SUGGESTED POINTS FOR DISCUSSION

The points suggested below are intended to serve as a framework for the discussion. To simplify the presentation, they concern salaried creators in general, whether they are authors of an invention, work or performance. However, since the situation of salaried inventors and authors and the systems applying to them differ in various respects, it will doubtless be preferable to distinguish between them during the discussion. Clearly, participants are free to make any changes they may wish.

I. Purpose and nature of protection

Economic rights

1. General principles to be applied in the award, transfer or assignment of economic rights (rights of ownership, exploitation, use or authorisation) relating to inventions and works produced by employees and the way in which these rights are divided between employees and their employers (with particular reference to the relationship between the invention or work, the normal activities of its author in the course of employment and the activities of the enterprise or organisation employing him or her).

Pecuniary rights

2. Measures that may be taken in order to guarantee that salaried inventors and authors receive equitable financial compensation for the loss, transfer or assignment of their rights of ownership and use and to encourage and recognise their creative activity; these could cover the following:

   (a) general conditions governing entitlement to payment;

   (b) procedures for determining levels of payment;

   (c) criteria to be applied in the calculation of payment;

   (d) form of payment;

   (e) reassessment of levels of payment if the circumstances prevailing at the time it was fixed have changed;

   (f) secondary use of works.

3. Other forms of compensation (in terms of advancement, tax benefits, working conditions, etc.).

Moral rights

4. The right to be named, effective recognition of salaried creators as authors and inventors and the exercise of other moral rights, particularly by salaried authors.

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Moral rights

4. The right to be named, effective recognition of salaried creators as authors and inventors and the exercise of other moral rights, particularly by salaried authors.

Specific problems

5. Specific problems which might arise in the implementation of the above rights:

   (a) according to the category of the creator (for example, depending upon the type of creation - invention, work, or performance);

   (b) in cases where there are several inventors or authors;

   (c) when an invention or work is developed after the termination of the employment relationship;

   (d) as a result of the development of new technologies.

Creations that do not generate intellectual rights

6. The possibility of taking specific measures to encourage and reward authors of creations or personal proposals which influence the economic results of the employer using them but are not protected by intellectual property rights, as well as measures enabling such authors to have a share in the resulting profits.

Effects of termination of the employment relationship

7. Measures that may be taken in order to ensure that employees retain rights after the termination of their employment relationship (for example, when the circumstances which determined payment levels have changed).

II. Ways to ensure protection

The role of information

8. Measures that may be taken in order to ensure that salaried creators or their representatives are well informed of their rights on the above points, especially with respect to:

   (a) rights of ownership, use or authorisation;

   (b) the way in which payment is calculated;

   (c) the exercise of rights after the termination of the employment relationship;

   (d) settlement of disputes.

Collective bargaining

9. The role of collective bargaining in protecting and promoting the rights of salaried inventors and authors.

(c) the exercise of rights after the termination of the employment relationship;

(d) settlement of disputes.

Collective bargaining

9. The role of collective bargaining in protecting and promoting the rights of salaried inventors and authors.

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10. The role of organisations representing the employers and workers concerned (including inventors' and authors' associations, copyright administration societies for example) in order to guarantee salaried creators equitable rights and protection.

Settlement of disputes

11. Measures that may be taken in order to provide salaried inventors and authors and their employers with appropriate and efficient machinery for settling disputes between them.

12. The possibility of setting up special machinery for conciliation, mediation or arbitration purposes; the role of machinery for the settlement of labour disputes; and the role of courts.

III. The need for protection measures at the national and international levels

13. The need to adopt, through legislation, collective agreements or other means in line with national practice, measures to encourage creative activity, to recognise and protect the rights of salaried authors and inventors and to protect the public interest in view of the possible effects of inventions.

14. The relevance of existing international regulations to the protection of the rights of salaried inventors and authors.

IV. Further action of the ILO

15. Suggestions as to the ILO's future activities on the various issues raised above or on other questions concerning salaried inventors and/or authors in the following fields:

(a) studies and research;

(b) standard-setting activities;

(c) collection and dissemination of information;

(d) practical activities (advisory services, technical assistance).

DAMAGE CALCULATIONS IN A PATENT INFRINGEMENT ACTION: DETERMINING A REASONABLE ROYALTY

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DAMAGE CALCULATIONS IN A PATENT INFRINGEMENT ACTION: DETERMINING A REASONABLE ROYALTY

By Joseph V. Colaianni* and F. Dominic Cerrito**

The calculation of damages in a patent infringement action requires the application of both long-standing principles of patent law and many new and evolving concepts. While the patent statute provides for both compensatory and punitive damages, it provides little guidance on the exact method which should be used to arrive at that relief, except that such damages cannot be "less than a reasonable royalty." Perhaps the ambiguity in the statute was intentional, for each case provides unique facts which must be dealt with on an individual basis. The statute provides parameters for determining damages, but it is largely left to the courts to decide in what manner the damages will be determined. To gain understanding and insight on how patent damages are determined, we must begin by looking at the statutory language.

TITLE 35 U.S.C. § 284

The primary damages section of the patent statute is 35 U.S.C. § 284 which reads:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
>
> When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

Section 284 does not dictate the manner in which a court should compute damages, but leaves such calculations to the sound discretion of the trial court.[1] The United States Court of

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[1] Nickson Industries Inc. v. Rol Manufacturing Co., 847 F.2d 795, 798 (Fed. Cir. 1988).

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[1] Nickson Industries Inc. v. Rol Manufacturing Co., 847 F.2d 795, 798 (Fed. Cir. 1988).

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Appeals for the Federal Circuit ("Federal Circuit") has recently reaffirmed the proposition that any reasonable doubts that arise in such calculations should be resolved against the infringer.[2] Acknowledging that damage calculations are difficult, the Federal Circuit has followed the Supreme Court mandate that while the determination of a damage award cannot be based on "mere speculation or guess, it will be enough if the evidence shows the extent of damages as a matter of just and reasonable inference, although the result be only approximate."[3]

A detailed look at section 284 was undertaken by the Supreme Court in Aro Mfg. Co. v. Convertible Top Replacement Co.[4] wherein the Court stated that the object of damage awards in patent infringement actions was "compensation for the pecuniary loss he [the patentee] has suffered from the infringement...."[5] The Court further stated that the patentee was entitled under the statute to recover damages and not the infringer's profits. The focus was clearly on how much the patentee suffered, not how much the infringer benefitted.[6] The Aro Court also recognized one statutory limitation to the above-mentioned discretion of the courts: In calculating a damage award, a reasonable royalty is the floor below which the assessed damages may not fall."[7] The Court did not, however, enunciate rules for arriving at acceptable damage awards.

The main focus of this paper will be on the methods for determining one form of patent damages; a reasonable royalty. It should, however, be noted that there is another form of patent damages. A patentee may receive its lost profits if it can be

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[2] Del Mar Avionics, Inc. v. Quinton Instruments Co., 836 F.2d 1320, 1327 (Fed. Cir. 1987).

[3] Paper Converting Machine Company v. Magna-Graphics Corporation, 745 F.2d 11, 22 (Fed. Cir. 1984) (quoting Story Parchment Co. v. Paterson Parchment Paper Co., 282 U.S. 555, 563 (1931)).

