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

OFFICE OF FEDERAL
PROCUREMENT POLICY

OFFICE OF MANAGEMENT AND BUDGET
OFFICE OF FEDERAL PROCUREMENT POLICY

Circular No. A-124, Patents -- Small Firms And Non-Profit Organizations

Agency: Office of Federal Procurement Policy, Office of Management and Budget.

Action: Final Rule.

Summary: This Circular, issued pursuant to the authority contained in P.L. 96-517, sets forth policies, procedures and a standard clause for executive branch agency use with regard to inventions made by small business firms and non-profit organizations and universities under funding agreements (contracts, grants and cooperative agreements) with Federal agencies where a purpose is to perform experimental, developmental and research work. This supersedes OMB Bulletin No. 81-22 and reflects public comments received on OMB Bulletin No. 81-22.

Effective Date: March 1, 1982.

For Further Information Contact: Mr. Fred H. Dietrich, Associate Administrator, Office of Federal Procurement Policy, 726 Jackson Place, N.W., Washington, D.C. 20503, (202) 395-6810.

Supplementary Information: This Circular is a revision of OMB Bulletin No. 81-22 which was issued on July 1, 1981, accompanied by a request for comments from the public and Federal agencies. Approximately 138 comments were received from individuals, universities, nonprofit organizations, industrial concerns, and Federal agencies.

Copies of all the comments are available on record at OFPP. A compilation of summaries of the comments organized by Bulletin section along with a rationale for their disposition can be obtained by writing to: Fred Dietrich, address as above.

The Bulletin has been reformated for easier reading and simplified reference to its provisions. For example, the standard clause has been moved from the body of the Circular to Attachment A. Instructions and policies on the use of the standard clause have been consolidated in Part 7. Instructions for modification or tailoring of the clause have been consolidated in Part 8. Other general policies relating to the clause or the Act have been treated in separate parts.

Some of the more significant changes that were made as a result of the comments are discussed below. Explanations are also given as to why certain comments were not adopted.

I. Comments Relating to Policy and Scope Sections

A. Subcontracts

A number of comments indicated that more clarification on the application of the Circular to subcontracts was needed. Revisions were made in Part 5 and Part 7c. to address this concern.

B. Limitation to Funding Agreements Performed in the United States

There were also a large number of comments questioning the limitation of the Bulletin to funding agreements performed in the United States. The Circular has been revised to eliminate any distinctions based on where the funding agreement is performed. However, the definition of "nonprofit organization" at 35 USC 201 has been interpreted to cover only domestic nonprofit organizations. The definition of "small business" in SBA regulations which are referenced in the Act excludes foreign business. A strong argument can be made that the Congress did not include foreign nonprofits. For example, that part of the statutory definition referencing organizations "qualified under a State nonprofit organization statute" clearly is limited to U.S. organizations. Similarly, that part of the definition referencing Section 501 of the Tax Code manifest an intention to cover U.S. based organizations, since foreign corporations are not subject to U.S. tax except if they are doing business in the United States.

C. Inventions Made Prior to July 1, 1981

Part 5 of the Circular was revised, as suggested by commentors, to encourage agencies to treat inventions made under funding agreements predating the Act in a manner similar to inventions under the Act, if such action is consistent with law.

D. Collaborative Research and "De minimus" Recommendations

There were several comments that some "de minimus" standard be established to define a threshold contribution of government funding to the making of a jointly funded invention below which the Circular regulations should not apply. These recommendations were rejected as being inconsistent with the

Act which does not define subject invention in terms of the size of the government financial contribution in making the invention.

These comments appear to be based on a concern that the Circular does not provide adequate guidance on the obligations of a recipient of government research funds when such research is closely related to other research sponsored by an industrial concern. Since one of the primary purposes of P.L. 96-517 is to foster cooperative research arrangements among government, universities and industry in order to more effectively utilize the productive resources of the nation in the creation and commercialization of new technology, it is important to remove any doubt as to the propriety of such cooperative arrangements and the proper application of the Circular to them.

