

Unleashing Small Business Innovations: A Path to Growth and Prosperity

SBIR/STTR – Part 2



Karri Palmetier



Palmetier Law was founded to help small and medium-sized businesses navigate the maze of government contracting regulations. As a WOSB/SDVOSB, Karri understands the entrepreneurial spirit of a small business and appreciate the difficulties they face to enter the government contract market. With more than two decades of experience in the Air Force, major defense contractor and law firm, she brings a unique perspective as a trusted adviser to support companies.

My Primary Practice areas are:

- Small Business Requirements
- Data Rights and Patents
- Ethics Programs
- Contract Administration and Terms/Conditions
- Commercial Item Status
- Subcontract Management
- Non-FAR Contracts
- Compliance and Training

This presentation has been prepared for information purposes and general guidance only and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice.

- Data Rights
- Patents
- New FAR Language
- Technical Assistance and Business Administration (TABA) Funds
- Exit Strategy Considerations

- Data first produced in performance of a SBIR contract
 - Clauses: FAR 52.227-20 and DFARS 252.227-7018
 - Applies to small business prime and all subcontractors
 - Applicable data rights clause *must be included* in all SBIR contracts and subcontracts
- USG Authorized Use
 - FAR – USG purposes only, not disclosed outside USG (including disclosure for procurement purposes) without permission except USG may disclose for use by support Contractors
 - DoD – USG may use, modify, reproduce, release, perform, display, or disclose. Receives a license for Limited rights in such SBIR technical data and Restricted rights in such SBIR computer software
- Retain adequate records to substantiate data was developed under each contract
- Protection Period is 20 years after award of each SBIR contract
 - Converts to Government Purpose Rights (Unlimited for Energy)
 - Clauses are not yet updated but many agencies have deviations
 - Extension of prior data rights. SBA stated intent is not to change existing rights but clause only covers new contracts.

- Subsequent SBIR contracts
 - Must include applicable FAR/DFARS SBIR clause
 - May be awarded without competition; ie Sole Source to owner of SBIR Rights
 - Can apply to subcontracts and commercial contracts
 - Contractor must update database – www.sbir.gov
- Strategic Tip for Phase III:
 - Engage with contracting officer early
 - Inform that SBIR product available – sole source
 - Request SBIR clause be added

- Proposal Process
 - Determine what will be delivered and the level of rights
 - Assert rights to any Technical Data and Computer Software to be *delivered* with less than Unlimited Rights
 - Provide commercial computer software license
 - Include subcontractor assertions
 - Request debriefings and listen – even if win
- Subsequent SBIR contracts
 - Must include applicable FAR SBIR clause
 - Strategic Tips:
 - Engage with contracting officer early – Phase III may not be aware of your SBIR technology
 - Inform that SBIR product available – sole source
 - Request SBIR clause be added
- Primes may NOT take title to subcontractor technical data or computer software – address in clauses

- Bayh-Dole Act, 35 U.S.C. §§ 200-212, 37 C.F.R. Part 401, and FAR Subpart 27.3 with clause 52.227-11
 - Applies same as any other R&D contract
- Applies to any invention conceived or first reduced to practice in the performance of the contract
 - Obtain assignment of ownership of rights from employees and independent contractors
 - Comply with Patent laws such as first use, public disclosure, etc.
- Primes may NOT take title to subcontractor inventions – address in clauses

- Disclosures and Reports
 - Initial is 2 months after inventor discloses to you or 6 months if otherwise aware
 - Require employees and independent contractors to notify you
 - Disclose the following: abandonment, utilization, election of title, patent filing
- Ownership and Licensing
 - If comply, you retain ownership and government obtains royalty-free license
 - If don't comply, government may exercise March-In Rights and you lose all rights and ownership
 - Authorization and Consent
 - Subsequent licensing must be to a firm who will "substantially manufacture" in the US unless no firm exists or domestic manufacturing is not feasible

- Patent filing is subject to standard patent laws
 - Include statement of Government funds
 - Monitor first use and public disclosure
 - Except nonprovisional patents must be filed in 10 months
- Authorization and Consent
 - FAR 52.227-1 and FAR 52.227-2
 - USG may infringe a patent and patent holder is entitled to lost royalties only.
 - USG indemnifies contractors to violate a patent when necessary to perform a contract

Marking Requirements

- Comply with marking requirements in clauses
- Be consistent in labeling each piece of data
- Review documents before delivery
 - Identify all types of data to be delivered:
 - Unlimited Rights – Do NOT mark except - “export controlled” or similar for USG’s rights but may be able to restrict third party rights under *Boeing v. US*, 2019-2147 (CAFC, Dec 21, 2020)
 - Comply with Marking Requirements in Clauses
 - Less than Unlimited Rights, Third Party Data, Export-Controlled
 - Mark each page
 - May need to portion mark if pages contain mix of data rights
 - Creative Marking Ideas: Click wraps, Acceptance document, Indicate specific pages or types of data in Cover page, Use Adobe Portfolio
- USG may question assertion, so will need to provide supporting documentation

- Consider supply chain as design hardware and manufacturing
 - Commercialization
 - Domestic Requirements
 - Licensing Rights
- Intellectual Property
 - Determine if subcontractors will provide restricted information
 - Commercialization consider license needs for the future
 - For STTR, must sign an Allocation of Rights agreement with research institution for rights, follow-on work, and commercialization
 - May be needed with proposal
 - Must be signed within 15 days after award

Proposed Changes to FAR and DFARS

- Proposed rule issued on April 27, 2023 adds new section to FAR 27.409
- Address both the SBIR and STTR Programs
- Makes 20 year protection period official
 - First changed in 2019, so more than 4 years
 - No longer rely on deviations
- Attempts to standardize FAR/DFARS requirement with SBA's SBIR/STTR Policy Directive – great progress with still some room; e.g., will need to eliminate DFARS clause
- Final rule is no earlier than mid-July 2024

- Great resource to help businesses succeed and bridge valley of death
- Amount varies by agency and not all agencies provide TABA
- May be used for commercialization, intellectual property protection, compliance, strategy
- May be used for outside consultants
- Only available during Phase I and II
- Applies in addition to contract value

Do NOT Leave Money on the Table

- SBIR Technology and related rights can add significant value to a company's value
- For purposes of Phase III, Rights can transfer to any company even a large one
- Need to manage the SBIR portfolio so there is clarity as to which rights attach to each segment of the technology
- Phase I and Phase II contracts have limitations on being transferred
- Ensure your merger/acquisition counsel understand the rules



Karri L. Palmetier

Karri@palmetierlaw.com

(303) 697-8914

(317) 397-7344

www.palmetierlaw.com

SBIR/STTR Program

- SBA - www.sbir.gov
- VC Ownership - <https://www.sbir.gov/vc-ownership-authority>
- Tutorials - www.sbir.gov/tutorials

Agencies

- Agriculture - <https://www.nifa.usda.gov/grants/programs/small-business-innovation-research-technology-transfer-programs-sbirsttr>
- Commerce/NIST - <https://www.nist.gov/tpo/small-business-innovation-research-program-sbir>
- DoD SBIR - <https://www.defensesbirsttr.mil>

- Energy - <https://www.energy.gov/science/sbir/small-business-innovation-research-and-small-business-technology-transfer>
- HHS/NIH - <https://seed.nih.gov>
- DHS - <https://www.dhs.gov/science-and-technology/sbir>
- NASA - <https://sbir.nasa.gov>
- NSF - <https://seedfund.nsf.gov>
- Transportation - <https://www.volpe.dot.gov/work-with-us/small-business-innovation-research>