[4] 377 U.S. 476 (1964).

[5] Id. at 507.

[6] The Federal Circuit has, however, permitted evidence of the infringer's profits to be considered in establishing both lost profits and a reasonable royalty. Kori Corp. v. Wilco Marsh Buggies and Draglines, Inc., 761 F.2d 649 (Fed. Cir.), cert. denied, 474 U.S. 902 (1985); TWM Mfg. Co. v. Dura Corp., 789 F.2d 895, 899 (Fed. Cir.), cert. denied, 107 S. Ct. 183 (1986).

[7] Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. at 506.

infringer's profits to be considered in establishing both lost profits and a reasonable royalty. Kori Corp. v. Wilco Marsh Buggies and Draglines, Inc., 761 F.2d 649 (Fed. Cir.), cert. denied, 474 U.S. 902 (1985); TWM Mfg. Co. v. Dura Corp., 789 F.2d 895, 899 (Fed. Cir.), cert. denied, 107 S. Ct. 183 (1986).

[7] Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. at 506.

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shown that but for the infringer's sales, the patentee could have made the sale. A reasonable royalty, however, is the primary form of damages awarded to a non-manufacturing patentee, because: (1) the non-manufacturing patentee cannot lose sales as a result of an infringer's acts and therefore cannot suffer lost profits; and (2) an established royalty is difficult to prove and is more often used as a factor in determining a reasonable royalty.

Reasonable Royalty

A leading case in patent damages defined a reasonable royalty as "an amount which a person desiring to manufacture and sell a patented article, as a business proposition, would be willing to pay as a royalty and yet be able to make and sell the patented article, in the market, at a reasonable profit."[8] The royalty rate may be calculated as a yearly rate, flat fee, unit rate or as a percentage of the infringer's sales.

Royalty Base

The first step in establishing a royalty rate (the amount or percentage that will be applied to the infringer's sales or its use of the patented item) is the determination of the royalty base. A royalty base defines the exact aspects of the infringing product for which a monetary award will be based. What is referred to as the "product" may include patented components as well as non-patented elements of the product. The question becomes whether the non-patented components should be included in the calculations of the royalty base along with the patented components.

This problem of apportionment has been dealt with by some courts under the "entire market value rule". Under this rule, recovery of damages is permitted based on the value of an entire apparatus containing several features when the feature patented constitutes the basis for customer demand.[9] In applying this rule, a determination is made that the market value of the total device can be attributed to the patented feature.[10] Application of the rule is not generally dependent upon the type of product involved in suit. For example, a machine which has removable

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[8] Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1157-58 (6th Cir. 1978).

[9] King Instrument Corp. v. Otari Corp., 767 F.2d 853, 865 (Fed. Cir. 1985).

[10] See Westinghouse v. Wayne Mfg. Co., 225 U.S. 604, 614-15 (1912).

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1152, 1157-58 (6th Cir. 1978).

[9] King Instrument Corp. v. Otari Corp., 767 F.2d 853, 865 (Fed. Cir. 1985).

[10] See Westinghouse v. Wayne Mfg. Co., 225 U.S. 604, 614-15 (1912).

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parts may be easier to apportion (patented elements from non-patented elements) than a chemical compound. However, the greater the difficulty in apportionment, the more likely the rule will be applied. Furthermore, a helpful consideration, as pointed out by the Federal Circuit, is whether the patentee can normally anticipate the sale of such non-patented components as well as the sale of the patented ones.[11] The royalty base can also be increased by convoyed and collateral sales.

Reasonable Royalty Rate

"THE HYPOTHETICAL NEGOTIATION"

Upon determination of the royalty base, a reasonable royalty rate must then be calculated. A reasonable royalty is most often analyzed under the "hypothetical negotiation" method. Under this method, the amount of damages is determined by what would have resulted from a hypothetical negotiation between a willing licensor and a willing licensee. It is assumed that this negotiation takes place at the beginning of the infringement period. During this negotiation, it is also assumed that the patent is valid.[12] This assumption of a willing licensor/ licensee is a legal fiction created by the courts to deal with the damages problem.[13] A long line of cases have proved that this fiction is very necessary.[14]

In a landmark patent damage decision, the Federal Court commented on the problems involved in applying this damage calculation method. The Court pointed out that:

> The setting of a reasonable royalty after infringement cannot be treated, as it was here, as the equivalent of ordinary royalty negotiations among truly "willing" patent owners and licensees. That view would constitute a pretense that the infringement never happened. It would also make an election to infringe a

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[11] Paper Converting Machine Company v. Magna-Graphics Corporation, 745 F.2d 11, 23 (Fed. Cir. 1984).

[12] Panduit Corp. v. Stahlin Bros. Fibre Works, 575 F.2d at 1158.

[13] Hanson v. Alpine Ski Valley Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983).

[14] See Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120-22 (S.D.N.Y. 1970), modified and affirmed, 446 F.2d 295 (2d Cir.), cert. denied, 404 U.S. 870 (1971), and cases cited therein.

[13] Hanson v. Alpine Ski Valley Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983).

[14] See Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120-22 (S.D.N.Y. 1970), modified and affirmed, 446 F.2d 295 (2d Cir.), cert. denied, 404 U.S. 870 (1971), and cases cited therein.

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handy means for competitors to impose a "compulsory license" upon every patent owner.[15]

The Federal Circuit further warned of the possibility of putting the infringer in a "heads-I-win-tails-you-lose" position by only requiring damages in an amount the defendant would have paid absent the infringement.[16] In essence, the court was stating that the infringer must pay more than whatever royalty could have been in fact negotiated.

Factors In Determining A Reasonable Royalty Rate

In applying the hypothetical negotiation method, courts have set out factors which they felt would have been considered by the parties during such a negotiation. These factors range from the broad to the very narrow and case specific. The exact factors which will be considered by a court vary on a case by case basis. There are, however, certain factors which have received more consideration than others.

In the seminal case addressing this type of negotiation, Georgia-Pacific v. United States Plywood Corp.,[17] the court compiled from prior case law what it felt were the most important factors in a reasonable royalty determination. These factors are as follows:[18]

1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.[19]

2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.[20]

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[15] Panduit Corp. v. Stahlin Bros. Fibre Works, 575 F.2d at 1158.

[16] Id. quoting Troxel Mfg. Co. v. Schwinn Bicycle Co., 465 F.2d 1253, 1257 (6th Cir. 1972).

[17] 318 F. Supp. 1116 (S.D.N.Y. 1970), modified and affirmed, 446 F.2d 295 (2nd Cir.), cert. denied, 404 U.S. 870.

[18] Id. at 1120

[19] See discussion of an Established Royalty, infra.

[20] See TWM Mfg. Co., Inc. v. Dura Corp., 789 F.2d 895, 900 (Fed. Cir. 1986) (for related factor of whether a non-infringing alternative existed).

[18] Id. at 1120

[19] See discussion of an Established Royalty, infra.

[20] See TWM Mfg. Co., Inc. v. Dura Corp., 789 F.2d 895, 900 (Fed. Cir. 1986) (for related factor of whether a non-infringing alternative existed).