Traditionally there have been no conditions imposed on research performers by the government which would preclude them from accepting research funding from other sources to expand, to aid in completing or to conduct separate investigations closely related to research activities sponsored by the government. Such complex funding arrangements are a necessity given the limited financial resources of individual sponsors, the unpredictable nature and continual expansion of research, the sharing of expensive resources, and the dynamic interactions among scientists at research institutions.

Notwithstanding the right of research organizations to accept supplemental funding from other sources for the purpose of expediting or more comprehensively accomplishing the research objectives of the government sponsored project, it is clear that the Act would remain applicable to any invention "conceived or first actually reduced to practice in performance" of the project. Separate accounting for the two funds used to support the project in this case is not a determining factor.

To the extent that a non-government sponsor establishes a project which, although closely related, falls outside the planned and committed activities of a government funded project and does not diminish or distract from the performance of such activities, inventions made in performance of the non-government sponsored project would not be subject to the conditions of the Act. An example of such related but separate projects would be a government sponsored project having research objectives to expand scientific understanding in a field with a closely related industry sponsored project having as its objectives the application of such new knowledge to develop usable new technology. The time relationship in

conducting the two projects and the use of new fundamental knowledge from one in the performance of the other are not important determinants since most inventions rest on a knowledge base built up by numerous independent research efforts extending over many years. Should such an invention be claimed by the performing organization to be the product of non-government sponsored research and be challenged by the sponsoring agency as being reportable to the government as a "subject invention", the challenge is appealable as described in Part 14.c.

An invention which is made outside of the research activities of a government funded project but which in its making otherwise benefits from such project without adding to its cost, is not viewed as a "subject invention" since it cannot be shown to have been "conceived or first actually reduced to practice" in performance of the project. An obvious example of this is a situation where an instrument purchased with government funds is later used, without interference with or cost to the government funded project, in making an invention all expenses of which involve only non-government funds.

E. Reports to the General Accounting Office

In response to the comment of one agency, Part 7.b.(2) was amended to avoid the necessity of agencies that do not enter into research grants or contracts with nonprofit organizations or small businesses from having to make reports to the Comptroller General.

F. Right to Sublicense Foreign Governments

Several commentators expressed concern that the optional language authorized for addition to the standard clause to permit sublicensing in accordance to treaties or international agreements was too open-ended. In response to this Part 8.d. now requires that existing treaties and international agreements be identified when the optional language is used. However, in view of the broad wording of the statute, agencies may continue to use the optional language for "future" treaties at their discretion. However, specific language has been added to encourage agencies to drop the reference to future treaties unless shown to be in the national interest.

One agency also expressed the concern that the language in the Bulletin was too limited and implied only a right to sublicense, whereas some international agreements call for more extensive rights. Section 8.d. has been revised to make clear that more than the right to sublicense can be taken.

G. Publication or Release of Invention Disclosures

Some agencies expressed the concern that the language in Part 5.b.(4) of the Bulletin required agencies to delay publication for excessive periods. Careful review of the language of Part 5.b (4) indicated that it needed to be restructured to more clearly distinguish between situations where the publication of technical reports was involved and situations where the release or publication of invention disclosures provided as required under the standard clause was involved. Part 9 has been revised to distinguish between the two and to clarify the policies in the two situations.

H. Reporting on Utilization of Subject Inventions

In response to the comments of one agency and to minimize the burden on contractors, Part 10 provides that agencies shall not implement their rights to obtain utilization reports under the standard clause until a Government-wide reporting format is established. This will be one of the first tasks of the Department of Commerce as lead agency.

Also adopted was the recommendation of one commentor that utilization reports be afforded maximum protection from disclosure as authorized by P.L. 96-517. Accordingly, language was revised to provide that such reports "shall not" be disclosed under FOIA to the extent permitted by 35 USC 202(c.) (5).

