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June 23, 1977

Mr. Ben W. Heineman, Jr.
Executive Assistant to
the Secretary
Department of Health, Education
and Welfare
Room 615f
200 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Ben:

As you are no doubt aware, Secretary Califano recently issued a Memorandum describing abuses in the HEW Procurement Process. One area not mentioned was patent licensing, a subject which involves vast sums of money depending on what rights are retained by the government or otherwise disposed of to private parties. We represent Ohio-Nuclear, Inc., a manufacturer of diagnostic medical products (including CT Scanners, a subject in itself of interest to HEW) which is currently embroiled in a controversy with HEW Patent Counsel that is about to erupt in a lawsuit against the Department with very broad implications. I am writing to you because of our belief that there are important policy issues involved in this situation which the Secretary should be aware of and have the opportunity to review, hopefully coming to conclusions that will make litigation unnecessary.

The matter in question is detailed in the enclosed document, (two copies provided) particularly in the Memorandum section. In essence, the National Cancer Institute entered into a $1.2 million contract in 1975 with American Science and Engineering (AS&E) to develop a particular type of CT Scanner. (That is curious in itself since other companies, including our client, were developing the same mechanism with private capital and, given the normal investment incentives, there was certainly no need for government money.) The Acting Assistant Secretary for Health is now purporting to grant to AS&E an exclusive patent license for domestic rights in the Scanner and to waive all U.S. Government rights related to foreign patents. As the Memorandum illustrates, this raises problems that range from the procedural to Constitutional and, in line with suits brought by Ralph Nader's Public Citizen Group a few years

ago, will be the focus of much attention. Given also that HEW Patent Counsel has seemed to ignore Presidential Patent Policy, I suppose there are political implications as well which ought to be considered from a policy standpoint. Moreover, should an exclusive license be granted, one arm of HEW will be giving monopoly power to a CT manufacturer, which is certain to raise prices, while another arm decries the expense of this new technology.

The present posture of the matter is that we have just been informed by Patent Counsel that the Acting Assistant Secretary has reaffirmed his decision to grant AS&E an exclusive domestic license and waive all foreign rights. This is not surprising in the sense that Patent Counsel gave the original advice to take such action and, without review from any other lawyers in the Department, has given such advice again after perfuntorily calling for comments from AS&E's competitors. One need only speak informally (in your case, formally) with attornies in the Civil Division of Justice to hear of similar antics by HEW Patent Counsel in prior years. We would hope from Secretary Califano's pronouncement that such actions are indeed to be relegated to the past and not occur in a sensible Administration.

I appreciate your review of this matter and we will be happy to meet with whoever is deemed appropriate to see if progress can be made out of court. Unfortunately, time is crucial given that we will have to otherwise seek injunctive relief. With thanks for your help and, with best personal regards,

Sincerely,

Jay

Jay N. Varon

Enclosures

Broude & Hochberg
35 Federal Street
Boston, Massachusetts 02110

(617) 542-3161

Attention: Mr. Teague
President, Ohio-Nuclear, Inc.

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

Dear Sirs:

This office represents American Science and Engineering, Inc. ("AS&E"). It has come to our client's attention that you are marketing a computerized tomography scanner utilizing stationary detector array technology which is covered by patent rights owned by AS&E. We understand that ~~as a~~ in marketing scanners, you have failed to advise customers and prospective customers of our client's patent rights. Furthermore, we understand that you are making direct comparisons between your infringing systems and our client's stationary detector array systems, knowing of our client's patent rights.

Unless you let us know by return mail what steps you are taking to discontinue these acts, our client has instructed us to take such steps as are best indicated in protecting its rights.

Very truly yours,

FOLEY, LARDNER, HOLLABAUGH & JACOBS
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JUL 5 3 25 PM '77

July 5, 1977

PATENT BRANCH, OGC
DHEW

JUL 11 1977

Bernard Feiner, Esq.
Assistant General Counsel
Department of Health,
Education and Welfare
Room 5362
300 Independence Avenue, S.W.
Washington, D.C.

Dear Mr. Feiner:

As we discussed by phone this morning, I am enclosing a copy of a letter from Broude & Hochberg, attorneys for AS & E, to Mr. Joseph Teague, President of Ohio-Nuclear, together with a reproduction of the Cramton memorandum.

To our knowledge, AS & E holds no issued patents upon which we may be infringing. Thus, I assume the letter is in regard to the licensing agreement in question even though there are no "patent rights" until the patent issues. This letter and its implications to customers make it clear to us that we can not delay in pursuing our legal remedies.

I look forward to hearing from you very shortly. With best regards,

Sincerely,

James N. Bierman

Enclosure

Read 6/25

7224 Thru Dick Beattie

June 25, 1977

Jay N. Varon, Esq.
Foley, Lardner, Hollabaugh
& Jacobs
815 Connecticut Avenue, N.W.
Washington, D.C. 20006

Dear Jay:

Thanks for your note of June 23, 1977. In candor, however, I simply do not have time to review the facts of the situation you describe in your letter, although they do appear quite serious.

I will forward your note and the attachments on to our General Counsel's office and ask that someone in that office get back to you.

With warm regards.

Yours sincerely,

Ben W. Heineman, Jr.
Executive Assistant
to the Secretary

bcc: Peter Libassi/Dick Beattie: 7224
Varon is a young, straight lawyer. As described, the situation does seem a bit absurd. Please copy me with any correspondence. ←

Prepared by IOS BWHeineman:mfrederick 6/25/77