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Office of the Assistant Secretary for Productivity, Technology and Innovation

37 CFR Part 401

Rights to Inventions Made by Nonprofit Organizations and Small Business Firms; Final Rule

DEPARTMENT OF COMMERCE

Office of the Assistant Secretary for Productivity, Technology and Innovation

37 CFR Part 401

[Docket No. 41278-7006]

Rights to Inventions Made by Nonprofit Organizations and Small Business Firms

AGENCY: Assistant Secretary for Productivity, Technology and Innovation.

ACTION: Final rule.

SUMMARY: Public Law 98-620 amended Chapter 18 of Title 35, United States Code, dealing with patent rights in inventions made with Federal funding by nonprofit organizations and small business firms. It also reassigned responsibility for the promulgation of regulations implementing 35 U.S.C. 202 through 204 and the establishment of standard funding agreement provisions from the Office of Mangement and Budget (OMB) to the Secretary of Commerce. This rule makes final the interim final rule published in the Federal Register on July 14, 1986, and incorporates minor changes as a result of comments received on the interim final rule.

EFFECTIVE DATE: April 17, 1967.

FOR FURTHER INFORMATION CONTACT: Mr. Norman Latker, Director, Federal Technology Management Policy Division, Office of Productivity, Technology and Innovation, U.S. Department of Commerce, Room 4837, Washington, DC 20230. Phone: 202-377-0659.

SUPPLEMENTARY INFORMATION:

Background

Public Law 98-620 amended Chapter 18 of Title 35, United States Code, and assigned regulatory authority to the Secretary of Commerce. The Secretary has delegated his authority under 35 U.S.C. 206 to the Assistant Secretary for Productivity, Technology and Innovation. Section 206 of Title 35 U.S.C. requires that the regulations and the standard funding agreement be subject to public comment before their issuance. Accordingly, on April 4, 1985, the Assistant Secretary published a notice of proposed rulemaking in the Federal Register (50 FR 13524) for public comment. As noted at that time, the regulation closely follows OMB Circular A-124 which the regulation replaced. Differences between the proposed rule and the Circular were highlighted in Supplementary Information accompanying the notice of proposed rulemaking.

Additionally, to comply fully with section 206 of Title 35 U.S.C., the Department published in the Federal Register (51 FR 25508) on July 14, 1986, a final interim rule and requested comments by September 12, 1986.

Copies of all comments received were made available for public inspection in the Department's Central Reference Records Inspection Facility (CRRIF), Room 6628 in the Hoover Building.

Information about the availability of these records for inspection may be obtained from Mrs. Hedy Walters at (202) 377-3271.

Treatment of Substantative Comments on Interim Final Rule.

A number of comments from eight (8) different sources were received on the interim final rule in response to the July 14, 1986 notice.

The Department of Energy (DOE) submitted five comments on the interim final rule. All of the comments were found to have merit and have been incorporated in the final rule as follows:

DOE's first comment relates to a suggested clarification in the discussion portion of the interim final rule relating to § 401.3(a) (2). DOE's concern is that the discussion suggests that the right of the government to declare exceptional circumstance for national security reasons is limited to "some limited situations" and that application of this section is therefore limited to situations where the invention report is classified. DOE correctly points out that this is not consistent with the actual language of the regulation. We agree that the words "some limited situations" should not have been included in the discussion portion of the July 14, 1986 notice.

DOE's second comment states that the reference in the discussion portion of the interim final rule, in § 401.14(b) to nuclear weapons programs is inaccurate. We agree that the word nuclear should not have been included in the discussion of § 401.14(b).

DOE's third comment suggests that § 401.3(c) be revised to be consistent with § 401.14(b), which permits DOE to draft a substitute clause. We agree and have included the words, "or substitute thereto" after the reference to § 401.14(b) in § 401.3(c).