I. Procedures for Exercise of March-in Rights

35 USC 203 requires that march-in rights be exercised in accordance with OFPP regulations. There were extensive comments on the procedures included in the Bulletin and a number of changes have been made as a result of the comments.

Several agencies felt the procedures were too formal and cumbersome. Some universities were also concerned that there did not appear to be a way for an agency to reject a march-in without going into a full-blown procedure. To address these concerns part 13.b. was added to provide for an informal and rapid agency decision making process as to whether or not to begin a more formal proceeding. Part 13.h. was also added to make clear that an agency could discontinue a proceeding at any time it is satisfied that march-in is not warranted. This emphasizes that march-in is strictly a matter for agency discretion. Even though an agency may begin march-in because of the complaints of a third-party, that third party does not have standing and cannot insist on either the initiation or continuation of a march-in proceeding.

A number of universities asked that time limits be placed on the duration of a march-in proceeding. It is not believed to be practical to place an overall time limit on a march-in proceeding, particularly since delays in fact-finding might be the result of contractor requests for delays. However, Part 13.b. includes a procedure for informal agency decision-making, as noted above, with specified time restraints. In addition, Part 13.g. places a 90 day time limit on the issuance of a determination after fact-finding is completed.

Several universities also recommended that march-in determinations be appealable to the lead agency. However, this recommendation was not adopted. It is believed the procedures established will ensure that march-ins are only exercised after careful consideration. Contractors may also appeal any arbitrary decisions or those not conducted in accordance with proper procedures to the courts.

Part 13.j. was added to clarify the relationship of the procedures of the Contract Disputes Act to the march-in procedures of Part 13 c. -g. to the extent a determination to march-in is considered a contract dispute.

Several universities also recommended that march-in proceedings be closed to the public where confidential information might be disclosed. Language has been included in Part 13.e. to require this. The information on utilization obtained as part of a march-in is considered within the scope of the utilization information which agencies are required to obtain the right to under 35 USC 202(c)(5), and the same statutory exclusion from disclosure is applicable to it. It can also be expected that the same information would be trade-secret information exempt from public disclosure.

J. Appeals

As a result of a number of comments, it was determined that the appeals provisions of Part 5.g. of the Bulletin did not address the full scope of appealable decisions and that particularly in forfeiture cases more detailed procedures should be followed. Part 14 has been revised accordingly. However, other recommendations to allow appeal to the lead agency were not adopted since a number of agencies were concerned that this would interfere with their prerogatives.

Since it is anticipated that in contract situations a number of these actions would be subject to the Contract Disputes Act, language was added to Part 14 to expressly acknowledge that procedures under that Act would fully comply with the requirements established in Part 14.

K. Multiple Sources of Agency Support

One university suggested that there was a need for additional guidance in cases when a subject invention can be attributed to more than one agency funding agreement. To address this concern Part 16c. was added to require agencies to select one agency to administer a given subject invention when there have been multiple agencies providing support. It is intended that only that agency could then exercise march-in or take other actions under the clause. It would be a matter between the agencies as to how any actions of the selected agency would be coordinated with the others.

L. Lead Agency

Bulletin 81-22 noted that the lead agency concept was under discussion and solicited comments on this matter. The Department of Commerce has been selected as the new lead agency based on its prior experience and wide ranging interest in technology transfer, productivity, innovation and Government patent policy. The lead agency will, among other assignments, review agency implementing regulations; disseminate and collect information; monitor administrative or compliance measures; evaluate the P.L. 96-517's implementation; and recommend appropriate changes to OMB/OFPP.

M. Optional Clause Language at Section 5b.(1)(Vi) of the Bulletin

The most commented upon aspect of the Bulletin was the optional reporting language authorized by Part 5.b.(1)(vi). Approximately 70 comments were received from universities and nonprofit organizations objecting to its use. The premises underlying the rationale for the optional language was brought in question by a number of commentors. Many others made the point that the use of the clause would undermine their licensing efforts, result in nonreporting of inventions by inventors, and would generally be counterproductive. By way of contrast no agency provided any rationale for the need for these provisions.