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3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.[21]

4. The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.[22]

5. The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promotor.[23]

6. The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales.[24]

7. The duration of the patent and the term of the license.[25]

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[21] See Water Technologies Corporation v. Calco, Ltd., 714 F. Supp. 899, 905 (N.D. Ill. 1989) (exclusivity of licensing considered in determining a reasonable royalty).

[22] See Studiengesellschaft Kohle, m.b.H. v. Dart Industries, Inc., 862 F.2d 1564, 1569 (Fed. Cir. 1988) (patentee's unusual licensing practices of a most favored licensee clause including a 4-3-2% sliding scale royalty with up front payments was considered relevant in determining a reasonable royalty).

[23] See Deere & Co. v. International Harvester Co., 710 F.2d 1551, 1559 (Fed. Cir. 1983) (patentee and infringer were the two largest competitors in the field and competition for market share considered a relevant factor).

[24] See discussion of Collateral Benefits and Convoyed Sales, infra.

[25] See Trio Process Corp. v. L. Goldstein's Sons, Inc., 612 F.2d 1353, 1357 (3rd Cir. 1980) (duration of license as a result of the duration of patent rights which remain with the patentee will affect licensees' willingness to pay a higher royalty based on, among other things, their ability to build up good will over a period of time through sales and marketing which will carry over after the patent rights have expired).

[25] See Trio Process Corp. v. L. Goldstein's Sons, Inc., 612 F.2d 1353, 1357 (3rd Cir. 1980) (duration of license as a result of the duration of patent rights which remain with the patentee will affect licensees' willingness to pay a higher royalty based on, among other things, their ability to build up good will over a period of time through sales and marketing which will carry over after the patent rights have expired).

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8. The established profitability of the product made under the patent; its commercial success; and its current popularity.[26]

9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.[27]

10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.[28]

11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.[29]

12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.[30]

13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business

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[26] Id.

[27] See Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1159 (6th Cir. 1978) (the utility of the patented product over acceptable non-infringing substitutes is a factor to be considered).

[28] See Radio Steel & Mfg. Co. v. MTD Products, Inc., 788 F.2d 1554, 1557 (Fed. Cir. 1986) (argument by the infringer that a low royalty was appropriate because the patented wheelbarrow was a limited contribution to the art).

[29] See Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1080-81 (Fed. Cir. 1983) (a reasonable royalty determined as a percentage of energy cost savings the infringer realized from his use of the patent owner's snow-making method).

[30] See Stickle v. Heublein, Inc., 716 F.2d 1550 (Fed. Cir. 1983) (since the industry standard was to not require a royalty after purchase of food processing equipment, a willing licensor could not have reasonably expected a use royalty from either the maker or user).

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[30] See Stickle v. Heublein, Inc., 716 F.2d 1550 (Fed. Cir. 1983) (since the industry standard was to not require a royalty after purchase of food processing equipment, a willing licensor could not have reasonably expected a use royalty from either the maker or user).

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risks , or significant features or improvements added by the infringer.[31]

14. The opinion testimony of qualified experts.[32]

15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee - who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention - would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.[33]

The Georgia-Pacific court cautioned that these factors are only suggestions for consideration. Each court may choose any factors it wishes in making its determination. The courts often will choose some of Georgia-Pacific's broad factors and combine them with more specific factors of the particular case.

The court in Georgia-Pacific also set out business factors which it felt parties involved in a "hypothetical negotiation" would consider relevant. The court realized that such a negotiation "would not occur in a vacuum of pure logic."[34] The hypothesis is that a marketplace confrontation would involve consideration of factors such as the parties':

> . . . relative bargaining strength; the anticipated amount of profits that the prospective licensor reasonably thinks he would lose as a result of licensing the patent as compared to the anticipated royalty income the anticipated amount of net profits that the prospective licensee reasonably thinks he will make; the commercial past performance of the invention in terms of

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[31] See discussion of Entire Market Value Rule, supra.

[32] Opinion testimony of qualified experts is relevant in every royalty determination to the extent determined by the court.

[33] See Georgia-Pacific Corp. v. United States Plywood, 318 F. Supp. 1116 (S.D.N.Y. 1970), modified and affirmed, 446 F.2d 295 (2d Cir.), cert. denied, 404 U.S. 870 (1971).

[34] Id. at 1121.

[32] Opinion testimony of qualified experts is relevant in every royalty determination to the extent determined by the court.

[33] See Georgia-Pacific Corp. v. United States Plywood, 318 F. Supp. 1116 (S.D.N.Y. 1970), modified and affirmed, 446 F.2d 295 (2d Cir.), cert. denied, 404 U.S. 870 (1971).

[34] Id. at 1121.

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> public acceptance and profits; the market to be tapped; and any other economic factor that normally prudent businessmen would, under similar circumstances, take into consideration in negotiating the hypothetical license.[35]

These are examples of yet more possible considerations in determining a reasonable royalty.

A brief analysis of the above-mentioned fifteen factors reveals some of their characteristics. Factors one, two and three fall into a group which relates to specific and general market conditions in the pertinent industry. They examine what the general or "established" royalty has been for the patented product or process. Factors four through fifteen fall into a group which relates to the anticipated profitability of the product or process as patented for manufacture, use, or sale by the infringer. More specifically, they examine the range of possible rates a licensor and licensee would agree upon. Some of these factors in and of themselves have independent significance and have become well-established considerations.

While the only limit to the types of factors which courts may consider is the ingenuity of attorneys, a brief look at some of the well-established factors as set out in Georgia-Pacific may be insightful.

Established Royalty Rate

The concept behind an established royalty is that a patent owner may recover, usually as a minimum amount, the royalty rate established by prior actual licenses for acts comparable to those engaged in by the infringer.[36] An established royalty is a rate that has been freely negotiated, uniform, secured before the infringement complained of, and which has a sufficient number of licensees.[37] Rates that have been agreed to under a threat of litigation or in a settlement agreement have been given little weight by the courts in determining an established royalty. The

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[35] Id.

[36] See Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983).

[37] Rude v. Westcott, 130 U.S. 152, 9 S.Ct. 463 (1889).

[35] Id.

[36] See Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983).

[37] Rude v. Westcott, 130 U.S. 152, 9 S.Ct. 463 (1889).

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key requirement in proving an established royalty has been the showing of a sufficient number of "like" agreements.[38]

As mentioned, the established royalty rate is usually seen as the minimum recovery and not necessarily the maximum. For example, assuming an established rate exists, the patent owner would not be precluded from showing under a reasonable royalty theory that the rate was unfairly depressed because of widespread infringing activity.[39] This example demonstrates how courts have recently viewed the established royalty rate. It is often not seen as a separate consideration in a damage calculations.[40] It is often difficult to establish the requisite showings of enough "like" licenses to prove an established royalty, but certainly this evidence is very probative in a reasonable royalty determination.

