American Recovery and Reinvestment Act: Imminent Funding Opportunities for Clean Tech Companies But Funding Comes with Conditions

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Fenwick
FENWICK & WEST LLP

OVERVIEW

The American Recovery and Reinvestment Act of 2009 represents the largest government stimulus package in U.S. history. As has been widely reported, President Obama has made the development and adoption of clean technologies a core goal of his policy initiatives. The Act allocates over $40 billion of federal funds to the Department of Energy ("DOE") for various energy initiatives, including government grants specifically targeted to stimulate the development and adoption of clean technologies. Importantly, the Administration has also mandated that these funds be put to work quickly, with Secretary of Energy Chu stating that the DOE's disbursement of recovery funds is intended to happen "in a matter of months, not years."

We believe these substantial funding sources and the urgency with which the Administration apparently intends that they be allocated creates significant financing alternatives for clean tech companies that already are emerging. While the specifics of the programs and policies are continuing to evolve in a very dynamic environment, we believe that clean tech companies and their investors can benefit by readying themselves now to pursue these funding opportunities. Importantly, we also note that this government funding will not come without costs. This alert provides both a brief overview of the opportunities for grants and how to obtain them, as well as an overview of certain conditions of grants that would apply to this funding under current law. As the applicable regulations continue to take shape in the coming weeks and months, we will continue to provide updates.

OPPORTUNITIES OF GRANTS

Because many of the opportunities for government loans and loan guarantees may be best suited for more mature companies with more limited technology risk and the resources to work through potentially lengthy and expensive loan/guarantee application processes than earlier stage start-ups, this alert focuses on government grants.

The DOE, as well as other federal agencies, publishes information about grants on the Grants.gov website (www.grants.gov). Generally, each grant is earmarked for use in a particular area of technology or to pursue a defined objective. These opportunities are evolving, and it is anticipated that postings will increase in the coming months. We recommend that clean tech companies regularly monitor Grants.gov, as well as the following sites, to identify grants of interest as they become available:

1. The DOE e-center's "Special Notice" page: https://e-center.doe.gov/doebiz.nsf/Special+Notices?OpenView.

2. The following Grants.gov search will bring up the most recently posted grants: http://www07.grants.gov/search/search.do?mode=Search&dates=7&docs1=doc_open_checked.

3. The DOE has a new blog that contains a section listing newly updated grant opportunities.

ADDRESS PRE-APPLICATION PROCESS FOR GRANTS NOW

In order to be well positioned to move quickly as grant opportunities become available in the coming months, now is an excellent time for companies that anticipate applying for grants to take the preliminary steps necessary to register with Grants.gov. Registration on Grants.gov is free and is intended to take no more than 21 days. To register, in summary you will need to:

1. Obtain a Data Universal Number System ("DUNS") number from Dun & Bradstreet at the following address: http://fedgov.dnb.com/webform. Registration is free and can be created within one business day.

2. Register your company, using your DUNS, with the Central Contractor Registration ("CCR") at the following address: http://www.ccr.gov/. Again there is no fee for registration and the process can be completed within one business day. As part of this process, you will need to designate an individual in the company as the E-Business Point of Contact ("E-Biz POC").

3. Have your company's E-Biz POC login to CCR and designate themselves or one or more additional persons within your company as an Authorized Organization Representative ("AOR"). Only individuals designated as an AOR by the E-Biz POC will have permissions to submit grant applications on behalf of your company through the CCR system.

NATURE OF FUNDING; COST SHARING

Under most DOE grants offered to for-profit organizations, funding comes in the form of after-the-fact partial reimbursement of costs incurred by the grantee within the scope of the project. It should be noted that a given grant may or may not allow for reimbursement of the recipient's indirect costs that are allocable to the project. More specific determinations of which costs are eligible for reimbursement will be made in accordance with the government's applicable cost principles (see, for example, 10 CFR 600.317 and 48 CFR part 31), so prospective grantees should plan to become familiar with these cost principles if they are not already.

