

September 7, 2000
DO-00-032

MEMORANDUM

TO: Designated Agency Ethics Officials

FROM: F. Gary Davis
Acting Director

SUBJECT: Issuance of Memorandum by the Office of Legal Counsel
Concerning Application of 18 U.S.C. § 209 to Receipt of
Outside Royalty Payments by Employee-Inventors

On September 7, 2000, the Office of Legal Counsel (OLC), Department of Justice, issued a Memorandum in response to a question posed by the Office of Government Ethics (OGE) concerning the application of 18 U.S.C. § 209 to the receipt of outside royalties by employees who are permitted to retain or obtain title to inventions developed as part of their official duties. A 1993 OLC Memorandum previously had concluded that section 209 did not prohibit employee-inventors from sharing in a percentage of royalties received by the Government from outside sources, where the Government itself retained and licensed the patent rights, pursuant to relevant provisions of the Federal Technology Transfer Act of 1986 (FTTA); that opinion, however, did not address the applicability of section 209 to royalties received by an employee-inventor directly from an outside source where the Federal Government had waived any interest in commercializing an invention and permitted the employee personally to pursue any patent rights. See 17 Op. O.L.C. 46 (1993) (1993 Memorandum). OLC now has concluded that section 209 ordinarily does not preclude outside royalty payments to employee-inventors who privately commercialize inventions for which the Government has permitted them to obtain patent rights.

Apart from issues specific to the Federal scheme for disposing of intellectual property rights for workplace inventions, the new Memorandum illustrates OLC's approach when there is a question as to the presence of one particular element of section 209. As OLC and OGE have noted on several occasions, section 209 can be viewed as having four elements: (1) employee status; (2) receipt of salary or any contribution to or supplementation of salary; (3) receipt of such salary, contribution or supplementation from a non-Federal source; (4) receipt of such salary, contribution or supplementation as compensation for services as a Federal employee. OLC states that the fourth element requires an "intentional, direct link" between the outside compensation and the employee's Government service. In some situations, however, intent to compensate for Government services may not be obvious. In

cases where it is not otherwise clear that a particular payment is actually intended as compensation for an employee's services to the Government, the Memorandum articulates six factors that should be considered: (1) whether there is a substantial relationship or pattern of dealings between the agency and the payor; (2) whether the employee is in a position to influence the Government on behalf of the payor; (3) whether the expressed intent of the payor is to compensate for Government service; (4) whether circumstances indicate that the payment was motivated by a desire other than to compensate the employee for her Government service; (5) whether payments would also be made to non-Government employees; and (6) whether payments would be distributed on a basis unrelated to Government service. OGE advises that agency ethics officials should consider these factors, none of which alone is necessarily dispositive, when there is a question as to the presence of the fourth element of section 209.

The new Memorandum also makes certain references to 18 U.S.C. § 208 that bear mentioning. First, the Memorandum states in passing that the 1993 Memorandum found that section 208 did not apply to payments made directly by the Government to an employee-inventor, pursuant to section 7 of the FTTA, because such payments are part of an employee's Federal employment benefits. Similarly, the Memorandum notes that the 1993 Memorandum suggested that the mere retention of patent rights by an employee, prior to any licensing agreement, might not be viewed as a financial interest under section 208, because such patent rights also are an integral part of the employee benefit program established by the FTTA. We want to point out, however, that certain aspects of this section 208 analysis in the 1993 Memorandum have been superseded by subsequent advice from OLC and by the regulatory exemption, in 5 C.F.R. § 2640.203(d), for interests derived from Federal employment. See 60 Fed. Reg. 44706 (August 28, 1995) (discussing 1993 Memorandum and other authorities).

Second, the new Memorandum briefly discusses the possibility of waivers, under section 208(b)(1), for employee-inventors whose official duties continue to involve work on the same invention for which they may have outside licensing agreements. From our discussions with OLC, we understand that the Memorandum was not intended either to foreclose or to encourage the issuance of waivers in this type of situation. Rather, the purpose was only to emphasize that any conflict of interest concerns in such situations are adequately addressed by the safeguards of section 208, including the criteria for granting waivers, as articulated in the statute itself and in the implementing regulation, 5 C.F.R. § 2640.301.

A copy of the Memorandum is attached for your information.

Attachment