In view of the comments and lack of any established need for the optional language, part 5.b.(1)(vi) of the Bulletin has been eliminated from the final Circular. As will be discussed, below, some changes have been made to paragraph c. of the standard clause of Attachment A of the Circular that relate to the issues raised by the optional language.

II. Comments on Standard Patent Rights Clause

A. Paragraph b. - License to State and Local Governments

One agency suggested that the right to license state and local governments be made part of the standard rights of the Government. This, however, has not been done since the granting of licenses to state and local governments is not consistent with P.L. 96-517. That statute defines the Government's license rights, and any expansion of these rights, would have to be justified under the "exceptional circumstances" language of 35 USC 202 on a case-by-case basis. It is not anticipated that the taking of such rights would ordinarily be consistent with the policy and objectives of the Act since such licenses have acted as a disincentive to general commercialization. Thus, while appearing to be useful to state and local governments such licenses have actually acted to their disadvantage to the extent they have precluded private development of inventions useful to state and local governments.

B. Paragraph c. - Reporting, Election, and Disclosure

There were a number of comments on various aspects of paragraph c. As a result some changes have been made. In general, these changes were designed to provide a reasonable accommodation to the interests of several agencies in obtaining early knowledge of inventions and to minimize the possibility of statutory bars being created in situations where the agency might wish to seek patents if the contractor does not elect rights. Thus, the reporting period was lowered from six months to two months after contractor personnel become aware of the invention. Paragraph (c)(1) also contains revised language to ensure that contractors keep the agency informed as to initiation of the one year statutory period within which a patent application must be filed in order to obtain a valid patent in the United States. The period in which an agency may require an election of rights has also been increased from 45 days prior to a U.S. statutory bar to 60 days. However, the requirements that a contractor also file 45 days prior to the bar date has been eliminated, but paragraph (c)(3) has been revised to require the contractor to file before the U.S. bar date in all cases. It is believed that it would be rare for a contractor to elect and not file within this time. It is also expected that an interested agency should be able to discuss with a contractor its plans for filing. If the contractor has subsequently changed its mind, the agency should be able to either convince the contractor to rescind its election or to take title under paragraph (d) on the grounds that the contractor has, in effect, abandoned its application. Should any real problems in this area develop in the future, consideration would be

given to tightening up the clause provisions to cover cases when a contractor elects but makes no progress towards the timely preparation for filing.

One commentor expressed the concern that the clause requires a contractor to file foreign patents if it elects rights. It should be clear that while there is an implicit obligation to file an initial patent application when an election is made, the language is not intended to require the filing of foreign applications. Instead, it is intended to establish a cut-off point so that the sponsoring agency can file foreign applications if the contractor decides not to.

In short, the clause provisions have been written to ensure that agencies are able to make U.S. filings in cases when contractors have received reports from their inventors in time to allow this but are not themselves interested. Where such initial filings have been made, the clause is designed to protect the opportunity for the filing of foreign patents in cases when a bar was not created prior to the initial filing. However, it has been determined to be unreasonable to require contractors to forfeit domestic rights because publication creates an immediate bar to valid patent protection in some foreign countries.

C. Paragraph k

There were several comments on paragraph k. Some commentators were apparently unaware that these restrictions are required by P.L. 96-517. One commentator incorrectly interpreted paragraph k. (2) as requiring agency approval of exclusive licenses to large firms, whereas the language only requires approval of licenses to such firms which would exceed the five and eight year periods in the statute.

Probably the most significant comments in this area were related to the use of the word "any" in paragraph k. (3). It was pointed out that the use of the word "any" could be interpreted as requiring sharing of gross royalties, whereas many universities have sharing formulas based on net royalties. In response to these comments, the word "any" has been dropped since it is not in the statutory language. The intent is that nonprofit organizations share either on a net or gross basis in accordance with their usual policies.

There were also a few comments that some minimum sharing formula be established. However, this suggestion was rejected as being inconsistent with the legislative intent as manifest on p. 33 of Senate Report 96-480.

