Via Regulations.gov

Edsel Brown
Assistant Director
Office of Innovation
U.S. Small Business Administration
409 Third Street SW.
Washington, DC 20416


Dear Mr. Brown:

On behalf of the American Bar Association (“ABA”) Section of Public Contract Law (“Section”), I am submitting comments on the proposed amendments cited above.1 The Section consists of attorneys and associated professionals in private practice, industry, and government service. The Section’s governing Council and substantive committees include members representing these three segments to ensure that all points of view are considered. By presenting their consensus view, the Section seeks to improve the process of public contracting for needed supplies, services, and public works.

The views expressed herein have not been approved by the House of Delegates or the Board of Governors of the ABA and, therefore, should not be construed as representing the policy of the ABA.2

1 Mary Ellen Coster Williams, Section Delegate to the ABA House of Delegates, and Anthony N. Palladino and Heather K. Weiner, members of the Section’s Council, did not participate in the Section’s consideration of these comments and abstained from the voting to approve and send this letter.

2 This letter is available in pdf format at http://www.americanbar.org/groups/public_contract_law/resources/prior_section_comments.html under the topic “Small Business and Socioeconomic Issues.”
I. BACKGROUND AND INTRODUCTION

The Section is pleased to offer comments on the Small Business Administration (“SBA”) Notice of Proposed Amendments (“Notice”) to the Small Business Innovation Research (“SBIR”) and Small Business Technology Transfer (“STTR”) Policy Directive (the “Directive”). The Section agrees with the Directive’s stated goals of clarifying the SBIR and STTR programs concerning data rights. Nevertheless, the Section is concerned that the Directive’s limitation of the SBIR/STTR Data Rights for Computer Software\(^3\) to 12 years from the date of last delivery under a funding agreement may unintentionally discourage investment in small businesses, especially in connection with “Phase III” funding agreements.

II. COMMENTS

The Section believes that the Directive’s treatment of software after the SBIR/STTR Protection Period ends may be unduly detrimental to small businesses developing software and hoping to commercialize software products developed under SBIR/STTR funding agreements. In particular, the SBIR/STTR program requires small businesses seeking Phase III funding to obtain outside (non-governmental) funds. This funding, which may take the form of angel or venture capital, is required to commercialize the small business technology and ideally allow the small business to pursue additional innovation beyond the particular activity that is the subject of the funding agreement.

In the Directive, the SBA is trying to simplify the status of SBIR/STTR Data Rights by having such rights revert to Unlimited Rights at the end of a 12-year protection period that has better-defined beginning and end dates. See 81 Fed. Reg. at 20486. Nonetheless, SBIR/STTR Computer Software, for example, can be a product (or some component of a product) and a small business that is trying to develop a software product, suite of products, or mobile app may need to rely on copyright protection to protect those products long after the 12-year SBIR/STTR Protection Period expires.

Conversion of SBIR/STTR Computer Software Rights to Unlimited Rights suggests the Government is obtaining a right to sublicense the software to the private sector. This inference follows from the Notice’s definition of Unlimited Rights: “The Government’s rights to access, use, modify, prepare derivative works, reproduce, release, perform, display, disclose, or distribute Data in whole or in part, in any manner and for any purpose whatsoever, and to have or authorize others to do so.” Id. at 20494. This language contrasts with Federal Acquisition Regulation (“FAR”) 27.404-3, which allows the contractor to claim copyright in software and gives the Government a broad license, “except the right to distribute to the public.” FAR 27.404-3(a)(4). Thus, to encourage investors to invest in software company start-ups for Phase III funding agreements under the SBIR/STTR program, the Directive should address and preserve the value of the small businesses’ copyrights in software and also limit the

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\(^3\) Capitalized terms in these comments refer to terms defined in the Directive.
Government’s license to less than unlimited rights, namely to a license that does not include distributing the software to the public.

This concern becomes even more apparent when one considers that the Directive fixes the SBIR/STTR Protection Period to 12 years from the date of last delivery under a particular funding agreement. 81 Fed. Reg. at 20493. The particular funding agreement could be a Phase I or II funding agreement. As a result, the 12-year period could conceivably end before, during, or shortly after completion of a Phase III funding agreement. A small business will find it harder to attract outside investment if its products for commercial, nongovernmental sales contain key modules or stand-alone software applications developed in an earlier SBIR/STTR phase that could be given away to the small business’s competitors on a date less than the current four-year SBIR/STTR Protection Period. In some cases the software could be given away immediately, depending on how long ago and under what funding agreement the software was initially delivered. Id. at 20486. The question is not whether the Government, without further cost, should be able to use the SBIR/STTR Computer Software after the end of the SBIR/STTR Protection Period, but whether the software will essentially fall into the public domain or be dedicated to the public if the Government authorizes anyone in the public to use it.

This lack of protection from commercial competitors also creates a disincentive during all SBIR/STTR phases for a small business to commercialize products, knowing the Government may later give the products away around the time the small business successfully enters the commercial, nongovernment market. Such circumstances contrast with the Directive’s treatment of patents. The Directive recognizes and preserves the commercial value of patents for small business products (id. at 20520), but does not do so for its copyrighted software products.

In summary, the Section believes that the Directive has the unintended effect of weakening protections of small-business software products and could make it more difficult for the Government to attract non-traditional and commercial businesses for acquisitions by the Department of Defense and other agencies with large SBIR/STTR programs. To avoid this result, the Section recommends that the SBA further revise the Directive to provide that, after the SBIR/STTR Computer Software Rights expire, the Government will take either (a) government-purpose rights as defined in the Defense Federal Acquisition Regulation Supplement (“DFARS”); or (b) rights similar to the copyright rights set forth in FAR 27.404-3(a)(4). This change would give the Government the finality and certainty it requires through a SBIR/STTR Protection Period with a fixed start and end date and avoid the Government paying more than once for the same software, while also encouraging investment in small businesses for Phase III awards and, thus, economic growth and expansion of the industrial base.

Lastly, the Section notes that, if the Directive amendments would require a DFARS change, the Directive should account for the recommendations of the Government-Industry Advisory Panel, which was established under section 813 of the National Defense Authorization Act for Fiscal Year 2016 (Public Law No. 114-92) and is specifically chartered to review and recommend on the technical data and computer software laws and regulations used by the Department of Defense.
III. CONCLUSION

The Section appreciates the opportunity to provide these comments and is available to provide additional information or assistance as you may require.

Sincerely,

David G. Ehrhart
Chair, Section of Public Contract Law

cc:
James A. Hughes
Aaron P. Silberman
Kara M. Sacilotto
Jennifer L. Dauer
Council Members, Section of Public Contract Law
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