Grant applicants should also be aware that the DOE's grant funding will usually cover only a certain percentage of the grantee's allowable costs; the unreimbursed portion is considered "cost sharing." Grant announcements typically identify the DOE's expectations for cost sharing on each project; applicants may propose a higher or lower cost-sharing percentage in light of their other funding sources, keeping in mind, of course, that the government will take the proposed cost sharing into account when evaluating competing applicants' proposals. There is not a universal requirement for grant recipients to guarantee their ability to absorb their portion of a project's costs (for example, by putting funds in escrow), but grantees are expected to identify any third-party funding sources on which they will rely, and they may be required to repay some or all of the grant proceeds if they fail to satisfy their cost-sharing commitments. Grant recipients may satisfy cost sharing requirements by expending cash reserves, state or local funds, capital assets or employee labor in furtherance of the grant project. The DOE will make a determination as to whether the use or expenditure of such assets qualifies as a part of the grant recipient's cost sharing and will assign a monetary value to those contributions based on the Federal Acquisition Regulation's cost principles referenced above. In addition, if the government determines an applicant to be "at risk for financial capability," additional conditions and requirements may be established and imposed by the granting agency on a case-by-case basis.

CONDITIONS OF GRANTS

In addition to the cost-sharing requirements described above, companies should keep in mind that government grants will come with certain conditions. Prospective grant applicants will need to balance the benefits of the funding with these conditions, which require careful planning and in some cases implementation of new systems and processes. Adding to these issues is the fact that, at least under current regulations, applicants will not know whether certain conditions will ultimately apply to a particular grant until the time the grant is awarded.

IP CONSIDERATIONS

Grant applicants should understand that their ability to protect and exploit intellectual property developed in the course of grant-funded projects will in most cases be dictated by standard DOE contract clauses on data rights and patent rights, which can be reviewed at http://www.gc.doe.gov/financial_assistance_awards.htm. The DOE does have some leeway to negotiate special IP clauses when necessary to satisfy the mission requirements of a particular program, but this is the exception rather than the rule. Typically, the standard clauses that apply to any given grant will be selected based on: (a) whether the government has identified the project as relating to research, development and demonstration ("RD&D"); and (b) whether the recipient is considered a large or small business.[1]

The government is entitled to relatively broad rights to any inventions made and any data created or delivered under grants for RD&D projects. With respect to patents, the RD&D grant agreement will typically include one of two standard DOE contract clauses, chosen based on whether the grantee is a large or small business. The main focus of both clauses is on inventions first conceived or reduced to practice in performance of work under the award—known as "subject inventions." Generally speaking, large

1 Businesses may self-certify as "small" if they meet the specific size standard established for their industry by the Small Business Administration (SBA). Depending on the industry in which a business operates, the relevant size standard may be defined in terms of average annual receipts or number of employees. The SBA has established two widely used size standards: 500 employees for most manufacturing and mining industries, and $7 million in average annual receipts for most non-manufacturing industries. While there are many exceptions, these are the primary size standards by industry. See 13 CFR 121.201 for a table of size standards broken down by industry.

businesses must cede ownership of patent rights in these subject inventions to the government, although the company retains non-exclusive rights to practice the inventions and may be able to obtain patents in countries where the government elects not to. Small businesses are subject to more favorable terms. They may elect to retain title to their subject inventions and associated patent rights, while the government receives a non-exclusive license to practice the subject invention and to allow others to practice the invention on the government's behalf. While this largely allows the small business to maintain commercial control over patented inventions funded by the grant, the government may, under some circumstances, force the patent holder to grant a non-exclusive, partially exclusive, or exclusive license under the patent to one or more responsible applicants. These "march-in rights" apply where the patent holder is not taking effective steps to achieve practical application of the subject invention in a given field, or where the action is necessary to alleviate health or safety needs or to meet regulatory requirements for public use of the invention.

In considering whether to seek or use RD&D grant funds for a particular development effort, companies should bear in mind that the patent rights provisions described above apply to any inventions conceived or reduced to practice in performance of work under the award. Thus, using grant funds to finish development of in-process inventions may cause them to be considered "subject inventions" (even if the bulk of the development had been done using the company's own funds), which could impair the grant recipient's ability to obtain or leverage patent protection for those inventions.