Paragraph 1 -- Communications

A new paragraph has been added at the end of the clause in which agencies are instructed to designate a central point of contact for administration of the clause. This paragraph was added as a result of a number of comments suggesting this in lieu of the provision in the bulletin that contact points be indentified throughout the clause whenever notices or communications to the agency were required.

OMB Circular No.A-124 follows.

Donald E. Sowle
Administrator

2-19-82
Vol. 47 No. 34
Pages 7387-7610

Friday
February 19, 1982

federal register

OFFICE OF MANAGEMENT AND BUDGET

Office of Federal Procurement Policy

Circular No. A-124, Patents—Small Firms and Non-Profit Organizations

AGENCY: Office of Federal Procurement Policy, OMB.

ACTION: Notice.

SUMMARY: This Circular, issued pursuant to the authority contained in Pub. L. 96-517, sets forth policies, procedures and a standard clause for executive branch agency use with regard to inventions made by small business firms and non-profit organizations and universities under funding agreements (contracts, grants and cooperative agreements) with Federal agencies where a purpose is to perform experimental, developmental and research work. This supersedes OMB Bulletin No. 81-22 and reflects public comments received on OMB Bulletin No. 81-22 (46 FR 34776, July 2, 1981).

EFFECTIVE DATE: March 1, 1982.

FOR FURTHER INFORMATION CONTACT: Mr. Fred H. Dietrich, Associate Administrator, Office of Federal Procurement Policy, 726 Jackson Place, NW., Washington, D.C. 20503, (202) 395-6810.

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I. Comments Relating to Policy and Scope Sections

A. Subcontracts

A number of comments indicated that more clarification on the application of the Circular to subcontracts was needed. Revisions were made in Part 5 and Part 7c. to address this concern.

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These comments appear to be based on a concern that the Circular does not provide adequate guidance on the obligations of a recipient of government research funds when such research is closely related to other research sponsored by an industrial concern. Since one of the primary purposes of Pub. L. 96–517 is to foster cooperative research arrangements among government, universities and industry in order to more effectively utilize the productive resources of the nation in the creation and commercialization of new technology, it is important to remove any doubt as to the propriety of such cooperative arrangements and the proper application of the Circular to them.

Traditionally there have been no conditions imposed on research performers by the government which would preclude them from accepting research funding from other sources to expand, to aid in completing or to conduct separate investigations closely related to research activities sponsored by the government. Such complex funding arrangements are a necessity given the limited financial resources of individual sponsors, the unpredictable nature and continual expansion of research, the sharing of expensive resources, and the dynamic interactions among scientists at research institutions.

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Several commentators expressed concern that the optional language authorized for addition to the standard clause to permit sublicensing in accordance to treaties or international agreements was too open-ended. In response to this Part 8.d. now requires that existing treaties and international agreements be identified when the optional language is used. However, in view of the broad wording of the statute, agencies may continue to use the optional language for "future" treaties at their discretion. However, specific language has been added to encourage agencies to drop the reference to future treaties unless shown to be in the national interest.

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G. Publication or Release of Invention Disclosures

Some agencies expressed the concern that the language in Part 5.b.(4) of the Bulletin required agencies to delay publication for excessive periods. Careful review of the language of Part 5.b.(4) indicated that it needed to be restructured to more clearly distinguish between situations where the publication of technical reports was involved and situations where the release or publication of invention disclosures provided as required under the standard clause was involved. Part 9 has been revised to distinguish between the two and to clarify the policies in the two situations.

H. Reporting on Utilization of Subject Inventions

In response to the comments of one agency and to minimize the burden on contractors, Part 10 provides that agencies shall not implement their rights to obtain utilization reports under the standard clause until a Government-wide reporting format is established. This will be one of the first tasks of the Department of Commerce as lead agency.

