REPORT BY THE

Comptroller General

OF THE UNITED STATES

Patent And Trademark Amendments Of 1980 Set The Stage For Uniform Patent Practice By Federal Agencies

A uniform Government-wide policy for assigning title to inventions arising from Government-sponsored research and development has been an objective of Federal policymakers for nearly 20 years. Changes in the patent and trademark laws in 1980 established such a policy for nonprofit organizations and small business firms that conduct federally sponsored research and development.

Preliminary assessment of the actions of agencies thus far and of the regulations issued to put the law into effect promise that the goal of uniformity envisioned may be achieved.

GAO/PAD-82-32
MAY 20, 1982

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-206676

The Honorable Strom Thurmond
Chairman, Committee on the Judiciary
United States Senate

The Honorable Peter W. Rodino, Jr.
Chairman, Committee on the Judiciary
House of Representatives

This is the first annual report submitted by the Comptroller General under Section 6, Public Law 96-517, commonly referred to as "The Patent and Trademark Amendments of 1980." Section 6 establishes a uniform policy for assigning title to inventions made by small business or nonprofit contractors during Government-sponsored research. The section also requires the General Accounting Office to monitor and report on the execution of the Act.

This report describes the events leading to the passage of Public Law 96-517 and discusses actions taken to put the Act into effect. The report also contains a copy of Section 6 of Public Law 96-517 (appendix I) and a copy of Office of Management and Budget (OMB) Circular A-124, which sets forth regulations for carrying out the law (appendix II).

LEGISLATIVE HISTORY

Efforts to establish a uniform patent policy for the Federal Government began in 1963 when the Presidential Memorandum and Statement of Government Patent Policy was issued. That memorandum, revised in 1971, provided guidance to agencies for assigning title to inventions resulting from federally funded research. The guidance, however, was quite flexible and agencies interpreted the guidance and assigned titles in a variety of ways. So, in 1972, the Commission on Government Procurement recommended that the 1971 memorandum be carried out promptly and uniformly. It also called for Government-wide legislation to allow, as a general rule, the developing contractor or inventor to retain patent rights to inventions made with Federal support.

In 1975, the Committee on Government Patent Policy, which was established by the Federal Council on Science and Technology, evaluated Executive agency experience under the Presidential memorandum and found that problems still existed. The Committee concluded that legislation was needed to unify agency practices for allocating rights to contractor inventions. The legislation was also

needed to clarify when agencies had the authority to grant exclusive licenses for Government-owned inventions.

In 1978, the Advisory Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation issued the "Draft Report on Patent Policy." It recommended transferring the patent rights on the results of Government-sponsored research to the private sector. In May 1979, the Comptroller General testified in hearings on the patent practices of a number of Federal agencies. He reported that the goal of a uniform Federal patent policy had not been reached. In fact, the Comptroller General stated that various Executive agencies were using approximately 20 different patent arrangements. 1/

In 1980, the 96th Congress enacted Public Law 96-517. This law provides that in most cases a nonprofit organization or small business firm may elect to retain title to inventions made during federally sponsored research or research and development (R&D).

RESPONSIBILITIES OF GAO UNDER PUBLIC LAW 96-517

The Comptroller General was assigned two primary responsibilities under Section 6 of Public Law 96-517. The first is to monitor how well the intent of Section 6 is being achieved and determine if "any pattern of determinations [with regard to disposition of title because of "exceptional circumstances"] by a Federal agency is contrary to the policy and objectives [of the Act] or that an agency's policies or practices are otherwise not in conformance [with the Act]." Second, the Comptroller General is required to send a report at least once a year to the House and Senate Committees on the Judiciary on how the agencies are carrying out certain provisions of the Act and "on such other aspects of Government patent policies and practices with respect to federally funded inventions as the Comptroller General believes appropriate."

The purpose of this first report under Public Law 96-517 is to

--briefly describe the steps taken to put Section 6, Public Law 96-517, into effect and assess whether uniformity of patent practice is occurring, and

--discuss the use of the Section's "exceptional circumstance" provision that allows agencies to restrict or eliminate the right to retain title of any invention made by small business or nonprofit contractors.

1/The University and Small Business Patent Procedures Act. Hearings on S. 414, Committee on the Judiciary, 96th Cong., 1st Sess. (1979).

To do this, we

--monitored the development of OMB regulations.

--interviewed patent officials from the five agencies that fund about 90 percent of Federal R&D. Those five agencies are the Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), the Department of Energy (DOE), the Department of Health and Human Services (HHS), and the National Science Foundation (NSF).

--examined copies of internal agency orders and other documents describing changes in agency procurement procedures resulting from the new law.

--assessed the final regulations to judge whether the requirements in them were sufficiently precise to prevent agencies from interpreting the language in them differently.

EXECUTION OF PUBLIC LAW 96-517

The primary objective of the law is to eliminate a number of individual agency policies on the ownership of patent rights and replace them with a uniform Government-wide policy. This will reduce administrative costs and provide contractors with an incentive to bring federally funded research to the point where it can be used commercially. While this objective is clear, its realization depends on the regulations issued by the Office of Federal Procurement Policy (OFPP) through OMB and on how the agencies interpret these regulations.

Development of regulations

After Public Law 96-517 was enacted on December 12, 1980, the following steps were taken to develop interim and final regulations. OFPP convened an interagency task force to draft preliminary regulations. On July 2, 1981, OFPP published the interim regulations (OMB Bulletin 81-22) in the Federal Register. Included in these was a "Patent Rights Clause" to be used in all funding agreements with nonprofit and small business contractors. The clause specifies the rights and obligations of the contractor and the Federal Government with regard to assigning title to inventions. It also requires that the contractor have the opportunity to retain title to any invention resulting from the research.

Public comments on the interim regulations were solicited. Based on comments from the public and from agencies, OFPP revised the interim regulations. The final regulations were issued on February 10, 1982, with an effective date of March 1, 1982.

Agency practice under interim regulations

From July 1, 1981, to March 1, 1982, the agencies we examined modified their patent practices to be consistent with OMB Bulletin

81-22. Thus, even during this interim period, the Act was being carried out uniformly. Patent officials interviewed stated that contracts negotiated during this period would be modified to conform to the final regulations, if necessary.

Agencies' practices under the interim regulations differed in only one significant way: the decision whether to use the "prenotification provision" included in the interim regulations. This provision permitted agencies to include a requirement that the contractor inform the agency, at least 90 days prior to submitting an article for publication, of the details of any patentable invention developed with Federal assistance. NASA, DOD, and DOE decided to include the provision, while NSF and HHS did not. Many universities that receive Federal funds strongly objected to the prenotification provision; they considered it an infringement on their faculty's right to publish. As a result, OFPP eliminated "prenotification" from the final regulations.