In contrast to patent rights, rights in grant-funded data are treated the same for both large and small businesses. Under the DOE's standard data-rights clause for RD&D grants, the government generally receives an unlimited license to "data" (defined to include technical data and computer software, but not data incidental to administration such as financial or cost data) first produced or delivered under the grant agreement. These "unlimited rights" allow the government to use, disclose, reproduce, prepare derivative works of, distribute copies of, and publicly perform and display this data in any manner and for any purpose, and to permit others to do the same. For grant-funded data that is eligible for copyright protection, however, the recipient is allowed to own the copyright and the government's otherwise-unlimited rights are narrowed to be exercisable only "by or on behalf of the Government" (versus "in any manner and for any purpose"). In addition to these considerations, in certain cases the government's disclosure and distribution rights may make it unrealistic for a grantee to maintain as a trade secret or as confidential information any technical data or software that it first develops under an RD&D grant.

For non-RD&D grants (which may include, for example, funding to set up or expand manufacturing facilities for a pre-existing technology), the DOE's standard intellectual property scheme is, relatively speaking, favorable to the grantee. The grantee is not restricted from seeking protection for IP generated or delivered under the funded project, and the government's rights are essentially limited to obtaining, reproducing, publishing and using project-generated data and copyrightable works (and to allow third parties to do the same) for "Federal purposes." Of course, for particularly sensitive projects, it should be noted that this scheme still presents some possibility of unwanted access to a company's data by others acting with the government's authorization.

OTHER NOTEWORTHY TERMS AND CONDITIONS

In addition to IP considerations, grant applicants should also be aware of the following terms and conditions that the DOE incorporates into grant agreements with for-profit organizations:

a. **Federal Oversight**. The DOE has the right to oversee the project activities performed under the grant, including the right to conduct site visits, review performance and financial reports, assure compliance with grant terms and conditions, review technical performance after project completion to ensure that the award objectives have been accomplished and, in unusual circumstances, to temporarily intervene to correct deficiencies which develop during the project.

b. **Reporting and Publication**. The DOE will provide a list of the specific reporting requirements imposed by a grant in the form of a Federal Assistance Reporting Checklist. Failure to comply with those reporting requirements is considered material noncompliance with the terms of the grant, which may result in the withholding of future payments, suspension or termination of the grant, and/or the withholding of future awards. Scientific and technical reports submitted under the grant are made public except to the extent the grant recipient designates the report as containing patentable or protected material. Note that the DOE also may

publish online grant applications and approved grant agreements; to protect any confidential information from being disclosed, applicants must specifically identify each confidential section of their application.

c. **Segregation of Costs**. Recipients must segregate the obligations and expenditures related to any grants funded under the Recovery Act. Recovery Act funds may not be commingled with any other funds or revenue streams and financial and accounting systems should be revised as necessary to segregate, track and maintain Recovery Act funds.

d. **Use of American-Made Equipment and Services**. Grant recipients must comply with the "Fly America Act" regulations that require any international travel or shipment supported by grant funds to be on a U.S. carrier, if such service is available. Similarly, at least 50% of any equipment or materials obtained with grant funds that are transported by ocean vessel must use U.S. commercial vessels, if available. Grant recipients also are encouraged by the DOE, to the greatest extent practicable, to purchase American-made equipment and products when using grant funds.

e. **Lobbying**. Grant recipients must comply with certain restrictions on lobbying, and may not directly or indirectly use Federal funds to pay for any service or communication intended to influence a Member of Congress or official of any government agency concerning any legislation, law, policy, appropriation, or ratification.

For more information on this, or related matters, you may contact:

Mark Ostrau, Partner, Technology Transactions Group
(650.335.7269 – mostrau@fenwick.com)

Sayre Stevick, Partner, Corporate Group
(650.335.7868 – sstevick@fenwick.com)

Richard Dickson, Partner, Corporate Group
(650.335.7679 – rdickson@fenwick.com)

Dan Dorosin, Partner, Corporate Group
(650.335.7174 – ddorosin@fenwick.com)