals who are "citizens of or permanent resident aliens in" the U.S.; or is a firm that is itself 51% owned and controlled by such qualified citizens/individuals [new proposed regs change this]*
 - *On the date of award [new proposed regs change this]*

Phase III – What's all the Buzz About?

- What is a Phase III Funding Agreement?
 - Government-funded applications:
 - Work that "derives from, extends, ~~or logically concludes~~ completes effort(s) performed under prior SBIR funding agreements;" *and*
 - Is funded by non-SBIR Program funds
 - This test is broad, critical to keeping SBIR Data Rights, and making SBIR more favorable than other programs
 - Commercial applications:
 - SBIR Policy Directive does not apply to SBIR firm efforts funded by non-Federal sources
- Phase IIIs receive the same Data Rights as Phases I and II

Some Unique Aspects of Phase III SBIRs

- May go straight from a Phase I to a Phase III
- Phase IIIs can result from a competition (for work that "derives from, extends, or logically concludes prior SBIR efforts)
- The Directive determines Phase III status – not contracting officers – they must abide by the Directive

Activities That Can Constitute a Phase III

- The following constitute Phase III activities under the Directive, if derived from SBIR efforts:
 - Further research
 - Services (testing, for instance)
 - Products and/or production
 - Any combination of the above
 - Commercial items

Advantages of Establishing Phase III Status: Sole Source Contracts

- What are the benefits of establishing Phase III status for a funding agreement?
 - Sole source contracts
 - No further competition required
 - Phase I/Phase II competition is sufficient under statutes such as FPASA, ASPA and the Competition in Contracting Act ("CICA")
 - Agencies wishing to award a Phase III award can do it "sole source"
 - Need only cite in a Justification and Approval, if one is used, that the award "derives from, extends, or logically concludes" prior SBIR efforts

Another Advantage of Phase III Status: The Preference

- *Preference must be given to the SBIR developer for agency requirements that constitute a Phase III*
 - §5108 of Act materially strengthens and clarifies the Phase III preference, statutorily providing that Preference must be afforded
 - To the “greatest” extent practicable
 - By federal agencies “and federal prime contractors”
 - To SBIR/STTR firms that developed “the technology”
 - The Directive provides for and authorizes sole source awards
 - Current authorization for sole source awards remains in place

More Benefits of Phase III SBIR Status

- No limit on the number of Phase IIIs
- No limit on duration of the funding agreement
- No limit on the type of funding agreement — *i.e.*, grant, contract, cooperative agreement, "other transaction," or subcontract
- No limit on dollar value
- Phase III may be funded by different agency or agencies that funded Phases I or II

Another Big Advantage of Phase III Status – No Size Standards

- The small business size limits do not apply to Phase IIIs
 - 500 employee size limit does not apply
 - Therefore, the "affiliation rule" has no practical application

Another Advantage of Phase III Status: SBIR Data Rights

- The Government must insert the SBIR Data Rights Clause into all SBIR Contracts, including Phase IIIs
 - Under the SBIR Data Rights Clause:
 - Agencies must protect and cannot disclose all data generated under an SBIR funding agreement, (except for limited purposes)
 - Protection period starts on contract start date and lasts for:
 - 5 years for defense contracts from the end of the project
 - And 4 years for non-Defense contracts from the end of the contract

Phase III SBIR Data Rights: Better Than the Rest

- SBIR firm retains ownership of the data it develops and all rights to use it
- Phase III SBIR awards receive these rights
- The Government cannot disclose the data to the public or other contractors
- The Government cannot use the data to develop procurement specifications
- SBIR Data Rights for prior SBIR agreements "roll over" to the end of the protection period of a new SBIR agreement

The Government Cannot Disclose SBIR Data

- Agencies receive a nonexclusive, royalty-free right to use technical SBIR Data *generated under an SBIR funding agreement* **but may not disclose SBIR Data outside of the Government** during the protection period
- SBIR Data Rights apply to all SBIR awards, including subcontracts to such awards, that fall within the definition of Phases I, II, or III
- These are better data rights than any other federal clauses provided to contractors

Insertion of the SBIR Data Rights Clause

- Agencies must insert the SBIR technical data rights clause in every Phase III
- SBIR technical data rights are non-negotiable
- Agencies may not in any way make issuance of an SBIR award conditional on data rights
- Agencies may not diminish or remove SBIR Data Rights during contract administration

Mark SBIR Deliverables With the SBIR Legend

- SBIR Contractors 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 agencies
- Use the exact wording contained in those clauses
- Annotate them to indicate the "roll-over"
- **"Mark it or lose it"** when it comes to data rights

The SBC Must Protect Pre-Existing Data It Brings to the Contract

- SBCs must preserve rights in their own proprietary data (and that of others) they bring to the contract:
 - IDENTIFY data that brought to the contract
 - ASSERT rights to it
 - Describe the BASIS for the assertion
 - Provide the NAME/COMPANY asserting rights
- The SBIR Data Rights clause requires this
- Failure to do so can result in forfeiture of rights in data brought to the contract

How To Treat Pre-Existing Data

- SBIR firms should deliver pre-existing non-commercial data developed at private expense with Limited Rights (or with Restricted Rights for non-commercial computer software)
- Non-commercial data developed at private expense that is **non-severable** from data generated under an SBIR contract should be delivered to the government with Limited Rights (controversial) (or Restricted Rights for computer software)
- Commercial items are delivered to the Government pursuant to a commercial license which the SBC develops and controls

What Happens When SBIR Data And Proprietary Data Are Mixed Together?

- The Government gets a royalty free license only in what is developed under the SBIR Contract, not in what the SBC developed at its expense
- You can enhance your SBIR deliverables
- The Government does not receive SBIR data rights in modifications/enhancements if they are developed at the SBC's private expense
- This can elevate SBIR Rights to the best data rights available to contractors – Limited Rights or Restricted Rights (for computer software or documentation) – because the Government can *never* disclose proprietary data

Proprietary Improvements Developed at Private Expense

- Some examples of improvements made at private expense:
 - Make software faster, cheaper, secure, debugged, up-to-date, interoperable; multi-channel instead of single channel, wireless, user-friendly; networked, blue-tooth, PC, MAC or Ethernet compatible;
 - Make a technology more rugged, temperature, vibration, or water resistant; scalable; capable of optimizing legacy systems

Provide Notice to the Government of Subsequent SBIR Contracts for the "Roll-Over"

- Because of the "roll-over" of SBIR Data Rights contained in the Directive, *provide notice* to past agencies of your new SBIR awards that derive from or extend prior SBIR funding agreements, so that past agencies are aware that your rights have "rolled over" in prior SBIR funding agreements

The SBIR Directive and the FAR and DFARS Clauses Do Not Match

- The SBIR data rights clause, 252.227-7018, has not been conformed to the Directive
- For instance, the clauses do not acknowledge or take into account the preference
- There are also other discrepancies
 - The DFARS does not reference Phase III contracts
 - The DFARS does not prohibit negotiation of SBIR data rights
- Keep a copy of the Directive handy

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Please send questions or comments to:

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