The reason that prior and existing licenses have been considered as factors in determining a reasonable royalty is based on: (1) the difficulty in proving and establishing a royalty rate; and (2) actual results reached by persons with conflicting economic interests shed great light on a possible outcome to a hypothetical negotiation.[41] These prior licenses are often considered an important factor but are by no means decisive. They have been required by courts to have a similar characteristic to the hypothetically negotiated licenses.[42] The significant aspect of using existing licenses in this way is that even though they may not establish an existing royalty, they can be considered valuable evidence on many grounds. Prior and existing licenses may give evidence of the patentee's licensing

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[38] Deere & Co. v. International Harvester Co., 710 F.2d 1551 (Fed. Cir. 1983) (the court found that a single license given to a minor competitor cannot be accepted as an established royalty).

[39] Trio Process Corporation v. L. Goldstein's Sons, Inc., 612 F.2d 1353 (3d Cir. 1983).

[40] Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075 (Fed. Cir. 1983). See also Arriflex Corporation v. Aaton Cameras, Inc., 225 USPQ 487 (S.D.N.Y. 1984) (established royalties used as a factor in determining a reasonable royalty).

[41] Trio Process Corporation v. L. Goldstein's Sons, Inc. 612 F.2d 1353 (3rd Cir. 1983).

[42] See Studiengesellschaft Kohle, m.b.H. v. Dart Industries, Inc., 862 F.2d 1564 (Fed. Cir. 1988).

Inc., 225 USPQ 487 (S.D.N.Y. 1984) (established royalties used as a factor in determining a reasonable royalty).

[41] Trio Process Corporation v. L. Goldstein's Sons, Inc. 612 F.2d 1353 (3rd Cir. 1983).

[42] See Studiengesellschaft Kohle, m.b.H. v. Dart Industries, Inc., 862 F.2d 1564 (Fed. Cir. 1988).

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practices;[43] industry standards covering the patent;[44] if the patentee has in the past been willing to license and to what extent;[45] and the relationship between the parties.[46] Prior and/or existing licenses between the patentees and the infringer are obviously given great weight by the courts. They may be the single most revealing factor in determining how a possible negotiation would have transpired and resulted. Licenses obtained under threat of litigation or based on settlement negotiations between the patentee and the infringer may be given some consideration, but always with a skeptical eye.

The Analytical Approach

While the hypothetical negotiation method for formulating a reasonable royalty remains the primary calculation tool, another approach has been accepted by the courts. Under the analytical approach, the starting point for a hypothetical negotiation is a review of the infringer's profits. Although this method may seem directly at odds with section 284, it has recently gained wide acceptance by the courts.[47] This approach works by determining the infringer's anticipated net profits from which is subtracted some "standard" kind of profit level for the infringer to obtain the remaining portion, which is then awarded to the patentee as a reasonable royalty.[48] This methodology thus shifts the hypothetical negotiation approach from what would have been negotiated in a fictitious licensing agreement, to what actually occurred and what should be paid in damages. Courts applying this approach will permit evidence regarding what the infringer

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[43] See id. (evidence showing a preferred licensee status of a non-infringer and the rates of royalties paid under that license were held probative of a reasonable royalty).

[44] See Stickle v. Heublein, Inc., 716 F.2d 1550, 1562 (Fed. Cir. 1983).

[45] See Polaroid Corporation v. Eastman Kodak Company, 16 USPQ2d 1481 (D. Mass. 1990).

[46] See Georgia-Pacific Corp v. U.S. Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970), modified and aff'd., 446 F.2d 295 (2d Cir.), cert. denied, 404 U.S. 870 (1971).

[47] See TWM Manufacturing Co., Inc. v. Dura Corp., 789 F.2d 895 (Fed. Cir. 1986); Tektronix, Inc. v. United States, 552 F.2d 343 (Ct. Cl. 1977); George-Pacific Corp. v. U.S. Plywood Corp., 446 F.2d 295 (2d Cir.), cert. denied, 404 U.S. 870 (1971).

[48] Id. See also Tektronix, Inc. v. The United States, 552 F.2d 343 (Ct. Cl. 1977).

(Fed. Cir. 1986); Tektronix, Inc. v. United States, 552 F.2d 343 (Ct. Cl. 1977); George-Pacific Corp. v. U.S. Plywood Corp., 446 F.2d 295 (2d Cir.), cert. denied, 404 U.S. 870 (1971).

[48] Id. See also Tektronix, Inc. v. The United States, 552 F.2d 343 (Ct. Cl. 1977).

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believed his anticipated profits would have been at the time of infringement.[49] They generally will not permit evidence of actual losses to be admitted so as to defeat any possible recovery by the patentee.[50]

Evidence of the infringer's actual profits is also admissible as probative in determining his anticipated profits.[51] This forward-looking approach is typically used when the defendants' actual infringement profits have been high. The courts have used the infringer's actual profits as a sort of gauge in deciding if the hypothetically negotiated royalty they determined was in the correct range.[52] They have even gone as far to say that the reasonable royalty may be set as a percentage of the infringer's actual profit.[53] These are examples of still more factors which a court may consider in determining a reasonable royalty.

Collateral Benefits and Convoyed Sales

Another set of factors in determining a reasonable royalty focuses on "related products". Courts have been willing to consider the collateral benefits an infringer would realize from the convoyed sale and/or collateral sale of parts, supplies, accessories and associated products.[54] The basis of the consideration stems from the theory that a willing licensee who

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[49] Trans-World Manufacturing v. Al Nyman & Sons, Inc., 750 F.2d 1552, 1568 (Fed. Cir. 1984).

[50] See Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152 (6th Cir. 1978).

[51] Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc., 750 F.2d at 1568.

[52] Georgia-Pacific Corp. v. United States Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970), modified and affirmed, 446 F.2d 295 (2d Cir.), cert. denied, 404 U.S. 870 (1971).

[53] Fromson v. Western Litho Plate & Supply Co., 853 F.2d 1568, 1577 (Fed. Cir. 1988).

[54] Deere & Co. v. International Harvester Co., 710 F.2d 1551, 1554-55 (Fed. Cir. 1983) (where sales of harvesting combines would reasonably be expected to result from sales of the patented corn harvesting device. The patented item made it possible for the first time to harvest corn with a combine and therefore created a market for this more expensive item. The court determined that a prospective licensee of the patented harvesting device could reasonably expect to receive collateral benefits and therefore, would be willing to pay a higher royalty fee).

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could expect to make sales of collateral items from his use of the patented product would be willing to pay an increased royalty. Correspondingly, if the patentee is also in the business of selling the patented products, as well as those related products, he would reasonably expect a higher royalty to compensate for his loss.

As mentioned above, there are two types of collateral benefits specifically considered by the courts: convoyed and collateral sales. Collateral sales differ from convoyed sales in that they are usually considered the by-product of the sale of the patented item, whereas convoyed sales are seen as an accompaniment to the original purchase of the patented product. For example, if the patented product is a paper towel dispenser, a collateral sale may be a subsequent sale of paper towels to restock the machine. On the other hand, a convoyed sale may be a non-patented wall mounting device which is sold along with the paper towel dispenser. Collateral sales may also be seen as an ongoing benefit whereas convoyed sales are usually a one-time enrichment. Please do not confuse the factor of convoyed sales with the entire market value rule. A convoyed sale is made on an item which is not an actual part of the patented product. The distinction between convoyed and collateral sales may be difficult to make, but it is important that you realize that these sales are a factor at arriving at a reasonable royalty rate.

