

Options for Protecting and Licensing DON (Government?) Inventions

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- The views presented herein are my own and do not necessarily represent the views of the Department of the Navy or the Department of Defense.

- Naval Research Laboratory
 - Fundamental and applied research to develop new technologies that benefit the warfighter and the public
 - Working Capital Fund – “eat what you kill”
 - Preferred transition vehicle is licensing
- Patents
 - Exclude others
 - DON has never sued for patent infringement
 - Requires DOJ involvement
 - May limit licensing potential and promote non-preferred transitions
 - Expensive
 - \$15,000-\$30,000 to obtain a patent and maintain it through the first maintenance fee payment
 - Unlikely to recoup that investment

35 U.S.C. § 207(a) Each Federal agency is authorized to—

(1) apply for, obtain, and maintain *patents* or *other forms of protection* in the United States and in foreign countries on inventions in which the Federal Government owns a right, title, or interest;

(2) grant nonexclusive, exclusive, or partially exclusive licenses under federally owned inventions, royalty-free or for royalties or other consideration, and on such terms and conditions, including the grant to the licensee of the right of enforcement pursuant to the provisions of chapter 29 as determined appropriate in the public interest;

- DON is authorized to protect its inventions by:
 - patents, or
 - “other forms of protection”
 - Copyright – rare situations
 - Trade Secret – routinely used in the private sector to protect inventions

Statutory Authority: Legislative History in the House of Representatives

- HR 6933 – as introduced by Rep. Kastenmeier on March 26, 1980
 - “§ 409. Authority of Federal agencies
 - (a) Agencies may ***apply for, obtain, maintain, and protect patent rights*** in the United States and in foreign countries on any invention in which the Government has an interest in order to promote the use of inventions having significant commercial potential or otherwise advance the national interest.
 - (b) Agencies may license ***federally owned patent rights*** on terms and conditions consistent with subchapter III.”

Invention 1

No IP Protection

Invention 2

Patented

Invention 3

Non-Patent IP

Statutory Authority: Legislative History in the Senate

- HR 6933 was referred to Senate Judiciary Committee, which proposed amendments (S. 414).
 - “§ 207. Domestic and foreign protection of federally owned inventions – Each Federal agency is authorized to-
 - (1) apply for, obtain, and maintain patents ***or other forms of protection*** in the United States and in foreign countries on inventions in which the Federal Government owns a right, title, or interest;
 - (2) grant nonexclusive, exclusive, or partially exclusive licenses under federally ***owned patent applications, patents, or other forms of protection obtained...***”

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Statutory Authority: Legislative History in the Senate

- Sen. Rpt. No. 96-480 was issued by the Senate Judiciary Committee after hearings were held on S. 414.
 - “Additionally, the provisions in the bill ***giving the agencies full authority to license out the inventions already owned by the Government*** will increase the likelihood that useful inventions held in agency portfolios will be developed and commercialized rather than lying unused ***because of lack of necessary patent protection*** for interested developers.” p. 30.
- What was the Senate Judiciary Committee concerned about?
 - The Senate Judiciary Committee did not want Government inventions sitting on the shelf unused by the private sector.
 - HR 6933 would only allow the Government to license only patent rights, so a Government invention that was not covered by a patent would not be eligible for licensing.
- So what happened?

Statutory Authority: Legislative History

- S. 414 passed the Senate but was not taken up by the House because Rep. Kastenmeier's bill (H.R. 6933) was perceived to have more benefits for large businesses than Sen. Bayh's bill.
- After the 1980 election, Sen. Bayh lost his seat to Dan Quayle and it appeared his political career was over.
- In the lame duck session after the election, as a favor to Sen. Bayh, a deal was made whereby the language of S. 414 would be amended into H.R. 6933.
 - Minutes later my phone rang. It was Wiley Jones. "I have two questions for you. One is from Senator Long and one is from me." He asked if Senator Bayh really wanted the bill. I said that he did. Wiley then asked if it would be better for me not to pass the bill so I could find a new boss and have a job next year. Moved by his thoughtfulness, I replied it was now or never for passing Bayh-Dole. He said "OK," and hung up. Senator Long immediately called Senator Bayh. "Birch, you can pass your damn patent bill— and I'm really going to miss working with you."
- H.R. 6933 was amended to conform to S.414 and was signed into law by President Carter.

Statutory Authority: Legislative History

- HR 6933
 - (a) Agencies may ***apply for, obtain, maintain, and protect patent rights*** in the United States and in foreign countries on any invention in which the Government has an interest in order to promote the use of inventions having significant commercial potential or otherwise advance the national interest.
 - (b) Agencies may license ***federally owned patent rights*** on terms and conditions consistent with subchapter III.”
- S. 414
 - (1) apply for, obtain, and maintain patents ***or other forms of protection*** in the United States and in foreign countries on inventions in which the Federal Government owns a right, title, or interest;
 - (2) grant nonexclusive, exclusive, or partially exclusive licenses under federally ***owned patent applications, patents, or other forms of protection obtained...***”
- Congress went from a “patent only” scheme to a “patent + other forms of protection” scheme.