The prospects for a uniform patent policy under the final regulations

We conducted a preliminary assessment of the final regulations to determine whether the instructions in them were sufficiently precise to prevent agencies from interpreting the language differently. As we have noted earlier, the prospects for a uniform practice of patent policy under this law depend upon how agencies interpret the final regulations and on the procedures used as a result of those interpretations. Therefore, the clarity and specificity of the regulations are critical. If the regulations are imprecise, agencies might interpret them differently, and contractors might again confront a variety of agency practices.

Our assessment indicated that the guidance given agencies by the final regulations is specific enough to result in uniform practice across agencies. The final regulations fail to provide agencies clear instructions in only one area, that of contractor reporting requirements. The regulations do not specify the content, format, or frequency of each of the reports that can be required of contractors by agencies. But the regulations do constrain the agencies from imposing reporting requirements until the Department of Commerce (DOC), which has been designated the "lead agency," devises a uniform periodic reporting system. How DOC carries out this responsibility will determine whether contractor reporting requirements are the same across agencies.

EXCEPTIONAL CIRCUMSTANCE DETERMINATIONS

Section 202(a)(ii) of Public Law 96-517 provides that each nonprofit organization or small business firm may elect to retain title to any invention made under Federal support except

> (i) when the funding agreement is for the operation of a Government-owned research or production facility,

> (ii) in exceptional circumstances when it is determined by the agency that restriction or elimination of the right to retain title to any subject invention will better promote the policy and objectives of [the Act], or
>
> (iii) when it is determined by a Government authority which is authorized by statute or Executive order to conduct foreign intelligence or counter-intelligence activities that the restriction or elimination of the right to retain title to any subject invention is necessary to protect the security of such activities.

Determinations made under the second instance--"exceptional circumstances"--are to be made in writing and accompanied by a written statement of justifying facts. This is then submitted to the Comptroller General within 30 days after the award of the applicable funding agreement. The statute requires that the Comptroller General decide if "any pattern of determinations by a Federal agency is contrary to the policy and objectives [of the section or if] an agency's policies or practices are otherwise not in conformance" with the section. If such a pattern or other judgment of nonconformance is observed, the Comptroller General is to advise the head of the agency involved.

Only limited guidance is provided in the legislative history about what might constitute an "exceptional circumstance," although a report of the Senate Committee on the Judiciary states that these deviations from the uniform policy should be used sparingly. 1/ Two examples of situations that might justify an exceptional circumstance determination were given in that report. First was when a funding agreement calls for a specific product that will be required to be used by regulation. The report states that, in such a case, "it is presumed that patent incentives will not be required to bring the product to the market." The second example was when the sponsoring agency planned to fund and promote a product or process until it was put into commercial use. In this case, the report goes on to say that "it would be within the spirit of the Act for the agency to . . . define specific fields of use to which it will obtain rights . . . ."

As of February 15, 1982, the Comptroller General had received five notices of exceptional circumstance determinations, all from the Department of Energy. These determinations restricted or

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1/Senate Rpt. No. 96-480, 96th Cong., 1st Sess., (1980). This report relates to S. 414, a predecessor bill to H.R. 6933 which became P.L. 96-517, and provides the only detailed explanation of "exceptional circumstances" found in the Act's legislative history.

eliminated right to title under a dozen separate funding agreements. The GAO staff is currently reviewing these five situations in accordance with the requirements of the Act.

CONCLUSIONS

Before passage of Public Law 96-517, agency practices of assigning title to inventions made under Federal support differed substantially. Enactment of this law was an effort to bring about uniform Government-wide patent policy and practice for nonprofit organizations and small business firms. Based on our analysis, we conclude that this new law provides a basis for achieving the desired uniformity of practice across agencies. This conclusion is preliminary, however. It is based on an examination of the agencies' activities under the interim regulations and an analysis of the language in the final regulations, not on a review of agencies' practices under the final regulations.

Only one area--that of contractor reporting requirements--remains unresolved. However, the potential nonuniform practice in this area can be eliminated when guidance is issued by the Department of Commerce.

It is too early to draw any conclusions about the use of the "exceptional circumstance" provision in Section 202(a)(ii) of the Act. As of February 1982, GAO had received five notices of exceptional circumstance determinations involving a dozen funding agreements.

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We are sending copies of this report to appropriate committees of both Houses, Representatives and Senators with particular interest, the Director of the Office of Management and Budget, the Director of the Office of Science and Technology Policy, the Administrator of the Small Business Administration, and to chief officials of the related research and development agencies. We will also make copies available to interested organizations and individuals, as appropriate, on request.

Charles A. Bowsher

Comptroller General
of the United States

"CHAPTER 38—PATENT RIGHTS IN INVENTIONS MADE WITH FEDERAL ASSISTANCE*

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"§ 200. Policy and objective

35 USC 200.

"It is the policy and objective of the Congress to use the patent system to promote the utilization of inventions arising from federally supported research or development; to encourage maximum participation of small business firms in federally supported research and development efforts; to promote collaboration between commercial concerns and nonprofit organizations, including universities; to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition and enterprise; to promote the commercialization and public availability of inventions made in the United States by United States industry and labor; to ensure that the Government obtains sufficient rights in federally supported inventions to meet the needs of the Government and protect the public against nonuse or unreasonable use of inventions; and to minimize the costs of administering policies in this area.

"§ 201. Definitions

35 USC 201.

"As used in this chapter—

"(a) The term 'Federal agency' means any executive agency as defined in section 105 of title 5, United States Code, and the military departments as defined by section 102 of title 5, United States Code.

"(b) 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 funded in whole or in part by the Federal Government. Such term includes any assignment, substitution of parties, or subcontract of any type entered into for the performance of experimental, developmental, or research work under a funding agreement as herein defined.

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

"(d) The term 'invention' means any invention or discovery which is or may be patentable or otherwise protectable under this title.

"(e) The term 'subject invention' means any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement.

"(f) The term 'practical application' means to manufacture in the case of a composition or product, to practice in the case of a process or method, or to operate in the case of a machine or system; and, in each case, under such conditions as to establish that the invention is being utilized and that its benefits are to the extent permitted by law or Government regulations available to the public on reasonable terms.

"(g) The term 'made' when used in relation to any invention means the conception or first actual reduction to practice of such invention.

"(h) The term 'small business firm' means a small business concern as defined at section 2 of Public Law 85-536 (15 U.S.C. 632) and implementing regulations of the Administrator of the Small Business Administration.

"(i) The term 'nonprofit organization' means universities and other institutions 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)) 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.

