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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.

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 U.S.C. 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 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.

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 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 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