

# Bridging the Gap In Public-Private Partnerships

Use of Creative Agreements to  
Resolve Intellectual Property  
Concerns

James G. McEwen  
Staas & Halsey, LLP  
Jmcewen@s-n-h.com  
202-434-1500

Presented to National Academy  
of Sciences June 28, 2004

# Introduction

- Traditionally, Little Need for Flexibility for Intellectual Property
  - Large Military Industrial Complex
    - Less Incentive Since Plenty of Bidders
  - Large Government Labs
    - Less Need For Private Sector Aid In Civilian Agency
  - Universities Less Concerned About IP Protection
    - IP Seen as Inimical To Academic Ideals
- Long Corporate Memory And Lack Of IP Sophistication Means Need Standard Clauses

# Introduction (Cont.)

- Present State
  - Increased Interest In Leveraging IP (Patents and Trademarks versus trade secrets)
- Increased Need For Flexible Public-Private Collaborations For Different Needs
  - Funding only
    - Grants, Prize Authorities, Venture Funds
  - Collaboration with Government
    - CRADA, Cooperative Agreements
  - Straight Contracts for R&D
    - FAR-based, OTs, Space Act, SBIR

# Agenda

- Overview of Types of Intellectual Property Implicated in Agreements
  - Contracts vs. Collaborations v. Funding
- Overview of Existing Contractual Mechanisms
  - Existing Flexibility
  - Current Limitations
- Overview of New Mechanisms
  - Increased Flexibility
  - Current Limitations

# Overview of IP Implicated In Agreements

- Patents

- New and Non-Obvious Developments
- Powerful Tool For Attracting Investment
  - Tangible
  - Presumption of Validity
- All Development Agreements Address
  - Background and Existing Inventions
  - Improvements
  - Ownership versus license

# Overview of IP Implicated In Agreements (Cont.)

- Trade Secrets

- Information Having Value Based On Not Being Publicly Known
  - Not Restricted to Classification
    - No need to be fixed, patentable, scientific information
- Less Predictable In Enforcement, Still Powerful
  - Software
- All Development Agreements Address
  - Existing Trade Secrets and Who Has Access
  - Rights to Jointly Developed Information

# Overview of IP Implicated In Agreements (Cont.)

- Copyright
  - Any Work of an Author
    - Protects expression not idea
  - Very Enforceable, But Only As To Precise Work
    - Does Not Affect Independent Development
    - Does Not Protect (well) Against Reverse Engineering Except to Extent Reveals Trade Secrets In Violation of License
  - All Development Agreements Address
    - Existing works and rights to use
    - Derivative works (I.e., works including the work)
    - Assignment of rights
    - Number of authorized copies and distribution

# Overview of IP Implicated In Agreements (Cont.)

- Trademarks

- Protects Association of Product or Service With Entity In Mind of Consumer
  - Federal: Interstate only
  - State: Use in state
- Very Powerful in Attracting Investment, Marketing Product
  - Easy To Understand
  - Catchy
- Rarely Addressed in Development Contracts
  - Still Important For Some Entities
  - OEM and Outsourced R&D Can implicate

# Existing Mechanisms

- Generally Referred to as Procurement Contracts
  - Generally Means that the FAR and FAR Supplements Apply
    - FAR Part 27, FAR Supplements X27
    - Mandatory Clauses: FAR 52.227, FAR Supplements X
  - Procurement Statutes Apply
    - 35 USC 200-210 (Bayh-Dole)
      - Rights in Inventions
      - March In
      - Licensing Restrictions
    - 10 USC 2320-21 (DoD only)
      - Minimum Rights In Information
      - Specific ADR Provisions

# Theory of Existing Mechanisms

- Written at time when Large Contractors Dominated R&D Procurement Market
  - Due to 28 USC 1498: Patents and Copyrights not as valuable to contractor
    - Government defends contractor infringement
    - Contractor cannot use patents for procurement advantage
  - No need for trademark protection since Government immune from trademark liability (until recently)
- Success hinged on trade secret protection
  - Rights in Data/Computer Software
    - Carve out protected elements as limited rights/restricted rights

# Theory of Existing Mechanisms (Cont.)

- Not Same Model as Exists in Today's Technology Marketplace
  - To secure financing and place in commercial market, need security in IP
    - March in rights represent a threat
  - Patent and trademarks represent highly important assets
    - Tangible and easy to show in comparison with trade secrets
    - Proof of concept
- Lack of flexibility in these areas represented stumbling blocks