35 USC 202.

"§ 202. Disposition of rights

"(a) Each nonprofit organization or small business firm may, within a reasonable time after disclosure as required by paragraph (c)(1) of this section, elect to retain title to any subject invention: *Provided, however,* That a funding agreement may provide otherwise (i) when the funding agreement is for the operation of a Government-owned research or production facility, (ii) in exceptional circumstances when it is determined by the agency that restriction or elimination of the right to retain title to any subject invention will better promote the policy and objectives of this chapter or (iii) when it is determined by a Government authority which is authorized by statute or Executive order to conduct foreign intelligence or counter-intelligence activities that the restriction or elimination of the right to retain title to any subject invention is necessary to protect the security of such activities. The rights of the nonprofit organization or small business firm shall be subject to the provisions of paragraph (c) of this section and the other provisions of this chapter.

Funding agreement.

"(b)(1) Any determination under (ii) of paragraph (a) of this section shall be in writing and accompanied by a written statement of facts justifying the determination. A copy of each such determination and justification shall be sent to the Comptroller General of the United States within thirty days after the award of the applicable funding agreement. In the case of determinations applicable to funding agreements with small business firms copies shall also be sent to the Chief Counsel for Advocacy of the Small Business Administration.

Written determination.

Copy to Comptroller General.

Copy to SBA.

"(2) If the Comptroller General believes that any pattern of determinations by a Federal agency is contrary to the policy and objectives of this chapter or that an agency's policies or practices are otherwise not in conformance with this chapter, the Comptroller General shall so advise the head of the agency. The head of the agency shall advise the Comptroller General in writing within one hundred and twenty days of what action, if any, the agency has taken or plans to take with respect to the matters raised by the Comptroller General.

Contrary agency determinations.

"(3) At least once each year, the Comptroller General shall transmit a report to the Committees on the Judiciary of the Senate and House of Representatives on the manner in which this chapter is being implemented by the agencies and on such other aspects of Government patent policies and practices with respect to federally funded inventions as the Comptroller General believes appropriate.

Report to congressional committees.

*Sec. 6.(a) Title 35 of the U.S.C. was amended by adding ch. 8 after ch. 7

APPENDIX I

"(c) Each funding agreement with a small business firm or nonprofit organization shall contain appropriate provisions to effectuate the following: Funding agreement requirements.

"(1) A requirement that the contractor disclose each subject invention to the Federal agency within a reasonable time after it is made and that the Federal Government may receive title to any subject invention not reported to it within such time.

"(2) A requirement that the contractor make an election to retain title to any subject invention within a reasonable time after disclosure and that the Federal Government may receive title to any subject invention in which the contractor does not elect to retain rights or fails to elect rights within such time.

"(3) A requirement that a contractor electing rights file patent applications within reasonable times and that the Federal Government may receive title to any subject inventions in the United States or other countries in which the contractor has not filed patent applications on the subject invention within such times.

"(4) With respect to any invention in which the contractor elects rights, the Federal agency shall have a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States any subject invention throughout the world, and may, if provided in the funding agreement, have additional rights to sublicense any foreign government or international organization pursuant to any existing or future treaty or agreement.

"(5) The right of the Federal agency to require periodic reporting on the utilization or efforts at obtaining utilization that are being made by the contractor or his licensees or assignees: *Provided,* That any such information may be treated by the Federal agency as commercial and financial information obtained from a person and privileged and confidential and not subject to disclosure under section 552 of title 5 of the United States Code.

"(6) An obligation on the part of the contractor, in the event a United States patent application is filed by or on its behalf or by any assignee of the contractor, to include within the specification of such application and any patent issuing thereon, a statement specifying that the invention was made with Government support and that the Government has certain rights in the invention.

"(7) In the case of a nonprofit organization, (A) a prohibition upon the assignment of rights to a subject invention in the United States without the approval of the Federal agency, except where such assignment is made to an organization which has as one of its primary functions the management of inventions and which is not, itself, engaged in or does not hold a substantial interest in other organizations engaged in the manufacture or sale of products or the use of processes that might utilize the invention or be in competition with embodiments of the invention (provided that such assignee shall be subject to the same provisions as the contractor); (B) a prohibition against the granting of exclusive licenses under United States Patents or Patent Applications in a subject invention by the contractor to persons other than small business firms for a period in excess of the earlier of five years from first commercial sale or use of the invention or eight years from the date of the exclusive license excepting that time before regulatory agencies necessary to obtain premarket clearance unless, on a case-by-case basis, the Federal agency approves a longer exclusive license. If exclusive field of use licenses are granted, commercial sale or use in one field of use shall not be deemed commercial sale or use as to other fields of use, and a first commercial sale or use with respect to a product of the invention shall not be deemed to end the exclusive period to different subsequent products covered by the invention; (C) a requirement that the contractor share royalties with the inventor; and (D) a requirement that the balance of any royalties or income earned by the contractor with respect to subject inventions, after payment of expenses (including payments to inventors) incidental to the administration of subject inventions, be utilized for the support of scientific research or education.

"(8) The requirements of sections 203 and 204 of this chapter.

Rights, retention

"(d) If a contractor does not elect to retain title to a subject invention in cases subject to this section, the Federal agency may consider and after consultation with the contractor grant requests for retention of rights by the inventor subject to the provisions of this Act and regulations promulgated hereunder.

Rights, transfer or assignment

"(e) In any case when a Federal employee is a coinventor of any invention made under a funding agreement with a nonprofit organization or small business firm, the Federal agency employing such coinventor is authorized to transfer or assign whatever rights it may acquire in the subject invention from its employee to the contractor subject to the conditions set forth in this chapter.

Third-party licensing, prohibition

"(f)(1) No funding agreement with a small business firm or nonprofit organization shall contain a provision allowing a Federal agency to require the licensing to third parties of inventions owned by the contractor that are not subject inventions unless such provision has been approved by the head of the agency and a written justification has been signed by the head of the agency. Any such provision shall clearly state whether the licensing may be required in connection with the practice of a subject invention, a specifically identified work object, or both. The head of the agency may not delegate the authority to approve provisions or sign justifications required by this paragraph.

"(2) A Federal agency shall not require the licensing of third parties under any such provision unless the head of the agency determines that the use of the invention by others is necessary for the practice of a subject invention or for the use of a work object of the funding agreement and that such action is necessary to achieve the practical application of the subject invention or work object. Any such determination shall be on the record after an opportunity for an agency hearing. Any action commenced for judicial review of such determination shall be brought within sixty days after notification of such determination.

APPENDIX I

APPENDIX II

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 10, 1982

CIRCULAR No. A-124

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Patents - Small Business Firms and Nonprofit Organizations

1. Purpose. This Circular provides policies, procedures, and guidelines with respect to inventions made by small business firms and nonprofit organizations, including universities, under funding agreements with Federal agencies where a purpose is to perform experimental, developmental, or research work.