- Uniform Trade Secrets Act (UTSA)
- Defend Trade Secrets Act of 2016 (DTSA), codified at 18 U.S.C. Chapter 90
 - Civil remedies and criminal punishments for misappropriation
 - Defines a trade secret as:

“all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken **reasonable measures to keep such information secret**; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.” 18 U.S.C. § 1839(3).

Reasonable Measures to Maintain Secrecy of the Information and FOIA

- But what about FOIA?
 - How can the Government take reasonable measures to maintain the secrecy of information if that information must be revealed in response to a FOIA request?
- FOIA Exemptions
 - Exemption 1: Classified material
 - Exemption 3: Material is exempt by some other statute
 - Exemption 5: inter-agency or intra-agency memorandums or letters that would not be available by law to a party other than an agency in litigation with the agency.
- *FOMC v. Merrill*, 443 U.S. 340 (1979)
 - FOIA requester sought documents that disclosed current Government monetary policy.
 - Government argued that the documents were exempt from FOIA's disclosure requirement by Exemption 5.

Reasonable Measures to Maintain Secrecy of the Information and FOIA

- The legislative history of FOIA indicates that the Government was very concerned about the loss of its trade secrets.
- During Congressional hearings on FOIA, government agencies complained that the proposed legislation did not protect “government trade secrets.”
 - The Dept. of the Treasury specifically criticized the proposed legislation for not exempting “the trade secrets of the government which are the fruit of research, development, and manufacture.” *The Government’s Commercial Information Privilege: Technical Information and the FOIA’s Exemption 5*, by Theodore T. Belazis, 33 Administrative Law Review 415, 422 (1981), citing Hearings on H.R. 5012, before a Subcommittee of the Committee on Government Operations, 89th Cong., 1st Sess., 229 (1965).
 - Ted Belazis was a Navy OGC attorney
- In response, Congress amended Exemption 5 to limit disclosure to only those materials that would be ordinarily available to a party in litigation with the agency. Belazis, p. 423.

Reasonable Measures to Maintain Secrecy of the Information and FOIA

- 1967 Attorney General Memorandum regarding FOIA stated:
 - “An important consideration should be noted as to formulae, designs, research data, etc., which, although set forth on pieces of paper, are significant not as records but as items of valuable property. These may have been developed by or for the Government at great expense. ***There is no indication anywhere in the consideration of this legislation that the Congress intended ... to give away such property to every citizen or alien who is willing to pay the price of making a copy.***”

Reasonable Measures to Maintain Secrecy of the Information and FOIA

- *FOMC v. Merrill*, 443 U.S. 340 (1979)
 - Government's argument:
 - Exemption 5: inter-agency or intra-agency memorandums or letters that would not be available by law to a party other than an agency in litigation with the agency.
 - FRCP 26(c)(7) – now FRCP 26(c)(1)(G) – allows a party to obtain a protective order for trade secret or confidential research, development, or commercial information.
 - If the Government could obtain a protective order for the monetary policy documents under FRCP 26(c)(7), then it would not be available to a non-agency party in a litigation and – per Exemption 5 – should not be available to a FOIA requester as well.

Reasonable Measures to Maintain Secrecy of the Information and FOIA

- *FOMC v. Merrill*, 443 U.S. 340 (1979)
 - Supreme Court agreed with the Government
 - Government can obtain a protective order under FRCP 26(c)(7) for confidential commercial information
 - FRCP 26(c)(7) is incorporated into Exemption 5
 - To prevent the privilege from swallowing the rule, the Court issued a balancing test:
 - “the sensitivity of the commercial secrets involved, and the harm that would be inflicted upon the Government by premature disclosure, should continue to serve as relevant criteria in determining the applicability of this Exemption 5 privilege.” *Merrill* at 362.
- *Gov’t Land Bank v. GSA*, 671 F.2d 663, 665 (1st Cir. 1982)
 - “We interpret [*Merrill*] as holding that Exemption 5 protects the government when it enters the marketplace ... [t]he protection is limited to what is essential, but FOIA should not be used to allow the government's customers to pick the taxpayers' pockets.”

Reasonable Measures to Maintain Secrecy of the Information and FOIA

- Even though *Merrill* did not involve trade secrets, the Court's decision was viewed as opening the door to protecting Government trade secrets from disclosure under FOIA.
 - “The government's trade secret protection should be construed in the same manner as a private person's trade secrets under Exemption Four. The courts should defer to the expertise of the agency when it advances a reasonable argument for both commercial importance and a likelihood of substantial economic harm.” Feldman “*The Government's Commercial Data Privilege under Exemption Five of the Freedom of Information Act.*” *Military Law Review*, v. 105, pp. 125-143 (1984) (received Professional Writing Award for 1983).