# Existing Advantages

- Very well Known and Understood In Community
  - Clauses Are Published In Advance, As Well As When Must be Used
    - No Surprises (Assuming have competent counsel)
    - Litigated
  - Surprisingly Flexible For Data
    - E.g., DFARS 252.227-7013 & -7014 Allow Special Licenses to be Granted
    - FAR 52.227-14 Has Limited/Restricted Rights (not as flexible)
  - Problem: Finding Someone On Government Side With Confidence to Do It

# Example: Leveraging of IP Using Standard FAR, DFARS

- Unused IP (Trade Secret)
  - Government Not Using Trade Secret Information (Data), But keeping For Spare Parts
  - Government Wants To Leverage Data To Ensure Spare Parts Supply
  - Contractor Wants Increased Restrictions
- Solution: Use Special License Provisions
  - Government Accepted Reduced Rights In Data So Long As Contractor Agreed to Provide Parts At Predetermined Price
  - If Failure, Government Receives Increased Rights
- Government Realized Large Savings By Bridging Gap

# Problems With Existing Mechanisms: Problem 1

- Patent Rights Are Very Rigid
  - Strong Public Policies Underlying Clauses
  - Required Monitoring
    - Annual Reports On Status of Invention
    - Automatic Rights In Certain Inventions
  - If fail to follow, can lose invention
    - In re Campbell Plastics Engineering & Mfg. Inc., ASBCA No. 53319 (2003)
- Does Not Recognize Greater Importance of Patents in Knowledge Based Economy
  - Patent Rights Have Become Major Mechanism For Commercialization/Obtaining Financing

# March In Rights: Show Stopper

- March In Rights

- If Bayh-Dole Applies, Government Can Take Title to Patented Invention If Failing to Commercialize
- Strong Public Policies Underlying Bayh-Dole
  - Government Helped in Most Important Phases Generally:
  - Government Help Not For Purpose of Allowing Patent Holder to Withhold Technology
- Would likely apply even if not written into contract
  - C.f., *Filmtec v. Hydranautics*, 982 F.2d 1546 (Fed. Cir. 1992)

# March In Rights: (Cont.)

- Never Been Used
  - Ripe for Abuse
    - NIH Is Petitioned Periodically To March-in
      - Cell pro petition
      - Norvir petition
    - Are Commercialization and American industry licensing provisions
- Does Not Recognize Possibility That Patented Invention Is Only One Potential Solution
  - Commercialization of Patented Invention Does Not Equate to Practice of Patented Solution
- Effectively Not Waivable

# Problem 2: No Provision For Other IP

- Trademarks Completely Unknown, But Valuable (If not more valuable than trade secrets for commercialization)
  - No Mechanism In Standard Contracts For Trademarks
    - Trademarks needed for development
  - Government does not like to allow others to use since involves sponsorship issues
  - Government does not like to allow others to take credit for Government program
  - Private party left between rock and hard place when trying to secure ownership of trademark when Government participates in product creation

# New Mechanisms grow To Reflect Non-Traditional IP

- Grants and Cooperative Agreements
  - Allow for greater flexibility in patent ownership
  - Problem is restrictions on funding and requirements for contributions
    - Government cannot fund alone (Cooperative agreements)
    - Government can only fund (Grant)
  - Problem is Complexity and Applicability of Bayh-Dole
- E.g., Technology Investment Agreement
  - Cooperative Agreement Which Does Not Comply With Bayh-Dole
  - Ambiguity creates commercial uncertainty

# Newer Mechanisms

- CRADA

- Improve IP provisions and allow more flexible cooperation

- Problem: cannot provide funding

- Can assign government employee invention rights to contractor

- Bayh-Dole does not apply

- Newer Mechanisms Recognize Need for Improved IP

- Still Not Usable/flexible For Many Non-Traditional Contractors

# Solution: Opt Out of Procurement

- Newer Types of Mechanisms Do Not Have Regulations
  - Other Transactions: IP Totally flexible, Funding sources flexible
    - DoD Unique (although other agencies requesting)
  - 1958 Space Act: NASA
    - Generally used like CRADAs (But Not Required)
    - Fairly flexible
    - Can be as flexible as OTs as not restricted by procurement statutes (Seen as the basis for OT authority)

