

COURSE 9, TUTORIAL 1

FREQUENTLY ASKED QUESTIONS REGARDING SBIR AND STTR DATA RIGHTS



This Section introduces some basic SBIR and STTR Data Rights concepts by means of questions and answers. These frequently asked questions provide an opportunity to introduce some basic facts about this complex subject by means of real questions that SBIR entrepreneurs and their staffs frequently ask.

QUESTION 1

I have funding from one of the eleven agencies that participates in the SBIR program, but the award did not result from a response to an SBIR Topic or a Phase I or II SBIR. Do I need to be concerned about SBIR Data Rights?

Answer: This question also can be asked in a more general way: “When do SBIR Data Rights apply?” The answer is that they apply in only three instances: in all Phase I, II and III SBIR awards. Phase I and II awards are funded with SBIR set aside funds, and must be accorded the SBIR Data Rights clause. Inclusion of the SBIR/STTR clauses in awards for Phase I and II awards is rarely an issue. For an SBIR or STTR award by any civilian agency, such as the National Science Foundation, Department of Energy, Homeland Security, Department of Agriculture, National Aeronautics and Space Administration, and so forth, the SBIR and STTR clause is Federal Acquisition Regulation (FAR) clause 52.227-20. For all military contracts, the appropriate SBIR and STTR clause is Defense Federal Acquisition Regulation Supplement (DFARS) 252.227-7018. If funding referenced above is a Phase III award, then it also must be

accorded the FAR or DFARS Data Rights clause, whichever is appropriate. It is a Phase III SBIR award if the work funded derives from, extends, or completes prior SBIR effort, and is funded with non-SBIR funds. If none of these tests apply, and the funding did not result from an SBIR Phase I or II award, then SBIR Data Rights do not apply.

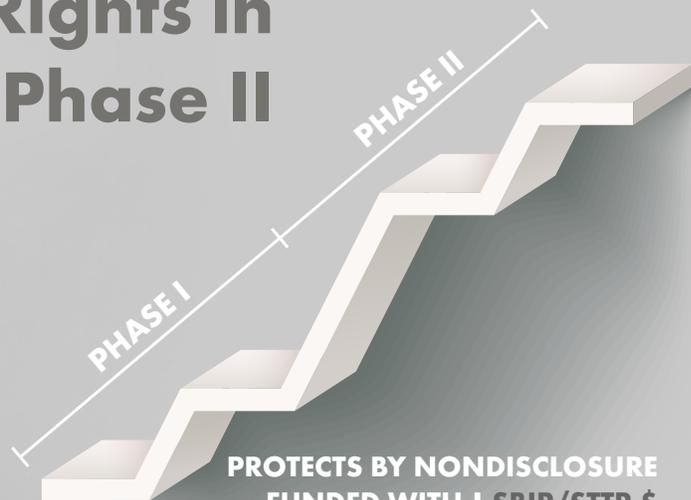
QUESTION 2

How do I notify the government that I have a Phase III award?

Answer: When you receive a Phase III award, it “rolls over” or extends your prior SBIR Data Rights. However, it is incumbent on you to notify the contracting officers of the prior SBIR funding agreements in that technology line that the Phase III extended the protection periods for their funding agreements. That letter, or series of letters, is important to put them on notice the protection periods have been extended—without such notice they may not be aware of it. The letter should reference the funding agreement(s) for that agency which the protection period is or are being extended, and the Phase III that extended



SBIR Data Rights in Phase I & Phase II



PROTECTS BY NONDISCLOSURE
FUNDED WITH | SBIR/STTR \$
ACCORDED | SBIR Data right clause
COMMERCIAL | FAR 52.227-20
4 yrs. nondisclosure
DEFENSE | DFARS 252.227-7018
5 yrs. nondisclosure

them. Use funding agreement numbers to clearly identify the funding agreements in question.

QUESTION 3

I have been advised that equity investors won't have any interest in my medical technology because of the "march in" rights that agencies have and the non-exclusive license rights of agencies. How should I address that?

Answer: These equity investors are not completely familiar with federal funding rights. The government obtains "march in" rights in patents, not in SBIR Data. When a patent covers a "subject invention," some agencies could take rights in the patent, including "march in" rights. These rights allow the government to step in and take over the patent. A "subject invention" is one conceived or reduced to practice under a federal funding agreement (a contract, grant, cooperative agreement, or other federally funded award). The government has rarely, if ever, exercised these "march in" rights, so this is not a realistic concern or risk. These "march in" rights relate to patents granted only for subject inventions, and not to patents granted for technologies that were not conceived or reduced to practice under a federal funding agreement. "March in" rights do not apply to SBIR Data, which the government has no right to compromise while the protection period is in effect.