DoD FOIA Guidance post *Merrill*

- June 2, 1979 - SC decides *Merrill*
- April 29, 1980 - DoD FOIA Program is published in the Federal Register
 - No mention of “trade secrets”
- December 5, 1980
 - DoD publishes an update to their FOIA Program
 - “Government Trade Secret Privilege”: exempts “[t]rade secret or other confidential research development, or commercial information owned by the Government, where premature release is likely to affect the government's negotiating position or other commercial interest” 45 Fed. Reg. 80,507 (Dec. 5, 1980).
 - DoDM 5400.07, p. 23, January 25, 2017
 - “(d) Government Trade Secret Privilege. This privilege protects trade secrets or other confidential research, development, or commercial information owned by the U.S. Government, premature release of which is likely to affect the U.S. Government’s negotiating position or other commercial interest.”

- “Negotiating Position”
 - Anticipated / Ongoing licensing negotiations
- “Commercial Interest”
 - License
 - Strategic use of FOIA to obtain unpublished, unclassified information, to gain an advantage over a DON command
 - Example: NRL scientists compete for research funding with non-government parties. If one of those parties used FOIA to embellish their programs with NRL information, then it would be difficult for NRL scientists to successfully compete for the same funding. Since NRL is funded by the Working Capital Fund that could result in the loss of a program, or worse.

Reasonable Measures to Maintain Secrecy

- UTSA Commentary
 - “Finally, reasonable efforts to maintain secrecy have been held to include ***advising employees of the existence of a trade secret, limiting access to a trade secret on ‘need to know basis’, and controlling plant access.*** On the other hand, public disclosure of information through display, trade journal publications, advertising, or other carelessness can preclude protection. The efforts required to maintain secrecy are those ‘reasonable under the circumstances.’ ... It follows that ***reasonable use of a trade secret including controlled disclosure to employees and licensees is consistent with the requirement of relative secrecy.***” UTSA, Section 1, pp. 7-8.

- “(B) the information derives independent economic value, *actual or potential*, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.” 18 U.S.C. § 1839(3).”
- Some evidence that the information “provides or could provide a competitive advantage, or that “it would be useful to a competitor and would require cost, time and effort to duplicate.” 1 Milgrim on Trade Secrets § 1.07A (2020).
 - Information about what does not work can also qualify for trade secret protection.
- The trade secret information “must be secret as to some parties who would have an interest in obtaining the secret.” 1 Milgrim on Trade Secrets § 1.07A (2020).

Licensing DON Inventions: Statutory Authority

- 35 U.S.C § 207(a) Each Federal agency is authorized to—
 - (2) grant nonexclusive, exclusive, or partially exclusive licenses ***under federally owned inventions***, royalty-free or for royalties or other consideration, and on such terms and conditions, including the grant to the licensee of the right of enforcement pursuant to the provisions of chapter 29 as determined appropriate in the public interest;

Technical Amendments to Bayh-Dole in the Technology Transfer Commercialization Act of 1999

- TTCA amended Section 207(a) as follows:
 - “§ 207. Domestic and foreign protection of federally owned inventions – Each Federal agency is authorized to-
 - (2) grant nonexclusive, exclusive, or partially exclusive licenses under federally owned inventions ~~patent applications, patents, or other forms of protection obtained...~~”

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- Federal Register, Vol. 71, No. 45, March 8, 2006 – Final Rule

- Comment:

“Two comments questioned the scope of licensing unpatented inventions and whether it could include know-how or unpatentable inventions and be subject to royalty sharing with the inventor. One comment wondered if the rights under such a license would be different than obtaining information under the Freedom of Information Act (FOIA).”

- Federal Register, Vol. 71, No. 45, March 8, 2006 – Final Rule
- Response:
 - DOC interprets the term “invention” to mean that subject matter “must have the potential of being protected and so could include computer software and biological materials or any other subject matter in 35 U.S.C. § 101.”
 - “If know-how includes an invention, then it can be licensed. Any royalties must be shared with the inventors as required by 15 U.S.C. § 3710c which applies to the licensing or assignment of Government owned inventions.”
 - Licensing of an invention which is not protected by any intellectual property can be considered as creating a bailment of the personal property which is subject to certain conditions of use.

Licensing DON Inventions: Requirements

- 35 U.S.C § 207(a) Each Federal agency is authorized to—
 - (2) grant nonexclusive, exclusive, or partially exclusive licenses *under federally owned inventions*, royalty-free or for royalties or other consideration, and on such terms and conditions, including the grant to the licensee of the right of enforcement pursuant to the provisions of chapter 29 as determined appropriate in the public interest;
- The only thing that is required is an invention.
- What permission does a non-IP invention license grant?
 - 18 U.S.C. § 641 makes it a federal crime when someone:
 - “knowingly converts to his use or the use of another, or without authority, sells, conveys or disposes of any record, voucher, money, or **thing of value** of the United States or of any department or agency thereof, or any property made or being made under contract for the United States or any department or agency thereof”
18 U.S.C. § 641.”
- A DON invention is a thing of value.

Conclusion: Where are we?

- Protecting DON Inventions
 - Patents
 - Trade Secrets
 - May require a showing of anticipated licensing interest or an actual license.
 - Copyright
- Licensing DON Inventions
 - Patent License Agreements
 - Trade Secret License Agreements
 - Copyright License Agreements
 - *Invention License Agreements*
- Key Considerations
 - What is going to be in the best interest of the Navy?

Questions?

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