Another DOE comment suggests that § 401.13(c) (2) goes beyond the similar provision of OMB Circular A-124 by appearing to preclude confidential disclosure of patent applications or information which is part of a patent application obtained under the clause to other agencies or contractors of government agencies. We have clarified this by adding the following additional language to the end of § 401.13(c) (2):

> This prohibition does not extend to disclosure to other government agencies or contractors of government agencies under an obligation to maintain such information in confidence.

DOE also suggests that § 401.13(c)(3) is unnecessary in view of § 401.13(c)(1). However, DOE suggests that if it is retained, § 401.13(c)(3) should be limited to the same time period as § 401.13(c)(1). We agree but have made no change because the language of § 401.13 (c) (3) already refers back to and incorporates the § 401.13(c)(3) already refers back to and incorporates the § 401.13(b)(1) limitation.

DOE also states that in § 401.15, first sentence, third word from the last word, "of" should be "or". We agree and have made this change.

Finally, DOE suggests that § 401.15(b) should have the following five words added at the end: "Unless it has been licensed." We agree and have included these five words at the end of § 401.15(b).

Another person submitted six comments which have been treated as follows:

The first comment suggests that a statement be added to § 401.3(c) as follows: "the Department of Energy may only exercise the exception at § 401.3(a) (4) with regard to inventions at the facility that are made directly and primarily with funds provided by either the Department's naval nuclear propulsion or nuclear weapons related programs." This comment was not accepted since the statute does not use these terms. Further, all determinations made under section 401(a)(4) by DOE are subject to review by the Department of Commerce under § 401.14(f) and each determination will be examined to ensure compliance with the law.

The second comment points out that in order to make a determination under § 401.3(a) (4), an agency must find one of the conditions set out in § 401.3(a) (1), (2) or (3). We disagree with this interpretation as § 401.3(a) (4) is independent of § 401.3(a) (1), (2) and (3).

A third comment suggests that consideration should be given to adding language to § 401.5(g) requiring the contractor to return a significant or a major portion of income to the facility at which the invention was made. This issue was disposed of in the earlier interim final rule notice of July 14, 1986, on page 25509 under the discussion of § 401.5(f). The matter of royalty disposal is one that is best left to negotiations between the interested parties.

The fourth comment relates to the language in § 401.5(g) regarding the physical location of contractor employees responsible for licensing of facility inventions. The comment suggests that 401.5(g) expressly state that contractors be obligated to maintain personnel responsible for licensing at the facility. However, another person requested that the subsection not be interpreted strictly to *require* that such a person be physically located at the facility. Section 202(c)(7)(C) of Pub. L. 98-620 indicates that licensing be done at the facility, "to the extent it provides the most effective technology transfer . . .". We believe this language precludes arbitrarily requiring that licensing personnel be located at the facility.

A fifth comment recommended requiring DOE funding agreements to conform to the language prescribed by § 401.14(b)(2) when the exception at § 401.3(a)(4) is used. This was not accepted. Although we have, in fact, permitted DOE to use a substitute clause for that set out in § 401.14(b)(2), we will be reviewing all agency regulations including DOE's to ensure compliance with the law and regulations, including all substitute clauses contained in agency regulations.

The final comment of this second person is that we modify the statement in § 401.15(a) that "within 90 days after receiving . . ." to read: Within 90 days after receiving a request and supporting information or sooner if a statutory bar to patenting is imminent, the agency shall either make a determination or inform the contractor of why a determination has not yet been made and when one can reasonably be expected." This comment was not accepted. At this time, this is a matter best left to the parties to determine on a case-by-case basis.

A number of comments were also received regarding a typographical error in the "Background" section on page 25510 of the July 14, 1986 Federal Register notice. The word "not" was inadvertently left out of the last sentence of the first paragraph discussing § 401.7. The sentence should have read as follows: "this change has been made because small business preference is not intended to inhibit industrial support of university research."