# Solution: Opt Out of Procurement (Cont.)

- Allows Parties To Negotiate IP Without Statutory Encumbrances
  - While negotiable, agreements will often contain standard IP rights clauses in at least initial drafts
    - Standard IP clauses from Bayh-Dole and FAR represent important public policy statements and corporate memory
    - Familiar and no need for Government to explain variances
  - Need to present reasons why waiver needed
    - Need to commercialize product
    - Need to reduce regulatory burden
    - Need to obtain investment

# Benefits of New Mechanisms

- Contractors Can Better Protect Crown Jewels
  - Meaningful IP protection
  - Government can tailor IP provisions to reflect benefit to Government
- Examples:
  - Negotiate March In Rights to Not Frighten Investors While Ensuring Commercialization
  - Secure Trademark Rights
  - Reduce Administrative Reports and/or Triggers
  - Could use 28 USC 1498 as shield to allow prototype to be built to defeat blocking patents without having to retain IP rights under Bayh-Dole/FAR

# Benefits of New Mechanisms

- Newer Mechanism Allows Flexibility
  - Not always appropriate to retain IP rights where the retention prevents commercialization
  - Government need for IP can be downstream (not always recognized in standard IP provisions)
- Allows Government to Enter Battle of the Forms
  - Commercial Firms have own draft agreements with which are comfortable
  - Reviewing Government-specific terms and conditions is expensive (even if the terms are often analogous)
    - All joint development agreements account for IP, Government IP provisions not unheard of

# Problems With New Mechanisms

- Not Enough People Aware
  - Not Enough Government IP People To Handle, Little Meaningful IP Guidance
- Contractors Misunderstand Customer
  - FAR and Bayh-Dole reflect long-term corporate memory of Government needs
    - All large, long-term companies have it (IBM)
  - When Negotiating, Should Account for these and demonstrate how variance represents better deal
    - E.g., March-in: note that IP developed reflects only one possible solution, and that commercial market will define
      - Lack of commercialization of developed IP does not mean not commercial market for solution

# Problems With New Mechanisms (Cont.)

- Focused on procurement of prototypes directly
- Government often want contribution from contractors
  - Cost sharing
  - IP rights (downstream)
- Still restrictions on foreign contractors

# Cutting Edge Solutions

- Existing Solutions (OTs included) reflect increased flexibility if Government directly controls/participates
- Newer Solutions Involve Commercialization of Entire Industry
  - Venture Funding
    - In-Q Tel
    - Venture funds to try and develop commercial solutions that will benefit government
  - Prize Authorities
    - Set up prizes to attract talent to solve problem
      - E.g., DARPA's desert race, X Prize

# Potential Benefits with Newer Solutions

- No Requirements For Funding or Rights in IP
  - Can truly tailor to meet actual need
- Venture Fund Benefit:
  - Relies on commercial market to develop product, Government merely provides help in form of investment
    - Similar to how commercial companies (drug companies) use investment to spur research in area of interest for long term benefit
- Allows Government to spur growth of desirable technology industry
- Familiar business model (Important)

# Potential Benefits with Newer Solutions (cont.)

- Prize Authority Benefit
  - Allows smaller entities (garage inventors, high schools, engineering departments) to participate
    - Maximizes competition in research
    - Generates excitement in field
  - No requirement for complex grant agreements
- As With Venture Funds: Idea of Prize is Familiar
  - More likely to be accepted since people understand idea readily

# Potential Problems with Newer Solutions

- No Guidance
  - If not well defined, can be abused
- No protection under 28 USC 1498
- Venture Fund Problem:
  - Potentially more invasive than Bayh-Dole
    - Government is not licensee, but part owner of company
      - Government interest in voting/company direction may be different from shareholders interest in profit
- Prize Authority
  - Useful for only for where is well defined goal
  - No guarantee that industry will develop

# Summary

- Government now has a great deal of flexibility in constructing agreements for use with contractors of all sizes
  - Traditional contractors can use familiar mechanisms while utilizing new mechanisms to secure IP needed to enter commercial market
  - Non-traditional entities can choose different types of assistance (CRADA, Grant, Prize authority, OTs, venture funding) to reflect the level and type of aid without compromising existing IP position
    - Can also use familiar contractual mechanisms