The Allocation of Patent Rights in Government Funded Inventions

Brandon Andersen, J. Derek McCorquindale, and Daniel C. Cooley[1]

Brandon Andersen is an associate with Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, where he focuses on patent prosecution and litigation in the areas of chemicals, pharmaceuticals, clean energy, and medical devices.

J. Derek McCorquindale focuses his practice with Finnegan on patent and other intellectual property litigation, at both the trial and appellate levels. He has experience in cases before federal district courts, the International Trade Commission (ITC), the Patent Trial and Appeal Board (PTAB), and the U.S. Court of Appeals for the Federal Circuit, where he has contributed to dozens of appeals and argued successfully as lead counsel.

As a partner with Finnegan, Daniel Cooley helps companies litigate intellectual property disputes in US district courts, the International Trade Commission (ITC), and the Patent Trial and Appeal Board (PTAB). Mr. Cooley also frequently practices before the US Court of Appeals for the Federal Circuit where he has participated in dozens of appeals and petitions, arguing several as lead counsel.

In recent days, increased attention has been given to government funding on the national and state level, for example through investment in our country's infrastructure. Some of those resources may be directed to research and development, spurring innovation in the private sector. The parties who accept government contracts or other federal grants should consider how such funds could lead to the development of patentable inventions and how patents obtained on those inventions may ultimately be enforced. While some may be familiar with securing and enforcing patents directed to inventions developed in-part or in-whole using federal resources, many will soon encounter this scenario for the first time. This article is part of a two-part series addressing the acquisition and litigation of patent rights directed to inventions developed with the support of government grants or contracts.

In this article, we provide a brief overview of the Bayh–Dole Act, which controls the allocation of intellectual property rights in inventions developed using federal funding, and its implications on both obtaining and retaining enforceable patents. In the second article, we will explore the considerations and requirements when bringing or facing an enforcement action based on those patents.

I. The Bayh–Dole Act

Before 1980, the government generally retained title to any invention created under federal research grants or contracts.[2] Because such inventions could not be patented by the inventing party, inventors had little incentive to develop their inventions beyond the laboratory stage. And the federal government, perhaps because it lacked expertise or market incentive, often failed to make those inventions available to those who could profit by them.

In 1980, the Bayh–Dole Act was passed for the purpose of increasing collaboration between government agencies and outside entities.[3] In a deliberate reversal from the common practice at the time, the Bayh–Dole Act gave recipients of government funding the right to retain title to and profit from their inventions, provided they adhered to certain requirements.[4] The government, meanwhile, was granted an irrevocable, non-exclusive, royalty-free license to use such inventions.[5] Originally, the law applied only to small businesses, universities, and other nonprofit organizations.[6] The law was later extended to large businesses, however, through a presidential memo issued February 18, 1983.[7]

Two important governmental entities benefit from an exception to the Bayh–Dole Act's typical application: Unless a waiver is granted, NASA and the Department of Energy (DOE) will retain ownership of inventions developed by large businesses with federal funding, with a license to use the invention being granted to the inventing party.[8] NASA and the DOE are the only two agencies that, by statute, retain ownership of inventions made with federal funding by a large business.[9] Because NASA and DOE both operate under statutes that expressly obligate them to retain ownership of

inventions created under a contract, and the memorandum that extended the Bayh–Dole Act to large business only requires federal agencies to follow the Act "[t]o the extent permitted by law,"[10] neither agency is required to follow the Bayh–Dole Act when contracting with large businesses.

II. The Limits of Government's License under the Bayh–Dole Act

While the Government retains a royalty-free license under the Bayh–Dole to practice the invention under the Bayh–Dole Act, the right is limited to practice "for or on behalf of the United States."[11] Therefore, the license does not extend to commercial use by third parties. For example, the government's license could not be used to allow a third party to practice the inventing party's invention and thereby compete with the inventing party on the open market. But the license could be used to allow a third party to practice the invention solely for the government's benefit (*e.g.*, manufacturing the invention and installing it on government property).[12]

III. Key Requirements of the Bayh–Dole Act

Any recipient of federal funding that may lead to the development of a patentable invention (or anyone facing or considering an enforcement suit based on patents directed to inventions developed with federal funding) should keep in mind the following seven key requirements of the Bayh–Dole Act that should be met if the inventing party wishes to retain title to their invention in a patent[13]:

A. Disclosure

The inventing party must disclose to the sponsoring agency any invention created with the use of federal funds within 2 months from the date the inventor discloses the invention internally.[14]