Two comments were received that relate to the exceptions to be made for handling of inventions if they are under research at a government-owned, contractor-operated facility (GOCO):

The first comment relates to the requirement in § 401.5(g) that specifies that income be used for purposes "consistent with research and development mission and objectives of the facility." The commenter suggests it would be preferable that a university be able to direct the net royalty income to the most promising research needs, which may not necessarily be consistent with the objective of the GOCO facility. We cannot accept this suggestion since the language in the regulation is based on the statute—Pub. L. 98-620.

The second comment goes on to state that § 401.5(g) further specifies that if a licensing program is successful, then above a certain point, 75 percent is to be paid to the U.S. Treasury. The suggestion is that this reduces the incentive to be successful, and recommends the deletion of this requirement. Again, we cannot accept this suggestion since the regulatory language herein is based on the statute—Pub. L. 98-620.

A third comment references the special clause entitled, "patent rights to nonprofit DOE facility operations." The comment states that this clause removes a subject invention funded by the naval nuclear propulsion or weapons related programs of DOE from the normal presumption of rights to the contractor, and requires the petitioning process that was in effect before the enactment of Pub. L. 96-517. The concern is that if these programs are exempted, then there may be additional proposals to delete other programs from the full operations of Pub. L. 96-517. The comment then concludes by recommending that this special clause not be implemented. We cannot accept this recommendation since the statute, Pub. L. 98-620, gives DOE the discretionary authority to use this for its naval nuclear propulsion or weapons related programs.

Another comment received relates to § 401.14(c)(1), which calls for disclosure by a contractor to the contracting government agency of each "subject invention . . ." within two months of the time it is disclosed by the inventor in writing. The commenter complains that two months is "too harsh." We do not accept this comment for two reasons. (1) The statute, Pub. L. 98-620, uses the words "reasonable time" and we think two months is reasonable; and (2) § 401.14(c)(4) allows extensions of time at the discretion of the agency.

One person asked for greater guidance on whether contractor funding of individual scientists at different universities is an educational award within 35 U.S.C. 212 and, if so, what rights such awardees should have. We have not acted on this comment since we do not believe any contractor has the authority to use funding for the educational awards covered by 35 U.S.C. 212.

A comment was submitted that relates to the discussion in the July 14, 1986 notice of § 401.13(b). The concern is that the discussion may be misinterpreted to imply that agencies may not apply the provisions of Pub. L. 98-620 retroactively. This point is well taken. It was our intent in the July 14, 1986 discussion of § 401.13(b) to note only that the Department of Commerce has no authority under the law to require agencies to waive the cap on the term of an exclusive license in a patent clause that predates enactment of Pub. L. 98-620. There is no question that the agencies themselves have authority under the law to waive such cap and the regulations in fact urge them to do so absent a substantive reason to do otherwise.

Another person requested that the Department of Commerce set a time for issuance of draft supplementary regulations relating to foreign filing deadlines at § 401.14(c)(3). As we previously indicated in the interim final rule notice on July 14, 1986, we are considering this matter. Therefore, we see no reason at this time to set a deadline.

Finally, pursuant to requests by two persons, we have included in this final notice, uniform policy guidance in § 401.1(a) to these final regulations similar to that included in OMB Circular A-124. This has been done to ensure clarity and continuity between OMB Circular A-124 and these final regulations with regard to policy.

Rulemaking Requirements

As stated in the proposed notice and the interim final rule, this regulation is not a major rule as defined in Executive Order 12291, and it adds no paperwork burdens. In fact, it reduces certain paperwork requirements of the regulations it replaces. And, as discussed in connection with the proposed rule and the interim final rule, the General Counsel of the Department of Commerce has certified to the Small Business Administration that this rule will not have a substantial economic impact on a substantial number of small entities.

List of Subjects in 37 CFR Ch. IV

Inventions, Patents, Nonprofit organizations, Small Business firms.

PART 401—RIGHTS TO INVENTIONS MADE BY NONPROFIT ORGANIZATIONS AND SMALL BUSINESS FIRMS UNDER GOVERNMENT GRANTS, CONTRACTS, AND COOPERATIVE AGREEMENTS

[illegible]

§ 401.2 Scope.

