MORRISON | FOERSTER

Legal Updates & News

Legal Updates

Opportunities for Venture Capitalists at Department of Energy Laboratories

December 2008
by Richard J. Vacura, Keric Chin

Related Practices:

- Cleantech
- Corporate
- Emerging Companies & Venture Capital
- Government Contracts

The Department of Energy ("DOE") is seeking to partner with leading Venture Capital ("VC") firms in an effort to accelerate the deployment and commercialization of advanced clean energy technologies from DOE National Laboratories under the Entrepreneur in Residence ("EIR") program. VC firms that are selected to participate in the program will each select and fund an entrepreneur to work with the technical management and staff at a national laboratory for a one-year period to identify and develop business cases for commercialization of promising laboratory technologies. The entrepreneurs will also recommend policy and business practice modifications to DOE and the national laboratories to further refine their approaches to transferring technology into the commercial sector.

To this end, DOE announced a competitive solicitation on November 19, 2008 for VC firms to participate in EIR projects at five national laboratories — Argonne National Laboratory, Brookhaven National Laboratory, Lawrence Livermore National Laboratory, Lawrence Berkeley National Laboratory, and Pacific Northwest National Laboratory (*see* Funding Opportunity DE-PS36-08GO98041).[1] DOE anticipates awarding five cooperative agreements, one for each of these national laboratories. Under the agreements, DOE will provide $50,000 for each entrepreneur to help defray salary and other expenses. Each participating VC firm will be expected to match the DOE funding, but may contribute more. This opportunity is restricted to established VC firms, which must certify that they have at least $5 million in funds available for energy efficiency and renewable energy technology investment, a current overall fund size of $50 million and a proven track record of launching successful start-up businesses. Contractors who manage and operate Federally Funded Research and Development Centers (i.e., national laboratories) are not eligible.

The focus of the EIR program is on technologies funded by DOE's Office of Science and Office of Energy Efficiency and Renewable Energy ("EERE") that further the EERE mission. EERE is tasked, *inter alia*, with strengthening America's energy security, environmental quality, and economic vitality through public-private partnerships that enhance energy efficiency and productivity, and bring clean, reliable, and affordable energy technologies to the marketplace. Under the program, an entrepreneur will "mine" the national laboratory's portfolio to identify and evaluate promising technologies for commercialization. The ultimate aim of the program is to identify a technology or group of interrelated technologies that the national laboratory can license to the entrepreneur and his or her VC sponsor for commercial development and which will ideally form the basis of a new spin-off company. The license will normally be exclusive.

Not all of the technologies in a national laboratory's portfolio are available for licensing under the program. For example, some technologies are already subject to the rights of participants under cooperative research and development agreements ("CRADAs"),[2] while others are the subject of on-going negotiations. Also excluded from consideration are inventions which, if disclosed, could adversely affect national security, inventions subject to export controls, and inventions developed with funding from another federal agency or under a work-for-others agreement.

The exclusive licenses that the entrepreneurs and their VC sponsors obtain from national laboratories under the EIR program are subject to a number of notable conditions imposed by the Bayh-Dole Act, 35 U.S.C. § 200, *et seq.*, and its implementing regulations. First, the Government retains a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on its behalf the licensed technology throughout the world. As a practical matter, this means the value of the licensed technology is in the commercial as opposed to government marketplace. Second, the Government, and specifically DOE, retains the right to compel the grant of an exclusive, partially exclusive or nonexclusive license to the technology if it determines the exclusive licensee has not taken reasonable steps toward the practical application of the technology, action is necessary to alleviate health or safety needs, or action is necessary to meet the requirements of public use as specified by federal regulation or law. These are known as "march-in" rights.[3] Finally, an exclusive licensee must agree that any products embodying the licensed technology for use or sale in the United States shall be substantially manufactured in the United States.[4] DOE may exercise its march-in rights if it determines this domestic manufacturing preference is being violated.[5]

The EIR Program is a significant opportunity for VC firms to access and assess the technology portfolios of DOE's national laboratories and deploy the most promising of those technologies to the commercial marketplace. VC firms intending to compete for these funding opportunities should pay careful attention to the unique terms and conditions associated with these federal funding agreements, particularly in the area of intellectual property rights, so that they can fully appreciate the opportunities and risks. Applications for the EIR program are due January 6, 2009.

[1] In February 2008, DOE announced EIR projects at the National Renewable Energy Laboratory, Sandia National Laboratory and Oak Ridge National Laboratory.

[2] Under a CRADA, a participant may be granted exclusive or non-exclusive rights to certain technologies developed by the laboratory under the agreement or owned by the Government, or the option to acquire such rights in the future.

[3] 35 U.S.C. § 203.

[4] 35 U.S.C. § 204.

[5] Notably, we are not aware of any instance wherein a federal agency has exercised its march-in rights under 35 U.S.C. § 203.