2. Rescissions. This Circular supersedes OMB Bulletin 81-22 effective March 1, 1982.

3. Authority. This Circular is issued pursuant to the authority contained in 35 U.S.C. §206 (§6 of P.L. 96-517, "The Patent and Trademark Amendments of 1980").

4. Background. After many years of public debate on means to enhance the utilization of the results of Government funded research, Public Law 96-517 was enacted. This Act gives nonprofit organizations and small businesses, with limited exceptions, a first right of refusal to title in inventions they have made in performance of Government grants and contracts. The Act takes precedence over approximately 26 conflicting statutory and administrative policies.

Under the Act, the Office of Federal Procurement Policy (OFPP) is responsible for the issuance of the regulations implementing 35 U.S.C. §202-204 after consultation with the Office of Science and Technology Policy (OSTP). On July 2, 1981, OMB Bulletin 81-22 was issued to provide interim regulations while agency and public comments were sought. Based on a review of these comments, this Circular is issued to establish permanent implementing regulations and a standard patent rights clause.

5. Policy and Scope. This Circular takes effect on March 1, 1982, and will be applicable to all funding agreements with small business firms and domestic nonprofit organizations executed on or after that date. This includes

subcontracts at any tier made after March 1, 1982, with small business firms and nonprofit organizations even if the prime funding agreement was made prior to March 1, 1982. Unless prohibited by law, agencies are encouraged to treat subject inventions made under funding agreements made prior to July 1, 1981, in substantially the same manner as contemplated by P.L. 96-517 and this Circular for inventions made under funding agreements entered into subsequent to July 1, 1981. This can be accomplished through the granting of waivers of title on terms and conditions substantially similar to those set forth in the standard clause of Attachment A.

Agencies should be alert to determining whether amendments made after March 1, 1982, to funding agreements entered into prior to July 1, 1981, result in new funding agreements subject to this Circular and the Act. Renewals and continuations after March 1, 1982, of funding agreements entered into prior to July 1, 1981, should be normally treated as new funding agreements.

This Circular is intended to establish uniform and coordinated implementation of 35 U.S.C. §200-206 so as to foster the policy and objectives set forth in 35 U.S.C. §200.

6. Definitions. As used in this Circular --

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 funded in whole or in part by the Federal Government. Such term includes any assignment, substitution of parties, or subcontract of any type entered into for the performance of experimental, developmental, or research work under a funding agreement, as herein defined.

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.

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.

e. The term "practical application" means to manufacture in the case of a composition or product, to practice in the case of a process or method, or to operate in the case of a machine or system; and, in each case, under such

conditions as to establish that the invention is being utilized and that its benefits are, to the extent permitted by law or Government regulations, available to the public on reasonable terms.

f. The term "made" when used in relation to any invention means the conception or first actual reduction to practice of such invention.

g. The term "small business firm" means a small business concern as defined at section 2 of Public Law 85-536 (15 U.S.C. §632) and implementing regulations of the Administrator of the Small Business Administration. For the purpose of this Circular, the size standards for small business concerns involved in Government procurement and subcontracting at 13 CFR 121.3-8 and 121.3-12, respectively, will be used.

h. The term "nonprofit organization" means universities and other institutions 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)) 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.

7. Use of the Patent Rights (Small Business Firm or Nonprofit Organization) (March 1982) Clause.

a. Each funding agreement awarded to a small business firm or domestic nonprofit organization which has as a purpose the performance of experimental, developmental or research work shall contain the "Patent Rights (Small Business Firm or Nonprofit Organization) (March 1982)" clause set forth in Attachment A with such modifications and tailoring as may be authorized in Part 8, except that the funding agreement may contain alternative provisions--

(1) when the funding agreement is for the operation of a Government-owned research or production facility; or

(2) in exceptional circumstances when it is determined by the agency that restriction or elimination of the right to retain title to any subject invention will better promote the policy and objectives of Chapter 38 of Title 35 of the United States Code; or

(3) when it is determined by a Government authority which is authorized by statute or executive order to conduct foreign intelligence or counterintelligence activities that the restriction or elimination of the right to retain title to any subject invention is necessary to protect the security of such activities.

b. (1) Any determination under Part 7.a.(2) of this Circular will be in writing and accompanied by a written statement of facts justifying the determination. The statement of facts will contain such information as the funding Federal agency deems relevant and, at minimum, will (i) identify the small business firm or nonprofit organization involved, (ii) describe the extent to which agency action restricted or eliminated the right to retain title to a subject invention, (iii) state the facts and rationale supporting the agency action, (iv) provide supporting documentation for those facts and rationale, and (v) indicate the nature of any objections to the agency action and provide any documentation in which those objections appear. A copy of each such determination and written statement of facts will be sent to the Comptroller General of the United States within 30 days after the award of the applicable funding agreement. In cases of determinations application to small business firms, copies will also be sent to the Chief Counsel for Advocacy of the Small Business Administration.

(2) To assist the Comptroller General 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 during the applicable reporting period 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 funding agreements entered into with small business firms or nonprofit organizations that contain the patent rights clause of Attachment A during each period of October 1 through September 30, beginning October 1, 1982.

c. (1) Agencies are advised that Part 7.a. applies to subcontracts at any tier under prime funding agreements with contractors that are other than small business firms or nonprofit organizations. Accordingly, agencies should take appropriate action to ensure that this requirement is reflected in the patent clauses of such prime funding agreements awarded after March 1, 1982.

(2) In the event an agency has outstanding prime funding agreements that do not contain patent flow-down provisions consistent with either this Circular or OMB Bulletin 81-22 (if it was applicable at the time the funding

agreement was awarded), the agency shall take appropriate action to ensure that small business firms or domestic nonprofit organization subcontractors under such prime funding agreements that received their subcontracts after July 1, 1981, will receive rights in their subject inventions that are consistent with P.L. 96-517 and this Circular. Appropriate actions might include (i) amendment of prime contracts and/or subcontracts; (ii) requiring the inclusion of the clause of Attachment A as a condition of agency approval of a subcontract; or (iii) the granting of title to the subcontractor to identified subject inventions on terms substantially the same as contained in the clause of Attachment A in the event the subcontract contains a "deferred determination" or "acquisition by the Government" type of patent rights clause.

d. To qualify for the clause of Attachment A, a prospective contractor may be required by an agency to certify that it is either a small business firm or a domestic nonprofit organization. If the agency has reason to question the status of the prospective contractor as a small business firm or domestic nonprofit organization, it may file a protest in accordance with 13 C.F.R. 121.3-5 if small business firm status is questioned or require the prospective contractor to furnish evidence to establish its status as a domestic nonprofit organization.

