

Contractors and Grantees Beware! Safe Harbors Removed in Preserving Patent Ownership Rights Under Bayh-Dole

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Government Contracts & Export Controls Alert

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Buried in a grab bag of seemingly innocuous course-correcting changes to the Bayh-Dole Act regulations (effective May 14 of this year) is the removal by regulators of the sixty-day window between the federal agency's notice of a contractor/grantee's failure to give timely notice of inventions in order to secure title and the federal agency's ability to take title and strip contractors and grantees of what may be their most valuable assets – *i.e.*, their intellectual property. Now the Government is no longer constrained by this time limitation, and it may grab title to inventions conceived or reduced to practice with Government funds at any time should the contractor/grantee fail to follow the rules.

The Bayh-Dole Act (35 U.S.C. §§ 200-212) (enacted in 1980) and its implementing regulations (37 C.F.R. 401) fundamentally changed the treatment of rights to inventions conceived or reduced to practice through federal funding. In an effort to encourage more innovations under federal contracts and grants, Bayh-Dole established rules that allowed contractors and grantees to keep title and pursue patent applications for federally funded inventions while giving the Government a royalty-free, perpetual, nonexclusive license to practice the invention for Government purposes. While the rules have always conditioned the contractor/grantee's right to elect title and pursue a patent application on timely disclosure and notice requirements, the new regulations, which became effective on May 14, 2018 ([provided here](#)), remove the safe havens built into the original Bayh-Dole provisions, which were intended to protect contractors/grantees that fail to meet the disclosure and reporting requirements on a timely basis. The removal of these protections greatly increases the risk of a federally funded contractor/grantee losing title (and potentially all rights) to its invention if it is either not expressly aware of its disclosure obligations or is lax in enforcing those obligations.

It is important to recognize that federally funded contractors and grantees do not automatically have ownership rights to an invention conceived or reduced to practice under a Government contract or grant. In order to obtain ownership rights, the contractor/grantee must disclose the invention, elect title, and pursue a patent application within time frames established under

the Bayh-Dole regulations. Failure to follow these provisions can allow the Government to take title to the invention, if the contractor or grantee

1. fails to disclose the invention to the Government within sixty (60) days of disclosure to the contractor/grantee's personnel in charge of patent matters; or
2. fails to elect title within two (2) years of disclosure (unless there is a publication, sale or public use, which shortens the deadline to no more than sixty days prior to one year following the public disclosure).

In the former case (failure to disclose), the contractor/grantee gets no rights whatsoever in its own invention, and in the latter case (failure to elect), the contractor/grantee gets a nonexclusive royalty-free license.

Prior to the 2018 revisions, under 37 C.F.R. 401.14(d)(1), the Government's decision to take title was limited to a period of sixty days after learning of the failure of the contractor/grantee to meet the disclosure and election of title deadlines. Under the new regime, that sixty-day restriction has been eliminated. Now, under contract and grant vehicles governed by 37 C.F.R. 401, the Government has an unlimited amount of time in which to take title to an invention that was not properly disclosed. With respect to contracts subject to the FAR or DFARS patent rights clause (FAR 52.227-11 and DFARS 252.227-7038), both clauses still retain the sixty-day cutoff date for now. As of the date of this writing, there are no active FAR or DFARS cases to implement parallel changes to these clauses, but they will inevitably come.

The time is now for contractors and grantees that anticipate the conception and/or reduction to practice of inventions under a federally funded project important to their business to work with counsel to set up the necessary protocols and controls within their organizations to ensure that the Bayh-Dole disclosure and election timelines are met. These include:

1. Obtaining, at the outset of employment, assignments from all employees of their rights to inventions created or conceptualized in connection with federal projects on which they are working.
2. Training a "patent administrator" with responsibility to account for the conception and reduction to practice of all inventions by employees working under Government contracts and grants.
3. Training employees on the meaning of key terms such as "invention," "conception" and "reduction to practice."
4. Instilling – as company policy – an obligation in all employees to promptly report the conception or reduction to practice of an invention to the patent administrator.
5. Instructing the patent administrator to work not only with patent counsel but with government contracts counsel on timelines for disclosure and reporting obligations through reporting vehicles used by agencies (such as iEdison).

All too often, patent administrators and patent counsel first inquire about federal funding when the patent application is being prepared. ***That is too late!*** By that time, months or years may have passed since the conception or reduction to practice of the invention was first reported to someone in the organization. This reporting likely starts the clock for reporting the invention (two months) and electing title (two years or less). Without such timely reporting and election, there is no restraint on the federal government in unilaterally taking title. Proper planning and controls of the type recommended above should be instituted to avoid this risk and the inevitable cloud it places on title to what may be one of the contractor/grantee's most valuable assets.