[illegible]

§ 401.3 Definitions.

(a) The term "funding agreement" means any contract, grant or cooperative agreement entered into between any Federal agency, other than the Tennessee Valley Authority, and any contractor for the performance of experimental, developmental or research work [illegible]

(b) The term "contractor" means any person, small business firm or nonprofit organization that is a party to a funding agreement.

(c) The term "invention" means any invention or discovery which is or may be patentable or otherwise protectable under Title 35 of the United States Code, or any variety of plant which is or may be protectable under the Plant Variety Protection Act (7 U.S.C. 2321 et seq.).

(d) The term "subject invention" means any invention of a contractor conceived or first actually reduced to practice in the performance of work under a funding agreement: Provided, That in the case of a variety of plant, the date of determination (as defined in section 41(d) of the Plant Variety Protection Act, 7 U.S.C. 2401(d)) must also occur during the period of contract performance.

(e) The term "small business firm" means a small business concern as defined at section 2 of Pub. L. 85-536 (15 U.S.C. 632) and implementing regulations of the Administrator of the Small Business Administration. For the purposes of this part, such a concern is a small business concern which meets the requirements of the Small Business Administration for receiving funding for research and development awards, and which is not dominant in the field of endeavor in which the work is to be performed.

(f) The term "nonprofit organization" means a university or other institution of higher education or an organization of the type described in section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. 501(c)(3)) and exempt from taxation under section 501(a) of the Internal Revenue Code (26 U.S.C. 501(a)) or any nonprofit scientific or educational organization qualified under a state nonprofit organization statute.

(g) The term "Secretary" means the Secretary of Commerce or his or her designee.

§ 401.4 Use of the Standard Clauses at § 401.14.

(a) Each funding agreement awarded to a small business firm or nonprofit organization, except those listed in § 401.2(c), shall contain the clauses at § 401.14 with such modifications and additions as are necessary to implement the provisions hereof and applicable law upon the basis of the particular circumstances involved in the funding agreement, as determined by the agency awarding the funding agreement. The clauses at § 401.14 may be modified in individual cases or deviations may be granted by the agency as necessary to meet the requirements of law, Executive order, or these regulations.

(b) Each agency may add to the standard clauses at § 401.14 such other provisions as are necessary to protect the interests of the United States and to secure effective exploitation of inventions consistent with the objectives of the Act and this part. Such additional provisions may not alter the rights or obligations of the parties under the standard clauses at § 401.14 unless authorized by the Secretary for the purpose of meeting the requirements of the Act and this part. Any such additional provisions shall be identified by the agency.

(c) Each agency may authorize a contractor to adopt alternative provisions with respect to one or more subject inventions in lieu of those included in the standard clauses at § 401.14 in order to comply with the laws or regulations of a foreign country in which the contractor desires to file a patent application or to otherwise protect an invention. Such alternative provisions may be adopted by the contractor without prior approval of the agency but shall be reported promptly to the agency. Use of alternative provisions may be refused by the agency if the agency believes that the alternative provisions unduly reduce the benefits to the United States of the invention or discovery.