8. Instructions for Modification and Tailoring of the Clause of Attachment A.

a. Agencies should complete the blank in paragraph g.(2) of the clause of Attachment A in accordance with their own or applicable Government-wide regulations such as the FPR or DAR. The flow-down provisions of the clause cited by the agency should, of course, reflect the requirement of Part 7.c.(1).

b. Agencies should complete paragraph 1. "Communications" at the end of the clause of Attachment A 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 1.

c. Agencies may replace the italicized or underlined words and phrases with those appropriate to the particular funding agreement. For example "contract" 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 that 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 agreement, a sentence may be added at the end of paragraph b. of the clause of Attachment A as follows:

> "This license will include the right of the Government to sublicense foreign governments and international organizations pursuant to the following treaties or international agreements: _____; or pursuant to any future treaties or agreements with foreign governments or international organizations."

The blank in the above should be completed with the names of applicable existing treaties or international agreements. The above language is not intended to apply to treaties or agreements that are in effect on the date of the award which are not listed. The above language may be modified by agencies by deleting the reference to future treaties or agreements or by otherwise more narrowly defining classes of future treaties or agreements. The language may also be modified to make clear that the rights granted to the foreign government or 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 cases 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. To the extent not required by other provisions of the funding agreement, agencies may add additional subparagraphs to paragraph (f) of the patent rights clause of Attachment A to require the contractor to do one or more of the following:

(1) Provide periodic (but no more frequently than annually) listings of all subject inventions required to be disclosed during the period covered by the report;

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

(3) Provide notification of all subcontracts for experimental, developmental, or research work; and

(4) 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.

Part 9. Publication or Release of Invention Disclosures

a. 35 U.S.C. §205 provides as follows:

> "Federal agencies are authorized to withhold from disclosure to the public information disclosing any invention in which the Federal Government owns or may own a right, title, or interest (including a nonexclusive license) for a reasonable time in order for a patent application to be filed. Furthermore, Federal agencies shall not be required to release copies of any document which is part of an application for patent filed with the United States Patent and Trademark Office or with any foreign patent office."

b. To the extent authorized by 35 U.S.C. §205, agencies shall not disclose to third parties pursuant to requests under the Freedom of Information Act (FOIA) any information disclosing a subject invention for a reasonable time in order for a patent application to be filed. With respect to subject inventions of contractors that are small business firms or nonprofit organizations, a reasonable time shall be the time during which an initial patent application may be filed under paragraph c. of the clause of Attachment A or such other clause that may be used in the funding agreement. However, an agency may disclose such subject inventions under the FOIA, at its discretion, after a contractor has elected not to retain title or after the time in which the contractor is required to make an election if the contractor has not made an election within that time. Similarly, an agency may honor an FOIA request at its discretion if it finds that the same information has previously been published by the inventor, contractor, or otherwise. If the agency plans to file itself when the contractor has not elected title, it may, of course, continue to avail itself of the authority of 35 U.S.C. §205.

c. As authorized by 35 U.S.C. §205, Federal agencies shall not release copies of any document which is part of an application for patent filed on a subject invention to which a small business firm or nonprofit organization elected to retain title.

d. A number of agencies have policies to encourage public dissemination of the results of work supported by the

agency through publication in Government or other publications of technical reports of contractors or others. In recognition of the fact that such publication, if it included descriptions of a subject invention, could create bars to obtaining patent protection, it is the policy of the executive branch that agencies will not include in such publication programs, copies of disclosures of inventions submitted by small business firms or nonprofit organizations, pursuant to paragraph c. of the clause of Attachment A, except that under the same circumstances under which agencies are authorized to release such information pursuant to FOIA requests under Part 9.b. above, agencies may publish such disclosures.

e. Nothing in this Part is intended to preclude agencies from including in the publication activities described in the first sentence of Part 9.d., the publication of materials describing a subject invention to the extent such materials were provided as part of a technical report or other submission of the contractor which were submitted independently of the requirements of the patent rights provisions of the contract. However, if a small business firm or nonprofit organization notifies the agency that a particular report or other submission contains a disclosure of a subject invention to which it has elected or may elect title, the agency will use reasonable efforts to restrict its publication of the material for six months from date of its receipt of the report or submission or, if earlier, until the contractor has filed an initial patent application. Agencies, of course, retain the discretion to delay publication for additional periods of time.

f. Nothing in this Part 9 is intended to limit the authority of agencies provided in 35 U.S.C. §205 in circumstances not specifically described in this Part 9.

10. Reporting on Utilization of Subject Inventions.

a. Paragraph h. of the clause of Attachment A provides that agencies have the right to receive periodic reports from the contractor on utilization of inventions. In accordance with such instructions as may be issued by the Department of Commerce, agencies shall obtain such information from their contractors. Pending such instructions, agencies should not impose reporting requirements. The Department of Commerce and the agencies, in conjunction with representatives of small business and nonprofit organizations, shall work together to establish a uniform periodic reporting system.

b. To the extent any such data or information supplied by the contractor is considered by the contractor, or its licensee or assignee, to be privileged and confidential and is so marked, agencies shall not, to the extent permitted by

35 U.S.C. §202(c)(5), disclose such information to persons outside the Government.

11. Retention of Rights by Inventor. Agencies which allow an inventor to retain rights to a subject invention made under a funding agreement with a small business firm or nonprofit organization contractor, as authorized by 35 U.S.C. §202(d), will impose upon the inventor at least those conditions that would apply to a small business firm contractor under paragraphs d.(ii) and (iii); f.(4); h.; i.; and j. of the clause of Attachment A.

12. Government Assignment to Contractor of Rights in Invention of Government Employee. In any case when a Federal employee is a co-inventor of any invention made under a funding agreement with a small business firm or nonprofit organization and the Federal agency employing such co-inventor transfers or reassigns the right it has acquired in the subject invention from its employee to the contractor as authorized by 35 U.S.C. 202(e), the assignment will be made subject to the same conditions as would apply to the contractor under the clause of Attachment A.

13. 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 the clause at Attachment A.

b. Whenever an agency receives information that it believes might warrant the exercise of march-in rights, before initiating any march-in proceeding in accordance with the procedures of Part 13.c.-h. below, it shall notify the contractor in writing of the information and request informal written or oral comments from the contractor. 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, whether or not within 30 days, 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 based on the information about which the contractor was notified.