A Recent Case Example

It may be of some value to look at a particular case involving the determination of a reasonable royalty which involved a university as the patent owner. The case of Water Technologies Corporation v. Calco, Ltd.,[55] involved the Kansas State University Research Foundation and its exclusive licensee Water Technologies Corporation. The defendants, Calco, Ltd. and William J. Gartner, were found to have infringed four patents owned by the plaintiffs. The patents covered methods of disinfecting water using demand bactericide resins. The original damage calculation was based on lost profits, but the Federal Circuit determined that the requisite showings did not support such an award.[56] Upon remand, the district court heard evidence from all parties on determining a reasonable royalty. The plaintiffs argued that prior licenses for the patents covered in suit were direct evidence of royalties which should have been awarded. They determined that a sliding scale of the royalties

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[55] 850 F.2d 660 (Fed. Cir. 1988), aff'd in part, rev'd in part, remanded, 714 F.Supp. 899 (N.D. Ill. 1989).

[56] Id., at 672.

awarded. They determined

[55] 850 F.2d 660 (Fed. Cir. 1988), aff'd in part, rev'd in part, remanded, 714 F.Supp. 899 (N.D. Ill. 1989).

[56] Id., at 672.

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would have amounted to a figure of 30% of the defendants' sales of the patented products. The defendants countered with a 5% figure based on their purported "licensing" of the infringing product.

The court began its analysis by rejecting both parties' calculations. It first took issue with the plaintiff's 30% figure. It noted that the patents, as of the date of licensing and thereafter, had met with little commercial success and would have had difficulty in commanding a 30% royalty. The court then examined the defendants' sham licensing agreements. The defendant had agreed to license the infringing product between themselves. The court determined that the defendants licensing practices were improper for two reasons. First, the licensing agreements were entered into with knowledge of the plaintiff's patents. Therefore, the court held that adapting the defendants' calculations "would allow two infringers to enter into a sham licensing agreement with a low royalty figure, and then claim that this manufactured figure represents a reasonable royalty."[57] Second, the court held that even if this 5% figure was not a sham, the defendants had acted improperly in the face of the plaintiff's known property rights. As a result, the court declined to establish a rule such as the one requested by the defendants.

Finally, the court set out the factors which it felt were controlling. They first dealt with the commercial success of the patents. Even though the court felt the patents had not established themselves in the market, the court noted that there had been some change in this position. Perhaps the most significant factors considered were the expressed desire of the defendants to enter into a licensing agreement with the plaintiff just prior to their infringement and a soon to be closed licensing agreement deal between the plaintiff and a major U.S. corporation. The court saw these factors as an indication of the increased interest in the patents. Also factored into the calculations was the lack of comparable non-infringing products. The court determined that a 20% royalty based on the defendants' sale would be a just and reasonable royalty in light of the aforementioned factors.

Although some courts have permitted the consideration of the infringer's profit margin in determining a reasonable royalty, this consideration was rejected by the Water Technologies court. It felt that the use of this factor would be a back door into the calculation of damages based on lost profits, a basis of damages

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[57] Water Technologies Corp. v. Calco, Ltd., 714 F. Supp. 899, 906 (N.D. Ill. 1989).

[57] Water Technologies Corp. v. Calco, Ltd., 714 F. Supp. 899, 906 (N.D. Ill. 1989).

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which had earlier in this case been explicitly rejected by the Federal Circuit.[58]

Lost Profits

A shift in focus is now required to complete the picture of damage calculations in patent infringement suits. If a patentee can prove that "but for" the infringer's improper acts, he would have made greater sales, charged higher prices or incurred lower expenses, he is then entitled to be awarded damages in the form of lost profits.[59] The burden of proof on the patentee is one of a reasonable probability.[60] The burden is more easily satisfied when there exists a two-supplier market.

A leading case in determining lost profits, Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.[61], has set out a four-prong test for establishing a reasonable probability that "but for" the sales by the infringer, the sale would have been made by the patentee:

(1) Whether a demand existed for the patented product during the period of infringement;

(2) Whether there was an absence of acceptable manufacturing substitutes for the patented product during the period of infringement;

(3) Whether the patentee had the manufacturing and marketing capabilities to have supplied the patented product to the customers who bought the infringing product;[62]

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[58] Id. at 905.

[59] Bio-Rad Laboratories, Inc. v. Nicolet Instruments Corp., 739 F.2d 604, 616 (Fed. Cir.), cert. denied, 105 S.Ct. 516 (1984).

[60] Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 1065 (Fed. Cir. 1983).

[61] 575 F.2d 1152 (6th Cir. 1978).

[62] Polaroid Corporation v. Eastman Kodak Company, 16 USPQ2d 1481 (D. Mass. 1990) (patentee did not have a presence in certain markets and therefore was precluded from obtaining lost profits for those infringing sales. The award for those sales was based instead on a reasonable royalty).

[62] Polaroid Corporation v. Eastman Kodak Company, 16 USPQ2d 1481 (D. Mass. 1990) (patentee did not have a presence in certain markets and therefore was precluded from obtaining lost profits for those infringing sales. The award for those sales was based instead on a reasonable royalty).

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(4) The amount of profit the patentee would have made on the lost sales.

This test, while not the exclusive method of determining lost profits, is the most frequently utilized and has been approved by the Federal Circuit.[63] One of the most difficult determinations of the four factors may be that of number two (2). The determination of exactly what is or is not an "acceptable substitute" is difficult to establish. Many market, production and sales factors may be considered by a court in making this determination.

Whether a truly "acceptable substitute" ever exists has recently come under scrutiny by the courts. The court in Panduit noted that the "acceptable substitute" must be viewed with some skepticism and reservation considering that an infringer had chosen to risk infringement rather than to use the alternate product.[64]

Pro-Rata Market Share Technique

Once a court determines that lost profits have been proven by the patentee, it will make a determination on the extent of the award based on the patentee's market share. The court will determine what percentage of the pertinent industry is controlled by the patentee. The next step is the determination of the number of sales that the defendant has made of the infringing product. Then, the court will apply the patentee's market share percentage to the number of infringing sales to determine the number of units for which the patentee is entitled to lost profits. The remaining sales made by the infringer are used to calculate a damage award based on a reasonable royalty.

The first use of the pro-rata market share technique was recently made by the Federal Circuit in State Industries, Inc. v. Mor-Flo Industries, Inc.[65] The court determined that the patentee had a 40% market share in the relevant industry and, as a result, held that 40% of the defendants' sales of the infringing product was subject to lost profit damages. The remaining sales made by the defendant (60% of the total infringing sales) were held to be subject to a reasonable royalty

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[63] See Datascope Corp. v. SMEC, Inc., 879 F.2d 820, 822-23 (Fed. Cir. 1989).

[64] See Panduit Corp. v. Stahlin Bros. Fibreworks, Inc., 575 F.2d at 1162.

[65] 883 F.2d 1573, 1577-80 (Fed. Cir. 1989).

[63] See Datascope Corp. v. SMEC, Inc., 879 F.2d 820, 822-23 (Fed. Cir. 1989).