B. Election

If the inventing party decides to retain title to the invention, it must generally notify the agency of its election to do so in writing within 2 years of the date of disclosure to the agency.[15]

C. Application

The inventing party must apply for a patent on the invention within 1 year of its election to retain title or within 1 year of the publication, sale, or public use in the United States, whichever is earlier.[16]

D. Government Interest

In applying for a patent, the organization must add the following government interest statement that discloses the government's rights to the invention: "This invention was made with government support under (identify the contract) awarded by (identify the Federal agency). The government has certain rights in the invention."[17]

E. Practical Application

The inventing party must attempt to develop or commercialize the invention.[18]

F. Preference for Small Businesses

If the inventing party is a nonprofit organization, it generally must give priority to small businesses when licensing the invention.[19]

G. Preference for United States Industry

When granting an exclusive license, the inventing party must ensure that the invention will be "manufactured substantially" in the United States.[20]

IV. March-In Rights

Under certain circumstances, the sponsoring agency has the right to "march in" and require the inventing party to license its invention to a third party.[21] While these "March-in Rights" may sound worrisome to inventors who imagine a government agent striding into their laboratory unannounced and walking out with all the fruit for their (albeit government funded) labor, the government limits the scenarios under which it can exercise its March-in Rights to a few enumerated circumstances: (a) if the inventing party has not tried to achieve practical application of the invention; (b) if licensing is needed to alleviate health or safety concerns; (c) if licensing is needed to meet public use requirements specified in federal regulations; or (d) if the inventing party fails to ensure that the invention will be "manufactured substantially" in the United States.[22]

V. Conclusion

Inventors who are considering the acceptance of federal funding either through grants or contracts and who wish to retain title to their inventions should carefully consider the requirements of the Bayh–Dole Act. Any failure to meet the requirements of the act could impact litigation of the eventual patents obtained with the aid of government funding.

1. The authors are attorneys at the intellectual property firm of Finnegan, Henderson, Farabow, Garrett & Dunner LLP. This article is for informational purposes, is not intended to constitute legal advice, and may be considered advertising under applicable state laws. This article is only the opinion of the authors and is not attributable to Finnegan, Henderson, Farabow, Garrett & Dunner LLP, or the firm's clients.
2. U.S. Gov't Accountability Off., GAO-02-723T, Intellectual Property: Industry and Agency Concerns Over Intellectual Property Rights 5 (2002) (hereinafter *Industry and Agency Concerns*).
3. Patent and Trademark Laws Amendments of 1980, Pub. L. No. 96-517, Ch. 38, 94 Stat 3019, 3019–28 (1980), (codified as amended at 35 U.S.C. §§ 200 et seq.).
4. *See* 35 U.S.C. § 202(a).
5. *Id.* at § 202(c)(4).
6. *Id.* at § 202(a).
7. Memorandum on Government Patent Policy, 1 Pub. Papers 248 (February 18, 1983).
8. *See, e.g.*, 48 C.F.R. §§ 952.227-13(b)(1) (Patent Rights—acquisition by the Government) & 1852.227-70(b)(2) (New Technology—Other than a Small Business Firm or Nonprofit Organization).
9. William H Pratt, Conducting R&D with Government Funding; Great Idea, but How Do We Protect Our Intellectual Property Rights? Part 2 of 3, Robotics Business Review (March 26, 2015) (*https://www.finnegan.com/en/insights/articles/conducting-r-d-with-government-funding-great-idea-but-how-do-we.html*).
10. Memorandum on Government Patent Policy, 1 Pub. Papers 248 (February 18, 1983).
11. 37 C.F.R. § 401(b).
12. *See Madey v. Duke Univ.*, 413 F. Supp. 2d 601, 611 (M.D.N.C. 2006) ("This Government License is not transferrable, but covers any uses of the invention by the Government or its contractors for or on behalf of the United States.")
13. *Industry and Agency Concerns*, at 6.
14. 37 C.F.R. § 401.14(c)(1).
15. *Id.* at § 401.14(c)(2).
16. *Id.* at § 401.14(c)(3).
17. *Id.* at § 401.14(f)(4).
18. *Id.* at § 401.14(h), (j)(1).
19. *Id.* at § 401.14(k)(4).
20. *Id.* at § 401.14(i).
21. *Id.* at § 401.14(j).
22. *Id.* at § 401.14(j)(1)–(4).