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, stating that the agency is considering the exercise of march-in rights. The notice shall state the reasons for the proposed march-in in terms sufficient to put the contractor on notice of the facts upon which the action would be based and shall specify the field or fields of use in which the agency is considering requiring licensing. The notice shall advise the

contractor (assignee or exclusive licensee) of its rights, as set forth in this Circular and in any supplemental agency regulations. The determination to exercise march-in rights shall be made by the head of the agency or designee, except as provided in part 13.j. below.

d. Within 30 days after receipt of the written notice of march-in, the contractor (assignee or exclusive licensee) may submit, in person, in writing, or through a representative, information or argument in opposition to the proposed march-in, including any additional specific information which raises a genuine dispute over the material facts upon which the march-in is based. If the information presented raises a genuine dispute over the material facts, the head of the agency or designee shall undertake or refer the matter to another official for fact-finding.

e. Fact-finding shall be conducted in accordance with the 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 present. 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. Any portion of a fact-finding hearing that involves testimony or evidence relating to the utilization or efforts at obtaining utilization that are being made by the contractor, its assignee, or licensees shall be closed to the public, including potential licensees.

f. The official conducting the fact-finding shall prepare written findings of fact and transmit them to the head of the agency or designee promptly after the conclusion of the fact-finding proceeding. A copy of the findings of fact shall be sent to the contractor (assignee or exclusive licensee) by registered or certified mail.

g. In cases in which fact-finding has been conducted, the head of the agency or designee shall base his or her determination on the facts found, together with any other information and argument submitted by the contractor (assignee or exclusive licensee), and any other information in the administrative record. The consistency of the exercise of march-in rights with the policy and objectives of 35 U.S.C. §200-206 and this Circular shall also be considered. In cases referred for fact-finding, the head of the agency or designee may reject only those facts that have been found that are clearly erroneous. Written notice of the determination whether march-in rights will be exercised shall be made by the

head of the agency or designee and sent to the contractor (assignee or exclusive licensee) by certified or registered mail within 90 days after the completion of fact-finding or the proceedings will be deemed to have been terminated and thereafter no march-in based on the facts and reasons upon which the proceeding was initiated may be exercised.

h. An agency may, at any time, terminate a march-in proceeding if it is satisfied that it does not wish to exercise march-in rights.

i. The procedures of this Part shall also apply to the exercise of march-in rights against inventors receiving title to subject inventions under 35 U.S.C. §202(d) and, for that purpose, the term "contractor" as used in this Part shall be deemed to include the inventor.

j. Notwithstanding the last sentence of Part 13.c., a determination to exercise march-in in cases where the subject invention was made under a contract may be made initially by the contracting officer in accordance with the procedures of the Contract Disputes Act. In such cases, the procedures of the Contract Disputes Act will apply in lieu of those in Parts 13.d.-g. above (except that the last sentence of Part 13.e. shall continue to apply). However, when the procedures of this Part 13.j. are used, the contractor, assignee, or exclusive license will not be required to grant a license and the Government will not grant any license until after either: (1) 90 days from the date of the contractor's receipt of the contracting officer's decision, if no appeal of the decision has been made to an agency board of contract appeals, or if no action has been brought under Section 10 of the Act within that time; or (2) the board or court, as the case may be, has made a final decision in cases when an appeal or action has been brought within 90 days of the contracting officer's decision.

k. Agencies are authorized to issue supplemental procedures, not inconsistent herewith, for the conduct of march-in proceedings.

14. Appeals.

a. The agency official initially authorized to take any of the following actions shall provide the contractor with a written statement of the basis for his or her action at the time the action is taken, including any relevant facts that were relied upon in taking the action:

(1) A refusal to grant an extension under paragraph c.(4) of the clause of Attachment A.

(2) A request for a conveyance of title under paragraph d. of the clause of Attachment A.

(3) A refusal to grant a waiver under paragraph i. of the clause of Attachment A.

(4) A refusal to approve an assignment under paragraph k.(1) of the clause of Attachment A.

(5) A refusal to approve an extension of the exclusive license period under paragraph k.(2) of the clause of Attachment A.

b. Each agency shall establish and publish procedures under which any of the agency actions listed in Part 14.a. above may be appealed to the head of the agency or designee. Review at this level shall consider both the factual and legal basis for the action and its consistency with the policy and objectives of 35 U.S.C. §200-206 and this Circular.

c. Appeals procedures established under Part 14.b. above shall include administrative due process procedures and standards for fact-finding at least comparable to those set forth in Part 13.e.-g. of this Circular whenever there is a dispute as to the factual basis for an agency request for a conveyance of title under paragraph d. of the clause of Attachment A, including any dispute as to whether or not an invention is a subject invention.

d. To the extent that any of the actions described in Part 14.a. are subject to appeal under the Contracts Dispute Act, the procedures under that Act will satisfy the requirements of Parts 14.b. and c. above.

15. Licensing of Background Patent Rights to Third Parties.

a. A funding agreement with a small business firm or a domestic nonprofit organization will not contain a provision allowing a Federal agency to require the licensing to third parties of inventions owned by the contractor that are not subject inventions unless such provision has been approved by the agency head and a written justification has been signed by the agency head. Any such provision will clearly state whether the licensing may be required in connection with the practice of a subject invention, a specifically identified work object, or both. The agency head may not delegate the authority to approve such provisions or to sign the justification required for such provisions.

b. A Federal agency will not require the licensing of third parties under any such provision unless the agency head determines that the use of the invention by others is

necessary for the practice of a subject invention or for the use of a work object of the funding agreement and that such action is necessary to achieve practical application of the subject invention or work object. Any such determination will be on the record after an opportunity for an agency hearing, and the contractor shall be given prompt notification of the determination by certified or registered mail.

16. Administration of Patent Rights Clause.

a. It is important that the Government and the contractor know and exercise their rights in subject inventions in order to ensure their expeditious availability to the public, to enable the Government, the contractor, and the public to avoid unnecessary payment of royalties, and to defend themselves against claims and suits for patent infringement. To attain these ends, contracts should be so administered that:

(1) Inventions are identified, disclosed, and an election is made as required by the contract clause.

(2) The rights of the Government in such inventions are established;

(3) When appropriate, patent applications are timely filed and prosecuted by contractors or by the Government;

(4) The rights in patent applications are documented by formal instruments such as licenses or assignments;

(5) Expeditious commercial utilization of such inventions is achieved.

b. With respect to the conveyance of license or assignments to which the Government may be entitled under the clause of Attachment A, agencies should follow the guidance provided in 41 CFR 1-9.109-5 or 32 CFR 9-109.5.

c. In the event a subject invention is made under funding agreements of more than one agency, at the request of the contractor or on their own initiative, the agencies shall designate one agency as responsible for administration of the rights of the Government in the invention.