[64] See Panduit Corp. v. Stahlin Bros. Fibreworks, Inc., 575 F.2d at 1162.

[65] 883 F.2d 1573, 1577-80 (Fed. Cir. 1989).

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determination.[66] Assuming lost profits may be proven, this new market share technique may be the wave of the future for determining damages in an infringement action involving a multi-competitor market.

It should be noted that the court's opinion does indicate that the patentee could possibly have had the right to add the market share of other infringers in the industry to its share and to apply that percentage to infringer's portion of the market. The patentee had, however, only asked for its market share as lost profits, and therefore, the court felt it unnecessary to take this measure.[67]

Lost Profits - Other Factors

The range of factors which may be considered in a calculating lost profits can be as broad as those for determining a reasonable royalty. Courts may look at the patentee's product quality, production capabilities and methods, marketing history, related product lines, good-will in the industry, management quality, and price cuts which the patentee made as a result of the infringement. Consideration is also given to world or regional economics, the presence of grey market goods and the desirability of the product in the market. The infringer's actual sales is of course, a top priority in this determination. These are just some of the multitude of factors a court may consider in establishing damages based on lost profits.

Government Funded Research

One final area concerning patent damage awards warrants discussion. This is the law governing government funded research. In considering the licensing of patents from universities, one should keep in mind this area of law and how it may play a role in possible damages determination. The following is a brief outline of the present state of the law in interpreting the patent rights granted under government funded research and development contracts.

Prior to 1980, the licensing and ownership of patents obtained with government funded research was controlled by the individual government agency which provided the funding. In a quest to unify the many different government agency policies and related regulations, Congress, in 1980, enacted the University and Small Business Patent Act 35 U.S.C. § 200 et seq. The policy

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[66] Id.

[67] Id.

related regulations, Congress, in 1980, enacted the University and Small Business Patent Act 35 U.S.C. § 200 et seq. The policy

[66] Id.

[67] Id.

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considerations behind this act were to promote the utilization of inventions arising from federally assisted research; to promote collaboration between commercial concerns and non-profit organizations; and to ensure that the government obtains sufficient rights in federally supported inventions to meet the needs of the government and to protect the public from non-use or an unreasonable use of an invention. The statute underwent modifications in 1984 and 1988.

The statute provides for two possible ownership outcomes. The first is permitting the ownership rights to remain with the inventor. The government, as a result, would be granted an irrevocable, non-exclusive, royalty-free license. The second possibility is that title would vest in the government with the inventor obtaining similar rights as the government gained in the first situation. In the first situation, the subsequent licensing rights and/or duties would rest with the inventor.

Perhaps the most significant section of the statute is the provisions relating to the government's "march-in rights". This is the section within the Act which has best ensured that a government funded patent will benefit society. Under § 203, if a party who has obtained rights under the Act has not licensed the patent in a way which will exploit its benefits, or if a party to whom the patent was licensed is similarly negligent, the government may "march-in" and grant additional licenses. This is a determination made by the agency who granted the research funding. This action may be prosecuted if:

(a) 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;

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

(c) 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

(d) action is necessary because the agreement required by section 204 has not been obtained or waived or because a licensee of the exclusive right to use or sell any

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subject invention in the United States is in breach of its agreement obtained pursuant to section 204.[68]

This section is particularly important when you consider that the licensor may have granted an "exclusive" license to a manufacturer. The government, upon making the requisite determination, may remove the exclusivity of that license. This factor as well as the other statutory rules enacted in this legislation must be kept in mind as possible considerations in a reasonable royalty determination.

[68] 35 U.S.C. § 203. Section 204 deals with a requirement that the licensee's use or manufacture of the patented item will be done "substantially" within the United States.

[68] 35 U.S.C. § 203. Section 204 deals with a requirement that the licensee's use or manufacture of the patented item will be done "substantially" within the United States.

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MEMORANDUM FOR: HONORABLE MALCOLM BALDRIDGE
SECRETARY OF COMMERCE

FROM: DAVID A. STOCKMAN D. A. S.
DIRECTOR

SUBJECT: Assignment of Lead Agency for Implementation of P.L. 96-517

As you may know, we will soon issue a new OMB Circular which provides uniform implementing guidance for the Government patent policy section of Public Law 96-517, "The Patent and Trademark Amendments of 1980." This Act gives nonprofit organizations and small businesses a first right of refusal to title in inventions they have made in performance of Government grants and contracts. The Act takes precedent over approximately 26 conflicting statutory and administrative policies.

Since the Act is a fundamental change in the more traditional policy of Government ownership to inventions made with its support, we believe it is essential that a lead agency be designated to review agency implementing regulations; disseminate and collect information; monitor administrative or compliance measures; evaluate the Act's implementation; and recommend appropriate changes to OMB/OFPP. (A more detailed list of proposed lead agency functions and staffing is provided in Attachment A.)

The Department of Commerce seems the natural choice for assignment of this new lead agency function due to its prior experience and wide ranging interest in technology transfer. productivity, innovation and Government patent policy. In order to take full advantage of Commerce's experience and to support the expansion of the concept of P.L. 96-517 to all recipients of Federal research and development funding, the proposed functions include authority to collect information and recommend policy and regulatory changes that affect recipients beyond those covered by the Act.

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recipients beyond those covered by the Act.

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I hope you will accept the responsibility for the lead agency which we believe will be challenging and rewarding. I would appreciate your designating an official to work with my staff in developing the details necessary to assure smooth implementation of the Circular and the lead agency.

I have designated Don Sowle, the Administrator of the Office of Federal Procurement Policy as my staff focal point, who has responsibilitiy for issuing patent policy regulations implementing P.L. 96-517.

The Director

Donald E. Bowle

SUBJECT: Decision Paper - Assignment of Lead Agency for "Patent & Trademark Amendments Act of 1980" (P.L. 96-517)

Issue

Establishment of uniform regulations implementing the subject Act requires that OMB decide which agency should receive the lead agency assignment to oversee implementation of the law and regulations.

Background

The "Patent and Trademark Amendments Act of 1980" repeals 26 agency statutes and regulations and establishes a set of guidelines for giving universities, non-profit organizations and small businesses the right of first refusal of title to inventions resulting from performance of Government grants and contracts. As noted in the Senate Report accompanying the bill, "patent policies . . . represent a serious impediment to the effective transferral of new technologies." The bill represents "an important first step in turning around the undesirable productivity and innovation slumps that the United States is now experiencing."

On June 3, 1981, the Office of Federal Procurement Policy (OFPP) sought your decision about whether "uniform Government-wide regulations implementing the Act for both procurement and grant transactions (should) be issued by OMB." You concurred, and OFPP, with the support of Intergovernmental Affairs Division (IGA), issued Bulletin 81-22, "Patents--Small Business Firms and Non-Profit Organizations, "setting forth interim regulations with public comments due by September 1. We have completed the assessment of comments received and will soon be submitting a revised Circular for your signature.

soon be submitting a revised Circular for your signature

In order to complete preparation of a Final Circular, the issue of which agency should be assigned lead responsibility must be decided. On the earlier memo cited above, you selected the lead agency alternative rather than other approaches and suggested the Department of Commerce.