(d) Each agency may authorize a contractor to adopt alternative provisions with respect to one or more subject inventions for the purpose of restructuring the contractor's rights in the subject inventions so as to increase the benefits to the United States. However, unless otherwise provided for in a supplemental agreement issued pursuant to § 401.14, the agency may not require, as a condition of receiving a waiver, that the contractor grant to the Government rights to inventions made solely by employees of the contractor. Consistent with the objectives of the Act and this part, the agency may require as a condition of receiving a waiver that the contractor grant to one or more third parties designated by the agency licenses to practice the invention or have the invention practiced throughout the world on terms that are reasonable under the circumstances. Waivers may be granted by the agency only in accordance with the procedures and standards set forth in § 401.12 and the exercise of such authority shall be reported to the Secretary. Waivers may be granted only if the contractor has demonstrated to the agency that effective steps will be taken to bring the invention to practical application within a reasonable time. In exceptional circumstances, when it would not be inconsistent with the purpose and policy of the Act, a waiver may be granted to a contractor that does not intend to undertake those steps if the agency finds that the interests of the United States and the general public will be better served by the waiver than by the agency's retaining the invention, taking into account the intent to promote the availability of new inventions to the general public on fair and reasonable terms, the contribution of the contractor to the invention and to the further development and commercialization of the invention, and the countervailing benefits to the United States that may flow from the exercise of exclusive rights in the invention. Waivers may be granted with respect to classes of inventions or circumstances or types of situations specified in advance by the agency. Waivers may be granted with respect to identified inventions only upon application by the contractor after the invention has been identified. Each waiver granted pursuant to this paragraph (d) shall be subject to the reservation of a nonexclusive, irrevocable, paid-up license to the Government to practice or have practiced for or on behalf of the United States the subject invention throughout the world and may be conditioned on the contractor's timely filing of a patent application on the invention in countries in which the contractor chooses not to file and on such other terms and conditions as the agency may prescribe for the protection of the interests of the United States or to promote the utilization of the invention by the public. In addition, unless it is determined that it would not be consistent with the purpose of the Act, waivers shall be subject to the condition that any products embodying the subject invention or produced through the use of the subject invention shall be manufactured substantially in the United States. In individual cases, the requirement for such a commitment may be waived by the agency upon a showing by the contractor or its assignee that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or that under the circumstances domestic manufacture is not commercially feasible. This paragraph (d) does not apply to licenses granted by the contractor to its affiliates, or subsidiaries whether or not organized under the laws of the United States or any country, unless such licenses are granted for the purpose of circumventing the obligation to manufacture substantially in the United States.

(e) Each agency may authorize a contractor to assign rights in a subject invention to an organization located outside the United States whose purpose is to manage the contractor's foreign patenting, licensing or other foreign technology transfer activities if the agency finds that the contractor has a satisfactory plan for accomplishing such activities more effectively than could be done by the agency or by the contractor without such assignment. Unless otherwise provided in a supplemental agreement issued pursuant to § 401.14, such assignment may be made only upon the condition that the assignee agree to grant to the Government the rights with respect to the subject invention required by paragraph (c) of the standard clause at § 401.14 and to grant to the agency the rights with respect to the subject invention required by paragraph (f) of the standard clause at § 401.14. Unless otherwise provided in a supplemental agreement issued pursuant to § 401.14, such assignment may be made only upon the condition that the assignee grant to the contractor the licenses required of the contractor by paragraph (c) of the standard clause at § 401.14. Any such assignment shall be made expressly subject to the reservation by the agency of the nonexclusive, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States the subject invention throughout the world and the agency may condition its approval of the assignment on the inclusion of provisions in the assignment agreement to protect the confidentiality of disclosures made by the contractor to the assignee and to ensure that the assignee will not further assign rights in the invention without complying with the requirements of this paragraph (e). Any assignment made without the authorization of the agency shall be void.

(e) Before utilizing any of the exceptions in § 401.3(a) of this section, the agency shall prepare a written determination, including a statement of facts supporting the determination, that the conditions identified in the exception exist. A separate statement of facts shall be prepared for each exceptional circumstances determination, except that in appropriate cases a single determination may apply to both a funding agreement and any subcontracts issued under it or to any funding agreement to which such an exception is applicable. In cases when § 401.3(a)(2) is used, the determination shall also include an analysis justifying the determination. This analysis should address with specificity how the alternate provisions will better achieve the objectives set forth in 35 U.S.C. 200. A copy of each determination, statement of facts, and, if applicable, analysis shall be promptly provided to the contractor or prospective contractor along with a notification to the contractor or prospective contractor of its rights to appeal the determination of the exception under 35 U.S.C. 202(b)(4) and § 401.4 of this part.