17. Modification of Existing Agency Regulations.

a. Existing agency patent regulations or other published policies concerning inventions made under funding agreements shall be modified as necessary to make them

consistent with this Circular and 35 U.S.C. §200-206. Agency regulations shall not be more restrictive or burdensome than the provisions of this Circular.

b. After March 1, 1982, this Circular and 35 U.S.C. §200-206 shall take precedence over any conflicting agency regulations or policies.

18. Lead Agency Designation. In order to assist the Office of Federal Procurement Policy to ensure that 35 U.S.C. §200-206 and this Circular are implemented in a uniform and consistent manner, the following responsibilities are assigned to the Department of Commerce (hereafter referred to as "The Department"). Other agencies shall fully cooperate and assist in the carrying out of these responsibilities:

a. The Department will monitor agency regulations and procedures for consistency with the Act and this Circular, and it shall provide recommendations to OFPP and agencies whenever it finds inconsistencies.

b. The Department will consult with representatives of 19 agencies and contractors to obtain advice on --

(1) the development of the periodic reporting system required under Part 10 of this Circular, and

(2) changes in this Circular which may be needed based on actual experience under the Circular.

c. The Department will accumulate, maintain, and publish such statistics and analysis on utilization and activities under this Circular and under Government patent policies and practices generally, as may be agreed to between the Department and OFPP.

d. The Department will make recommendations to OFPP on changes that may be needed in this Circular.

19. Sunset Review Date. This Circular shall have a policy review no later than three years from the date of its issuance.

20. Inquiries. All questions or inquiries should be submitted to the Office of Management and Budget, Office of Federal Procurement Policy, telephone number (202) 395-6810.

Donald E. Sowle
Administrator

David A. Stockman
Director

APPENDIX II

ATTACHMENT A
CIRCULAR A-124

The following is the standard patent rights clause to be used in funding agreements as provided in Part 7.

PATENT RIGHTS (Small Business Firms and Nonprofit Organizations) (March 1982)

a. Definitions

(1) "Invention" means any invention or discovery which is or may be patentable or otherwise protectable under Title 35 of the United States Code.

(2) "Subject Invention" means any invention of the contractor conceived or first actually reduced to practice in the performance of work under this contract.

(3) "Practical Application" means to manufacture in the case of a composition or product, to practice in the case of a process or method, or to operate in the case of a machine or system; and, in each case, under such conditions as to establish that the invention is being utilized and that its benefits are, to the extent permitted by law or Government regulations, available to the public on reasonable terms.

(4) "Made" when used in relation to any invention means the conception or first actual reduction to practice of such invention.

(5) "Small Business Firm" means a small business concern as defined at Section 2 of Public Law 85-536 (15 U.S.C. §632) and implementing regulations of the Administrator of the Small Business Administration. For the purpose of this clause, the size standards for small business concerns involved in Government procurement and subcontracting at 13 C.F.R. 121.3-8 and 13 C.F.R. 121.3-12, respectively, will be used.

(6) "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 USC §501(c)) and exempt from taxation under section 501(a) of the Internal Revenue Code (26 USC §501(a)) or any nonprofit scientific or educational organization qualified under a state nonprofit organization statute.

b. Allocation of Principal Rights

The contractor may retain the entire right, title, and interest throughout the world to each subject invention subject to the provisions of this clause and 35 U.S.C. 203. With respect to any subject invention in which the contractor retains title, the Federal Government shall have a non-exclusive, non-transferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States the subject invention throughout the world.

c. Invention Disclosure, Election of Title and Filing of Patent Applications by Contractor.

(1) The contractor will disclose each subject invention to the Federal agency within two months after the inventor discloses it in writing to contractor personnel responsible for patent matters. The disclosure to the agency shall be in the form of a written report and shall identify the contract under which the invention was made and the inventor(s). It shall be sufficiently complete in technical detail to convey a clear understanding, to the extent known at the time of the disclosure, of the nature, purpose, operation, and the physical, chemical, biological or electrical characteristics of the invention. The disclosure shall also identify any publication, on sale or public use of the invention and whether a manuscript describing the invention has been submitted for publication and, if so, whether it has been accepted for publication at the time of disclosure. In addition, after disclosure to the agency, the contractor will promptly notify the agency of the acceptance of any manuscript describing the invention for publication or of any on sale or public use planned by the contractor.

(2) The contractor will elect in writing whether or not to retain title to any such invention by notifying the Federal agency within twelve months of disclosure to the contractor; provided that in any case where publication, on sale or public use has initiated the one year statutory period wherein valid patent protection can still be obtained in the United States, the period for election of title may be shortened by the agency to a date that is no more than 60 days prior to the end of the statutory period.

(3) The contractor will file its initial patent application on an elected invention within two years after election or, if earlier, prior to the end of any statutory period wherein valid patent protection can be obtained in the United States after a publication, on sale, or public use. The contractor will file patent applications in additional countries within either ten months of the corresponding initial patent application or six months from the date

permission is granted by the Commissioner of Patents and Trademarks to file foreign patent applications where such filing has been prohibited by a Secrecy Order.

(4) Requests for extension of the time for disclosure to the agency, election, and filing may, at the discretion of the funding Federal agency, be granted.

d. Conditions When the Government May Obtain Title.

(1) The contractor will convey to the Federal agency, upon written request, title to any subject invention:

(i) If the contractor fails to disclose or elect the subject invention within the times specified in c. above, or elects not to retain title.

(ii) In those countries in which the contractor fails to file patent applications within the times specified in c. above; provided, however, that if the contractor has filed a patent application in a country after the times specified in c., above, but prior to its receipt of the written request of the Federal agency, the contractor shall continue to retain title in that country.

(iii) In any country in which the contractor decides not to continue the prosecution of any application for, to pay the maintenance fees on, or defend in reexamination or opposition proceeding on, a patent on a subject invention.

e. Minimum Rights to Contractor

(1) The contractor will retain a nonexclusive, royalty-free license throughout the world in each subject invention to which the Government obtains title except if the contractor fails to disclose the subject invention within the times specified in c., above. The contractor's license extends to its domestic subsidiaries and affiliates, if any, within the corporate structure of which the contractor is a party and includes the right to grant sublicenses of the same scope to the extent the contractor was legally obligated to do so at the time the contract was awarded. The license is transferable only with the approval of the funding Federal agency except when transferred to the successor of that party of the contractor's business to which the invention pertains.

(2) The contractor's domestic license may be revoked or modified by the funding Federal agency to the extent necessary to achieve expeditious practical application

of the subject invention pursuant to an application for an exclusive license submitted in accordance with applicable provisions in the Federal Property Management Regulations. This license will not be revoked in that field of use or the geographical areas in which the contractor has achieved practical application and continues to make the benefits of the invention reasonably accessible to the public. The license in any foreign country may be revoked or modified at the discretion of the funding Federal agency to the extent the contractor, its licensees, or its domestic subsidiaries or affiliates have failed to achieve practical application in that foreign country.