Discussion

The Act itself specifies no lead agency, nor does the legislative history indicate any desire for such a mechanism. The Act applies statutory requirements on all Federal agencies generally, with only limited citation of specific agencies for technical or pro forma functions. The following discusses the choices, then recommends that the Department of Commerce be assigned the role.

Relationship to Current Situation. Recently the Congress has stipulated a lead agency to implement a similar bill introduced by Senator Harrison Schmitt (R. -New Mex.). This bill (S. 1657) extends to all private organizations, regardless of size, the rights to patents as are now conferred on small businesses and non-profit organizations. There is a companion measure in the House (H.R. 4564) introduced by Congressman Allen Ertel (D. PA). The Schmitt bill designates Commerce as lead agency, while the Ertel bill cites a special coordinating council. The Administration has testified in support of the Schmitt Lead Agency concept, although reserving to the President the choice of which agency to serve as lead.

Also, the OMB Associate Director for Management has an initiative under way to designate or redesignate lead agency responsibility for all 61 generally applicable requirements tied to assistance programs. Assignment of a lead agency for the new patent requirement is fully consistent with that program.

Lead Agency Selection. To assess which agency should receive the lead, it is necessary to identify the functions that a lead agency would fulfill. In general, the agency would provide advocacy, and assess effectiveness of P.L. 96-517. It would review agency implementing regulations and procedures and disseminate information both within and without Government; evaluate the Act's implementation and recommend

changes to OMB/OFPP; and oversee necessary administrative or other compliance measures. A more detailed list of proposed lead agency functions is shown in Attachment A.

commercialization process. The Justice Department

In light of the foregoing, we have applied the following criteria to assessing which agency to designate:

1. Does the agency have existing responsibilities in any of the following areas:

   a. Patents and patent law;

   b. Technological innovation and commercialization;

   c. Technology transfer;

   d. Small business advocacy?

2. Does the agency have sufficient personnel skilled in the above areas, and in the area of grants and contract monitoring or cross-agency relations?

3. Is the agency likely to be supportive of the law?

4. Could the agency expand to take on a larger policy role regarding patents and innovation if the Administration should so determine?

ssment of Choices. In summary, the following anizations show limited capacity to meet the above criteria:

-- General Services Administration -- GSA has existing responsibilities in the areas of procurement and property management and regulations. It is also geared to deal with a wide variety of agencies. It is argued, however, that GSA is not well suited to leading the effort to translate intellectual property into new commercial enterprises. Further, GSA has neither R & D nor patent programs and would have difficulty in coordinating cabinet-level agencies outside of its Government licensing functions.

-- Department of Justice -- This choice might allow any enforcement function to take on a certain formalistic strength. But our review does not suggest an appropriate affiliation within Justice, and there is reluctance to

our review does not suggest an appropriate affiliation within Justice, and there is reluctance to

attach a litigational mentality to implementing this law. The Department is unlikely to want new functions not directly related to its present law enforcement functions and would have little active interest in the commercialization process. The Justice Department has in the past taken a position against private ownership of patents resulting from Government sponsored R & D.

-- National Science Foundation and HHS. -- These agencies have a strong commitment to basic research and have close connections to the university community, where much basic research and invention takes place. But these agencies are less familiar with the business world, and would not be seen by the business community as an effective advocate of applied research and technology transfer.

-- OMB/-OFPP/-OSTP -- The Executive Office, primarily OFPP, has a statutory role in the law and is well situated to pressure operating agencies not in compliance. It can also serve as a prominent spokesman for efforts to promote innovation. While the Executive Office may be a suitable policy broker and "court of appeals," however, placing the daily implementation burden here would increase the number of operating functions to Presidential staff.

-- Small Business Administration -- This agency has a Chief Counsel for Advocacy with responsibilities in aiding small business innovation. It also has staff dedicated to funneling Government grants and contracts to small business. On the other hand, the agency has little experience with the university and non-profit communities; it also could not naturally expand to cover large businesses should such legislation be enacted. It would have limited clout among Cabinet-level departments.

-- Patent and Trademarks Office -- This office within the Department of Commerce deals principally with the technical merits of patent applications and has little involvement with patent ownership problems, innovation, productivity issues, or broad patent policy issues. The Department of Commerce has recently testified in behalf of strengthening PTO as part of an overall effort to strengthen its patent policy functions, but PTO in its present form could not encompass the lead agency role.

agency function be assigned to the Department of Commerce for the following reasons:

1. The Department has a natural scope and previous experience covering patents, commercial affairs and technological innovation. Critics might argue that it is less experienced in technology transfer and has limited involvement with the academic community (compared to NSF & HHS). However, the Department is moving to strengthen its ability to address issues of productivity and innovation. It is presently reorganizing its economic affairs activities to comprise an Undersecretary for Economic Affairs supervising an Assistant Secretary for Productivity, Technology and Innovation (PTI). Furthermore, OSTP recommends that the academic view, where Commerce is weak, could be strengthened via an advisory group utilizing it's statutorily created FCCSET, as well as NSF.

2. The new Assistant Secretary (PTI) was conceived to use existing staff resources to concentrate on sector analysis of major industries. This would give little attention to technological innovation in the small business and non-profit sectors. As a Cabinet agency already overseeing staffs for small business, patents, promotion of commerce, and industrial analysis, however, the Department is best able of all the candidates to reassign or recruit sufficient staff for the proposed function.

3. Although it may be difficult to oversee such Departments as Defense and Health and Human Services, who may resist intrusion by a lead agency into disposition of their own substantial research programs, a Cabinet agency is more likely to succeed than are other candidates. Even the Executive Office would fail to provide the detailed daily oversight necessary to implement the law. The Assistant Secretary (PTI) could represent this function with suitable rank for most purposes, then have recourse, as necessary, through the Cabinet and working with Executive Office Staff.

4. Commerce has expressed support, in principle, for updating the patent system as an incentive to industrial productivity. The Department has recently requested more

resources to strengthen its patent licensing functions, and the Schmitt bill would definitely require Commerce to take the lead in patent reform.

5. The Schmitt bill exemplifies the possibility for Commerce to grow beyond implementation of the present Act into a broadened strategy for innovation and productivity. Of all the agencies, it is best equipped by size and mission to provide the "line" forces in such an effort.

Decision

OMB assign the lead agency function specifically to the Department of Commerce.

____ Concur; designation letter for OMB Director to sign to Secretary of Commerce is attached.

____ Not concur.

____ Other

Comments

cc:
Official File
DO Records
Mr. Sowle
Mr. Carpenter
OFPP:Chron/Read
OFPP:JCarpenter/12/21/81:bfh

Sample [illegible] Policy Functions

A. Functions Specific to Public Law 96-517:

1. Review agency implementation to determine compliance with the Act and OFPP regulations.

2. Develop formats and procedures for the collection of utilization information from contractors and grantees. Collect and publish utilization information.

3. Provide, as determined necessary, recommendations to OFPP/OMB on changes to Government-wide implementing regulations.

4. As part of carrying out of functions of A.1-3, establish and chair an advisory group or groups, including representatives of the agencies and the grantee/contractor community and other private organizations.