(f) Except for determinations under § 401.3(a)(3), the agency shall also provide copies of each determination, statement of fact, and analysis to the Secretary. These shall be sent within 30 days after the award of the funding agreement to which they pertain. Copies shall also be sent to the Chief Counsel for Advocacy of the Small Business Administration if the funding agreement is with a small business firm. If the Secretary of Commerce believes that any individual determination or pattern of determinations is contrary to the policies and objectives of this chapter or otherwise not in conformance with this chapter, the Secretary shall so advise the head of the agency concerned and the Administrator of the Office of Federal Procurement Policy and recommend corrective actions.

(g) To assist the Comptroller General of the United States to accomplish his or her responsibilities under 35 U.S.C. 202, each Federal agency that enters into any funding agreements with nonprofit organizations or small business firms shall accumulate and, at the request of the Comptroller General, provide the Comptroller General or his or her duly authorized representative the total number of prime agreements entered into with small business firms or nonprofit organizations that contain the patent rights clause in this part or under OMB Circular A–124 for each fiscal year beginning with October 1, 1982.

(h) To qualify for the standard clause, a prospective contractor may be required by an agency to certify that it is either a small business firm or a nonprofit organization. If the agency has reason to question the status of the prospective contractor as a small business firm, it may file a protest in accordance with 13 CFR 121.9. If it questions nonprofit status, it may require the prospective contractor to furnish evidence to establish its status as a nonprofit organization.

§ 401.4 Contractor appeals of exceptions.

(a) In accordance with 35 U.S.C. 202(b)(4) a contractor has the right to an administrative review of a determination to use one of the exceptions at § 401.3(a) (1) through (4) if the contractor believes that a determination is either contrary to the policies and objectives of this chapter or constitutes an abuse of discretion by the agency. Paragraph (b) of this section specifies the procedures to be followed by contractors and agencies in such cases. The assertion of such a claim by the contractor shall not be used as a basis for withholding or delaying the award of a funding agreement or for suspending performance under an award. Pending final resolution of the claim the contract may be issued with the patent rights provision proposed by the agency; however, should the final decision be in favor of the contractor, the funding agreement will be amended accordingly and the amendment made retroactive to the effective date of the funding agreement.

(b)(1) A contractor may appeal a determination by providing written notice to the agency within 30 working days from the time it receives a copy of the agency's determination, or within such longer time as an agency may specify in its regulations. The contractor's notice should specifically identify the basis for the appeal.

(2) The appeal shall be decided by the head of the agency or by his/her designee who is at a level above the person who made the determination. If the notice raises a genuine dispute over the material facts, the head of the agency or the designee shall undertake, or refer the matter for, fact-finding.

(3) Fact-finding shall be conducted in accordance with procedures established by the agency. Such procedures shall be as informal as practicable and be consistent with principles of fundamental fairness. The procedures should afford the contractor the opportunity to appear with counsel, submit documentary evidence, present witnesses and confront such persons as the agency may rely upon. A transcribed record shall be made and shall be available at cost to the contractor upon request. The requirement for a transcribed record may be waived by mutual agreement of the contractor and the agency.

(4) The official conducting the fact-finding shall prepare or adopt written findings of fact and transmit them to the head of the agency or designee promptly after the conclusion of the fact-finding proceeding along with a recommended decision. A copy of the findings of fact and recommended decision shall be sent to the contractor by registered or certified mail.

(5) Fact-finding should be completed within 45 working days from the date the agency receives the contractor's written notice.