QUESTION 4

I know that SBIR data rights are important to companies with funding from DoD, but are they important for companies with funding from DOE?

Answer: An emphatic "yes." SBIR Data Rights are always important, regardless of the agency, program, or funding. SBIR Data Rights grant the government a non-exclusive, royalty-free, paid-up, world-wide license to use SBIR Data, but it cannot disclose SBIR Data as long as the protection period remains in effect. The protection period can be extended indefinitely, if the SBIR firm keeps getting Phase III awards. SBIR Data are the basic building blocks of the technology the SBIR firm hopes to convert to a product and eventually sell. Disclosure of this data by the government invites competitors free entry into the market the SBIR firm is attempting to create, without any investment, effort, or work. If any of these competitors are multi-billion dollar entities, they could dominate or take over completely the SBIR firm's technology, rendering sale of the technology and eventual sale of the SBIR firm problematic at anything near fair values. Think of SBIR Data as the "Coke" formula. Coca Cola would have hundreds of competitors if its formula were disclosed. SBIR Data Rights preserve value in the SBIR technology, the SBIR firm, and eventually, wealth for its owners. Hence, marking and preserving SBIR Data Rights is vital, regardless of the agency or technology.

QUESTION 5

I have funding from the National Oceanic and Atmospheric Administration (NOAA) and I'm using a subcontractor to help design my technology. Does the flow down of SBIR data rights give them an ownership position in the technology?

SBIR/STTR DOUGHNUT HOLE



Answer: Yes. Using a subcontractor during the development stage of your SBIR technology creates a “doughnut hole” in that technology. All data developed under the SBIR contract or award is SBIR Data, even the data the subcontractor developed. The subcontractor owns the SBIR Data that it generates, and the SBIR firm owns the SBIR Data that it generates. (The government owns none of it, but rather obtains a license to use it.) Thus, be very careful about involving subcontractors during the development stage of SBIR technologies, to assist in developing the technology. This may lead to expensive re-development of the subcontractor portion later, or paying ransom to the subcontractor later to retrieve full ownership of the technology. The subcontractors’ role should ideally be limited to testing, or late stage refinements that are not critical to the technology. This ideal meets reality, however, when the subcontractor is required at the proposal stage to win the SBIR award in the first place.

QUESTION 6

I have an STTR from the Army. Are the guidelines and concerns different for STTR Data Rights than for SBIR Data Rights?

Answer: STTR Data Rights are the same as they are for SBIR. For the Army, the STTR and SBIR Data Rights clause is the same: DFARS 252.227-7018. (For civilian STTR awards, the STTR Data Rights clause is the same as the SBIR clause—FAR 52.227-20.) The SBIR and STTR programs differ in one major respect. STTR proposals and awards must include participation of a non-profit entity. STTR Data Rights are shared between them. SBIR has no such requirement.

QUESTION 7

As NASA is a mission agency, are SBIR data rights handled in the same way there, as they are with DoD?

Answer: : Award of SBIR Data Rights does not depend on the mission or non-mission status of the agency. NASA is a civilian agency, and therefore, SBIR awards that NASA makes must be accorded the civilian SBIR Data Rights clause—FAR 52.227-20. DoD SBIR awards, including Phase III awards, are accorded the defense SBIR clause—DFARS 252.227-7018. The clauses are alike, but also have differences. Both grant the government a non-exclusive, royalty-free, paid-up, worldwide license to use the SBIR Data. However, the DoD clause requires marking carefully proprietary, or non-SBIR data delivered under the DoD award, while the civilian clause discourages even submitting such data in the first place. Both are mandatory flow-down clauses, which requires that they be flowed down to subcontractors. The DoD clause, however, expressly prohibits use by the SBIR firm of its prime status (when it is a prime contractor) to limit the SBIR Data Rights of the subcontractor.

QUESTION 8

May an agency enter into a Phase III contract as a sole source contract?

Answer: Yes. Sole-source rights are one of the many advantages to both the SBIR firm and the government of Phase III status. The reauthorization act and the SBA Directives both provide for this sole-source right as a matter of law. We go into this advantage of Phase III status in further detail in Sections Three and Four.

We hope these questions and answers have been helpful in summarizing some of these important SBIR and STTR Data Rights issues.

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