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## Cleantech product development: Are strings attached to Recovery Act Funds?

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The American Recovery and Reinvestment Act of 2009 appropriated nearly \$800 billion to stimulate the U.S. economy out of recession. Included in the Recovery Act is billions of dollars for cleantech, including \$16.8 billion for the Department of Energy's Office of Energy Efficiency and Renewable Energy. Approximately \$2.5 billion was allocated to support research, development and deployment activities. These are significant opportunities for companies involved with developing new clean technologies. However, companies should be aware of strings attached to these new funding opportunities.

These opportunities are generally subject to the same rules and restrictions placed on similar grants or contracts with the federal government, unless specified otherwise by a governmental department or agency. It is important for companies to understand the government's rights to intellectual property developed with government funds. These rights can be dependent on the type of contractor, the specific department or agency involved and the solicitation or grant itself.

### Contractor's rights and obligations

For small businesses and nonprofit organizations, the Bayh-Dole Act sets forth rules for treating inventions developed with government funding. Under the act, the government receives a "nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States any subject



invention throughout the world."

Typically, patents rights clauses in government funding agreements define a "subject invention" as any invention or discovery that is or may be patentable, and that is conceived or first actually reduced to practice in the

performance of work under a funding agreement.

If your contract includes this standard definition, the filing date of the patent application is largely irrelevant. Instead, the determinative factors are the dates when the invention was conceived or when it was actually reduced to practice. Accordingly, mere filing of an application before entering into the contract may not be enough. To avoid having your invention fall within the government's rights, your invention should have been conceived and actually reduced to practice before performing work under the contract.

Once a subject invention arises, disclosure, election and filing requirements typically apply. The contractor must disclose the subject invention to the government within a specified time period (typically, two months) after the inventor discloses it in writing to contractor personnel responsible for patent matters; the contractor must elect in writing whether or not to retain ownership of any subject invention by notifying the government within a specified time period (typically, two years); and the contractor must follow specified filing requirements. Accordingly, the contractor should have reporting/dis-

closure/filing protocols in place to ensure that subject inventions are properly disclosed and handled.

It is critically important that companies follow these rules and requirements. A failure to follow the specified disclosure, election and filing requirements may allow the government to take title to the subject invention. If the government does take title, the company may have a "nonexclusive royalty-free license throughout the world" in the subject invention. However, the company will not receive this license if it fails to disclose the invention properly. To minimize the risk of this occurrence, companies should adopt strict internal reporting procedures and provide training to all employees to ensure compliance.

One other caveat to be aware of is that the use of government funds carries with it a preference for U.S. industry. Under the Bayh-Dole Act, the party holding title to a subject invention must show that any potential licensee has agreed that any products embodying or produced using the subject invention will be "manufactured substantially in the United States." In a global economy, this requirement can create practical issues for your business and its supply chain. A complicated analysis of corporate structures and make vs. buy decisions can be required to ensure compliance.

For companies that don't fall under the Bayh-Dole Act, the rules will often be very similar. In order to retain title, the contractor or grant recipient will have similar disclosure, election and filing requirements. Those companies receiving contracts or grants from the Department of Defense (DoD), Department of Energy (DoE) or NASA could see entirely different and separate requirements from those in the Bayh-Dole Act. Whether

or not the Bayh-Dole Act applies, in most circumstances the government receives a "nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States any subject invention throughout the world."

Regardless of the government authority, it is important for you and your legal counsel to work closely with your contracting officer to negotiate alternatives to the standard terms, or to build other safeguards into the agreement. There are exceptions to the standard terms, and the contracting officer generally has some flexibility. In addition, a narrowly crafted statement of work can limit the innovations that are swept into the government's purview. As every situation is different, you should work closely with your legal counsel on these and other issues to ensure your rights are protected.

In conclusion, the Recovery Act provides potentially enormous opportunities for cleantech companies. However, companies should seek the advice of counsel, pay careful attention to the government's rights to technology developed with these funds, and adopt and follow procedures designed to ensure compliance with government requirements. A failure to follow the strict rules and requirements could lead to a loss of important intellectual property rights.

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