(6) When fact-finding has been conducted, the head of the agency or designee shall base his or her decision on the facts found, together with any argument submitted by the contractor, agency officials or any other information in the administrative record. In cases referred for fact-finding, the agency head or the designee may reject only those facts that have been found to be clearly erroneous, but must explicitly state the rejection and indicate the basis for the contrary finding. The agency head or the designee may hear oral arguments after fact-finding provided that the contractor or contractor's attorney or representative is present and given an opportunity to make arguments and rebuttal. The decision of the agency head or the designee shall be in writing and, if it is unfavorable to the contractor shall include an explanation of the basis of the decision. The decision of the agency or designee shall be made within 30 working days after fact-finding or, if there was no fact-finding, within 45 working days from the date the agency received the contractor's written notice. A contractor adversely affected by a determination under this section may, at any time within sixty days after the determination is issued, file a petition in the United States Claims Court, which shall have jurisdiction to determine the appeal on the record and to affirm, reverse, remand, or modify as appropriate, the determination of the Federal agency.

§ 401.5 Modification and tailoring of clauses.

(a) Agencies should complete the blank in paragraph (g)(2) of the clauses at § 401.14 in accordance with their own or applicable government-wide regulations such as the Federal Acquisition Regulation. In grants and cooperative agreements (and in contracts, if not inconsistent with the Federal Acquisition Regulation) agencies wishing to apply the same clause to all subcontractors as is applied to the contractor may delete paragraph (g)(2) of the clause and delete the words "to be performed by a small business firm or domestic nonprofit organization" from paragraph (g)(1). Also, if the funding agreement is a grant or cooperative agreement, paragraph (g)(3) may be deleted. When either paragraph (g)(2) or paragraphs (g) (2) and (3) are deleted, the remaining paragraph or paragraphs should be renumbered appropriately.

(b) Agencies should complete paragraph (l), "Communications", at the end of the clauses at § 401.14 by designating a central point of contact for communications on matters relating to the clause. Additional instructions on communications may also be included in paragraph (l).

(c) Agencies may replace the italicized words and phrases in the clauses at § 401.14 with those appropriate to the particular funding agreement. For example, "contracts" could be replaced by "grant," "contractor" by "grantee," and "contracting officer" by "grants officer." Depending on its use, "Federal agency" can be replaced either by the identification of the agency or by the specification of the particular office or official within the agency.

(d) When the agency head or duly authorized designee determines at the time of contracting with a small business firm or nonprofit organization that it would be in the national interest to acquire the right to sublicense foreign governments or international organizations pursuant to any existing treaty or international agreement, a sentence may be added at the end of paragraph (b) of the clause at § 401.14 as follows:

> This license will include the right of the government to sublicense foreign governments, their nationals, and international organizations, pursuant to the following treaties or international agreements: _____

The blank above should be completed with the names of applicable existing treaties or international agreements, agreements of cooperation, memoranda of understanding, or similar arrangements, including military agreements relating to weapons development and production. The above language is not intended to apply to treaties or other agreements that are in effect on the date of the award but which are not listed. Alternatively, agencies may use substantially similar language relating the government's rights to specific treaties or other agreements identified elsewhere in the funding agreement. The language may also be modified to make clear that the rights granted to the foreign government, and its nationals or an international organization may be for additional rights beyond a license or sublicense if so required by the applicable treaty or international agreement. For example, in some exclusive licenses or even the assignment of title in the foreign country involved might be required. Agencies may also modify the language above to provide for the direct licensing by the contractor of the foreign government or international organization.

(e) If the funding agreement involves performance over an extended period of time, such as the typical funding agreement for the operation of a government-owned facility, the following language may also be added:

> The *agency* reserves the right to unilaterally amend this *funding agreement* to identify specific treaties or international agreements entered into or to be entered into by the government after the effective date of this *funding agreement* and effectuate those license or other rights which are necessary for the government to meet its obligations to foreign governments, their nationals and international organizations under such treaties or international agreements with respect to subject inventions made after the date of the amendment.

(f) Agencies may add additional subparagraphs to paragraph (f) of the clauses at § 401.14 to require the contractor to do one or more of the following:

(1) Provide a report prior to the close-out of a funding agreement listing all subject inventions or stating that there were none.

(2) Provide, upon request, the filing date, serial number and title; a copy of the patent application; and patent number and issue date for any subject invention in any country in which the contractor has applied for patents.