Also adopted was the recommendation of one commentor that utilization reports be afforded maximum protection from disclosure as authorized by Pub. L. 96–517. Accordingly, language was revised to provide that such reports "shall not" be disclosed under FOIA to the extent permitted by 35 U.S.C. 202(c.)(5).

I. Procedures for Exercise of March-in Rights

35 U.S.C. 203 requires that march-in rights be exercised in accordance with OFPP regulations. There were extensive comments on the procedures included in the Bulletin and a number of changes

have been made as a result of the comments.

Several agencies felt the procedures were too formal and cumbersome. Some universities were also concerned that there did not appear to be a way for an agency to reject a march-in without going into a full-blown procedure. To address these concerns Part 13.b. was added to provide for an informal and rapid agency decision making process as to whether or not to begin a more formal proceeding. Part 13.h. was also added to make clear that an agency could discontinue a proceeding at any time it is satisfied that march-in is not warranted. This emphasizes that march-in is strictly a matter for agency discretion. Even though an agency may begin march-in because of the complaints of a third-party, that third party does not have standing and cannot insist on either the initiation or continuation of a march-in proceeding.

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J. Appeals

As a result of a number of comments, it was determined that the appeals provisions of Part 5.g. of the Bulletin did not address the full scope of appealable decisions and that particularly in forfeiture cases more detailed procedures should be followed. Part 14 has been revised accordingly. However, other recommendations to allow appeal to the lead agency were not adopted since a number of agencies were concerned that this would interfere with their prerogatives.

Since it is anticipated that in contract situations a number of these actions would be subject to the Contract Disputes Act, language was added to Part 14 to expressly acknowledge that procedures under that Act would fully comply with the requirements established in Part 14.

K. Multiple Sources of Agency Support

One university suggested that there was a need for additional guidance in cases when a subject invention can be attributed to more than one agency funding agreement. To address this concern Part 16c. was added to require agencies to select one agency to administer a given subject invention when there have been multiple agencies providing support. It is intended that only that agency could then exercise march-in or take other actions under the clause. It would be a matter between the agencies as to how any actions of the selected agency would be coordinated with the others.

L. Lead Agency

Bulletin 81–22 noted that the lead agency concept was under discussion and solicited comments on this matter. The Department of Commerce has been selected as the new lead agency based on its prior experience and wide ranging interest in technology transfer, productivity, innovation and Government patent policy. The lead agency will, among other assignments, review agency implementing regulations; disseminate and collect information; monitor administrative or compliance measures; evaluate the Pub. L. 96–517's implementation; and recommend appropriate changes to OMB/OFPP.

M. Optional Clause Language at Section 5b(1)(vi) of the Bulletin

The most commented upon aspect of the Bulletin was the optional reporting language authorized by Part 5.b.(1)(vi). Approximately 70 comments were received from universities and nonprofit organizations objecting to its use. The premises underlying the rationale for the optional language was brought in question by a number of commentors. Many others made the point that the use of the clause would undermine their licensing efforts, result in nonreporting of inventions by inventors, and would generally be counterproductive. By way of contrast no agency provided any rationale for the need for these provisions.

In view of the comments and lack of any established need for the optional language, Part 5b(1)(vi) of the Bulletin has been eliminated from the final Circular. As will be discussed, below, some changes have been made to paragraph c. of the standard clause of Attachment A of the Circular that relate to the issues raised by the optional language.

II. Comments on Standard Patent Rights Clause

A. Paragraph b.—License to State and Local Governments

One agency suggested that the right to license state and local governments be made part of the standard rights of the Government. This, however, has not been done since the granting of licenses to state and local governments is not consistent with Pub. L. 96–517. That statute defines the Government's license rights, and any expansion of these rights, would have to be justified under the "exceptional circumstances" language of 35 U.S.C. 202 on a case-by-case basis. It is not anticipated that the taking of such rights would ordinarily be consistent with the policy and objectives of the Act since such licenses have acted as a disincentive to general commercialization. Thus, while appearing to be useful to state and local governments such licenses have actually acted to their disadvantage to the extent they have precluded private development of inventions useful to state and local governments.