(3) Before revocation or modification of the license, the funding Federal agency will furnish the contractor a written notice of its intention to revoke or modify the license, and the contractor will be allowed thirty days (or such other time as may be authorized by the funding Federal agency for good cause shown by the contractor) after the notice to show cause why the license should not be revoked or modified. The contractor has the right to appeal, in accordance with applicable regulations in the Federal Property Management Regulations concerning the licensing of Government-owned inventions, any decision concerning the revocation or modification of its license.

f. Contractor Action to Protect the Governments Interest

(1) The contractor agrees to execute or to have executed and promptly deliver to the Federal agency all instruments necessary to (i) establish or confirm the rights the Government has throughout the world in those subject inventions to which the contractor elects to retain title, and (ii) convey title to the Federal agency when requested under paragraph d. above, and to enable the Government to obtain patent protection throughout the world in that subject invention.

(2) The contractor agrees to require, by written agreement, its employees, other than clerical and non-technical employees, to disclose promptly in writing to personnel identified as responsible for the administration of patent matters and in a format suggested by the contractor each subject invention made under contract in order that the contractor can comply with the disclosure provisions of paragraph c. above, and to execute all papers necessary to file patent applications on subject inventions and to establish the Government's rights in the subject inventions. This disclosure format should require, as a minimum, the

information required by c.(1) above. The contractor shall instruct such employees through employee agreements or other suitable educational programs on the importance of reporting inventions in sufficient time to permit the filing of patent applications prior to U.S. or foreign statutory bars.

(3) The contractor will notify the Federal agency of any decision not to continue the prosecution of a patent application, pay maintenance fees, or defend in a reexamination or opposition proceeding on a patent, in any country, not less than thirty days before the expiration of the response period required by the relevant patent office.

(4) The contractor agrees to include, within the specification of any United States patent application and any patent issuing thereon covering a subject invention, the following statement, "This invention was made with Government support under (identify the contract) awarded by (identify the Federal agency). The Government has certain rights in this invention."

g. Subcontracts

(1) The contractor will include this clause, suitably modified to identify the parties, in all subcontracts, regardless of tier, for experimental developmental or research work to be performed by a small business firm or domestic nonprofit organization. The subcontractor will retain all rights provided for the contractor in this clause, and the contractor will not,as part of the consideration for awarding the subcontract, obtain rights in the subcontractor's subject inventions.

(2) The contractor will include in all other subcontracts, regardless of tier, for experimental, developmental or research work the patent rights clause required by (cite section of agency implementing regulations, FPR, or DAR).

(3) In the case of subcontracts, at any tier, when the prime award with the Federal agency was a contract (but not a grant or cooperative agreement), the agency, subcontractor, and the contractor agree that the mutual obligations of the parties created by this clause constitute a contract between the subcontractor and the Federal agency with respect to those matters covered by this clause.

h. Reporting on Utilization of Subject Inventions

The contractor agrees to submit on request periodic reports no more frequently than annually on the utilization of

a subject invention or on efforts at obtaining such utilization that are being made by the contractor or its licensees or assignees. Such reports shall include information regarding the status of development, date of first commercial sale or use, gross royalties received by the contractor, and such other data and information as the agency may reasonably specify. The contractor also agrees to provide additional reports as may be requested by the agency in connection with any march-in proceeding undertaken by the agency in accordance with paragraph j. of this clause. To the extent data or information supplied under this section is considered by the contractor, its licensee or assignee to be privileged and confidential and is so marked, the agency agrees that, to the extent permitted by 35 USC §202(c)(5), it will not disclose such information to persons outside the Government.

i. Preference for United States Industry

Notwithstanding any other provision of this clause, the contractor agrees that neither it nor any assignee will grant to any person the exclusive right to use or sell any subject invention in the United States unless such person agrees that any products embodying the subject invention or produced through the use of the subject invention will be manufactured substantially in the United States. However, in individual cases, the requirement for such an agreement may be waived by the Federal 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.

j. March-in Rights

The contractor agrees that with respect to any subject invention in which it has acquired title, the Federal agency has the right in accordance with the procedures in OMB Circular A- __ (and agency regulations at ____) to require the contractor, an assignee or exclusive licensee of a subject invention to grant a non-exclusive, partially exclusive, or exclusive license in any field of use to a responsible applicant or applicants, upon terms that are reasonable under the circumstances, and if the contractor assignee, or exclusive licensee refuses such a request, the Federal agency has the right to grant such a license itself if the Federal agency determines that:

(1) Such action is necessary because the contractor or assignee has not taken, or is not expected to

take within a reasonable time, effective steps to achieve practical application of the subject invention in such field of use.

(2) Such action is necessary to alleviate health or safety needs which are not reasonably satisfied by the contractor, assignee, or their licensees;

(3) Such action is necessary to meet requirements for public use specified by Federal regulations and such requirements are not reasonably satisfied by the contractor, assignee, or licensees; or

(4) Such action is necessary because the agreement required by paragraph i of this clause has not been obtained or waived or because a licensee of the exclusive right to use or sell any subject invention in the United States is in breach of such agreement.

k. Special Provisions for Contracts with Non-profit Organizations

If the contractor is a non-profit organization, it agrees that:

(1) Rights to a subject invention in the United States may not be assigned without the approval of the Federal agency, except where such assignment is made to an organization which has as one of its primary functions the management of inventions and which is not, itself, engaged in or does not hold a substantial interest in other organizations engaged in the manufacture or sale of products or the use of processes that might utilize the invention or be in competition with embodiments of the invention provided that such assignee will be subject to the same provisions as the contractor);

(2) The contractor may not grant exclusive licenses under United States patents or patent applications in subject inventions to persons other than small business firms for a period in excess of the earlier of:

(i) five years from first commercial sale or use of the invention; or

(ii) eight years from the date of the exclusive license excepting that time before regulatory agencies necessary to obtain premarket clearance, unless on a case-by-case basis, the Federal agency approves a longer exclusive license. If exclusive field of use licenses are granted, commercial sale or use in one field of use will not be deemed commercial

sale or use as to other fields of use, and a first commercial sale or use with respect to a product of the invention will not be deemed to end the exclusive period to different subsequent products covered by the invention.

(3) The contractor will share royalties collected on a subject invention with the inventor; and

(4) The balance of any royalties or income earned by the contractor with respect to subject inventions, after payment of expenses (including payments to inventors) incidental to the administration of subject inventions, will be utilized for the support of scientific research or education.

i. Communications. (Complete According to Instructions at Part 8.b. of this Circular).

END OF CLAUSE

DATE

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