(3) Provide periodic (but no more frequently than annual) listings of all subject inventions which were disclosed to the agency during the period covered by the report.

(g) If the contract is with a nonprofit organization and is for the operation of a government-owned, contractor-operated facility, the following will be substituted for paragraph (k)(3) of the clause at § 401.14(a):

> (3) After payment of patenting costs, licensing costs, payments to inventors, and other expenses incidental to the administration of subject inventions, the balance of any royalties or income earned and retained by the *contractor* during any fiscal year on subject inventions under this or any successor *contract* containing the same requirement, up to any amount equal to five percent of the budget of the facility for that fiscal year, shall be used by the contractor for scientific research, development, and education consistent with the research and development mission and objectives of the facility, including activities that increase the licensing potential of other inventions of the facility. If the balance exceeds five percent, 75 percent of the excess above five percent shall be paid by the contractor to the Treasury of the United States and the remaining 25 percent shall be used by the *contractor* only for the same purposes as described above. To the extent it provides the most effective technology transfer, the licensing of subject inventions shall be administered by *contractor* employees on location at the facility.

(h) If the contract is for the operation of a government-owned facility, agencies may add the following at the end of paragraph (f) of the clause at § 401.14(a):

> (5) The contractor shall establish and maintain active and effective procedures to ensure that subject inventions are promptly identified and timely disclosed and shall submit a description of the procedures to the *contracting officer* so that the *contracting officer* may evaluate and determine their effectiveness.

§ 401.6 Exercise of march-in rights.

(a) The following procedures shall govern the exercise of the march-in rights of the agencies set forth in 35 U.S.C. 203 and paragraph (j) of the clause at § 401.14.

(b) Whenever an agency receives information that it believes might warrant the exercise of march-in rights, before initiating any march-in proceeding, it shall notify the contractor in writing of the information and request informal written or oral comments from the contractor as well as information relevant to the matter. In the absence of any comments from the contractor within 30 days, the agency may, at its discretion, proceed with the procedures below. If a comment is received within 30 days, or later if the agency has not initiated the procedures below, then the agency shall, within 60 days after it receives the comment, either initiate the procedures below or notify the contractor, in writing, that it will not pursue march-in rights on the basis of the available information.

(c) A march-in proceeding shall be initiated by the issuance of a written notice by the agency to the contractor and its assignee or exclusive licensee, as applicable and if known to the agency, stating that the agency is considering the exercise of march-in rights. The

[illegible]

§ 401.7 Small Business Preference.

[illegible]

§ 401.8 Reporting on utilization of subject inventions.

[illegible]

[illegible]

§ 401.9 Retention of Rights by Contractor Employee Inventor.

[illegible]

§ 401.10 Government Assignment to Contractor of Rights in Invention of Government Employee.

[illegible]

§ 401.11 Agencies.

[illegible]

§ 401.12 Licensing of Background Patent Rights to Third Parties.

[illegible]

§ 401.13 Administration of Patent Rights Clauses.

[illegible]

[illegible]

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based on an assessment whether its own plans regarding the invention will prefer pursuing the policies and objectives of 15 U.S.C. 3190 then will contractor ownership of the invention. Moreover, if the agency is concerned only about specific uses or applications of the invention, it shall consider leaving title to the contractor with additional conditions imposed upon the contractor's use of the invention for such applications or with expanded government license rights in such applications.

(d) A determination not to allow the contractor to retain title to a subject invention or to restrict or condition its title with conditions differing from those in the clause at § 401.14(a), unless made by the head of the agency, shall be appealable by the contractor to an agency official at a level above the person who made the determination. This appeal shall be subject to the procedures applicable to appeals under § 401.15 of this part.

§ 401.16 Submissions and inquiries.

All submissions or inquiries should be directed to Federal Technology Management Policy Division, telephone number 202-377-6854, Room 14457, U.S. Department of Commerce, Washington, DC 20230.

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