B. Paragraph c.—Reporting, Election, and Disclosure

There were a number of comments on various aspects of paragraph c. As a result some changes have been made. In general, these changes were designed to provide a reasonable accommodation to the interests of several agencies in obtaining early knowledge of inventions and to minimize the possibility of statutory bars being created in situations where the agency might wish to seek patents if the contractor does not elect rights. Thus, the reporting

period was lowered from six months to two months after contractor personnel become aware of the invention. Paragraph (c)(1) also contains revised language to ensure that contractors keep the agency informed as to initiation of the one year statutory period within which a patient application must be filed in order to obtain a valid patent in the United States. The period in which an agency may require an election of rights has also been increased from 45 days prior to a U.S. statutory bar to 60 days. However, the requirements that a contractor also file 45 days prior to the bar date has been eliminated, but paragraph (c)(3) has been revised to require the contractor to file before the U.S. bar date in all cases. It is believed that it would be rare for a contractor to elect and not file within this time. It is also expected that an interested agency should be able to discuss with a contractor its plans for filing. If the contractor has subsequently changed its mind, the agency should be able to either convince the contractor to rescind its election or to take title under paragraph (d) on the grounds that the contractor has, in effect, abandoned its application. Should any real problems in this area develop in the future, consideration would be given to tightening up the clause provisions to cover cases when a contractor elects but makes no progress towards the timely preparation for filing.

One commentor expressed the concern that the clause requires a contractor to file foreign patents if it elects rights. It should be clear that while there is an implicit obligation to file an initial patent application when an election is made, the language is not intended to require the filing of foreign applications. Instead, it is intended to establish a cut-off point so that the sponsoring agency can file foreign applications if the contractor decides not to.

In short, the clause provisions have been written to ensure that agencies are able to make U.S. filings in cases when contractors have received reports from their inventors in time to allow this but are not themselves interested. Where such initial filings have been made, the clause is designed to protect the opportunity for the filing of foreign patents in cases when a bar was not created prior to the initial filing. However, it has been determined to be unreasonable to require contractors to forfeit domestic rights because publication creates an immediate bar to valid patent protection in some foreign countries.

C. Paragraph k

There were several comments on paragraph k. Some Commentators were apparently unware that these restrictions are required by Pub. L. 96–517. One commentator incorrectly interpreted paragraph k. (2) as requiring agency approval of exclusive licenses to large firms, whereas the language only requires approval of licenses to such firms which would exceed the five and eight year periods in the statute.

Probably the most significant comments in this area were related to the use of the word "any" in paragraph k. (3). It was pointed out that the use of the word "any" could be interpreted as requiring sharing of gross royalties, whereas many universities have sharing formulas based on net royalties. In response to these comments, the word "any" has been dropped since it is not in the statutory language. The intent is that nonprofit organizations share either on a net or gross basis in accordance with their usual policies.

There were also a few comments that some minimum sharing formula be established. However, this suggestion was rejected as being inconsistent with the legislative intent as manifest on p. 33 of Senate Report 96–480.

Paragraph 1—Communications

A new paragraph has been added at the end of the clause in which agencies are instructed to designate a central point of contact for administration of the clause. This paragraph was added as a result of a number of comments suggesting this in lieu of the provision in the bulletin that contact points be indentified throughout the clause whenever notices or communications to the agency were required.

OMB Circular No. A–124 follows.

Donald E. Sowle,

Administrator.

Circular No. A–124

February 10, 1982.

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 (Section 6 of Pub. 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, Pub. L. 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 Pub. 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 subjects 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 Pub. L. 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, development 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 the 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 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 Pub. 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 CFR 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

licensee 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 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.

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 Pub. L. 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 CFR 121.3–8 and 13 CFR 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 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.

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 nontechnical 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 U.S.C. 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-124 (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.

l. Communications

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

[FR Doc. 82-4339 Filed 2-18-82; 8:45 am]
BILLING CODE 3110-01-M