5. Operate the NTIS Government licensing program under the authority of P.L. 96-517 and provide, when determined necessary, recommendatins on improvements that could be made in this area.

B. General Functions

1. Review and evaluate the effectiveness of existing Government policies on the ownership of inventions by Government contractors, and make recommendations to OMB as to how such policies could be improved to more effectively stimulate innovation and productivity.

2. Collect and maintain statistics on Government patent policies and practices to provide a base for policy development and evaluation.

3. Establish and chair an advisory group or groups, including representatives of agencies and performers of Government research, to discuss issues related to Government policies on ownership of inventions made with Government support. FCSSET & NSF should participate.

4. Coordinate administration positions on proposed legislation related to ownership of inventions made with Governmment support.

5. Operate the PTO government-employee invention disposition program and provide, when determined necessary, recommendtions on improvements that could be made in this area.

ownership

5. Operate the PTO government-employee invention disposition program and provide, when determined necessary, recommendtions on improvements that could be made in this area.

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. 82-4359 Filed 2-18-82; 8:45 am]
BILLING CODE 3110-01-M

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,

THE WHITE HOUSE

WASHINGTON

February 18, 1983

MEMORANDUM TO THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

SUBJECT: GOVERNMENT PATENT POLICY

To the extent permitted by law, agency policy with respect to the disposition of any invention made in the performance of a federally-funded research and development contract, grant or cooperative agreement award shall be the same or substantially the same as applied to small business firms and nonprofit organizations under Chapter 38 of Title 35 of the United States Code.

In awards not subject to Chapter 38 of Title 35 of the United States Code, any of the rights of the Government or obligations of the performer described in 35 U.S.C. 202-204 may be waived or omitted if the agency determines (1) that the interests of the United States and the general public will be better served thereby as, for example, where this is necessary to obtain a uniquely or highly qualified performer; or (2) that the award involves co-sponsored, cost sharing, or joint venture research and development, and the performer, co-sponsor or joint venturer is making substantial contribution of funds, facilities or equipment to the work performed under the award.

In addition, agencies should protect the confidentiality of invention disclosure, patent applications and utilization reports required in performance or in consequence of awards to the extent permitted by 35 U.S.C. 205 or other applicable laws.

Ronald Reagan

Ronald Reagan

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 18, 1983

FACT SHEET

President Reagan has today signed a Memorandum to the heads of executive departments and agencies directing, to the extent permitted by law, a revision of the current policy with respect to rights in inventions made during performance of Government research and development contracts, grants or cooperative agreements. This Memorandum directs the agencies to adopt and implement the same or substantially the same policies for all R&D contractors as those set forth in Public Law 96-517 (Chapter 38 of Title 35 of the United States Code) for small businesses and nonprofit organizations. It is intended to achieve more uniform and effective Government-wide policies.

Inventions developed under Government support constitute a valuable national resource. With appropriate incentives, many of these inventions will be further developed commercially by the private sector. The new products and processes that result will improve the productivity of the U.S. economy, create new jobs, and improve the position of the U.S. in world trade. The policy established by the Memorandum is designed to provide such incentives.

Experience has shown that, in most instances, allowing inventing organizations to retain title to inventions made with Federal support is the best incentive to obtain the risk capital necessary to develop technological innovations. The new policy provides that, with limited exceptions, the inventing organizations may retain title to the invention, subject to license rights in the Government which will enable the Government to use the invention in its own programs. The Government will also normally retain the right to "march-in" and require licensing when the inventing organization fails to pursue development of the invention. In addition, the Department of Justice will develop an appropriate safeguard against anticompetitive retentions of title by organizations not subject to Public Law 96-517.

Department of Justice will develop an appropriate safeguard against anticompetitive retentions of title by organizations not subject to Public Law 96-517.

To the extent permitted by law, this Memorandum is applicable to all statutory programs including those that provide that inventions be made available to the public. Those agencies, such as National Aeronautics and Space Administration and the Department of Energy, which continue to operate under statutes which are inconsistent in respects with the Memorandum, are expected to make maximum use of the flexibility available to them to comply with the provisions and spirit of the Memorandum.

In order to promote uniformity, President Reagan has also asked the Director of the Office of Science and Technology Policy through the Federal Coordinating Council for Science, Engineering and Technology to evaluate the effectiveness of the implementation of the Memorandum and make recommendations for revision or modification of the Memorandum, OMB Circular A-124, the Federal Acquisition Regulation, or agency regulations, policies, or practices. The agencies will also provide the Council with data on the disposition and utilization of inventions resulting from their programs and on their use of patent rights clauses, exceptions and waiver authorities.

# # # # # # #

PATENT LAW AMENDMENTS

Mr. DOLE. Mr. President, I ask the Chair lay before the Senate calendar order No. 1016, S. 1538.

The PRESIDING OFFICER. The bill will be stated by title.

The assistant legislative clerk read as follows:

A bill (S. 1538) to amend the patent law of the United States.

The PRESIDING OFFICER. Is there objection to the immediate consideration of the bill?

There being no objection, the Senate proceeded to consider the bill, which had been reported from the Committee on the Judiciary with amendment, as follows:

S. 1538

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Patent Law Amendments of 1983".

SEC. 2. (a) Chapter 14 of title 35, United States Code, is amended by adding at the end thereof the following new section:

"§ 156. [Issuance of patents without examination] *Statutory invention recording*

"(a) Notwithstanding any other provisions of this title, the Commissioner is authorized to [issue a patent on an invention without the examination required by sections 131 and 132 of this title,] *publish a statutory invention registration containing the specification and drawings of a regularly filed application for a patent without examination,* except as may be required to conduct an interference proceeding, to determine compliance with section 112 of this title, or to review for formalities required for printing, if the applicant—

"(1) waives [all remedies with respect to the patent and any reissue thereof, arising under sections 183 and 271 through 289 of this title and under any other provision of Federal law, within such time as the Commissioner specifies, and] *the right to receive a patent on the invention within such period as may be prescribed by the Commissioner, and*

"(2) pays *application, publication and other processing fees* [fees, which may be less than those specified in section 41 of this title, established by the Commissioner for the filing and issuance of such a patent.] *Commissioner.*

"(b) The waiver under this section shall take effect upon [issuance of the patent. No maintenance fees shall be required with respect to patents issued under this section.".] *publication of the statutory invention recording.*

"(c) A statutory invention recording published pursuant to this section shall have all of the attributes specified for patents in this title except those specified in section 183, and sections 271 through 289 of this title. A statutory invention recording shall not have any of the attributes specified for patents in any other title of this Code.".

(b) The analysis for chapter 14 of title 35, United States Code, is amended by adding at the end the following:

"156. [Issuance of patents without examination.".] *Statutory invention recording.".*

(c) The Secretary of Commerce shall convene an inter-agency committee to co-ordinate policy on the use of the statutory invention recording procedure by agencies of the United States. Such policy shall ordinarily require use of the statutory invention recording procedure for inventions as to which the United States may have the right of ownership that do not have commercial potential. The interagency committee shall also, after obtaining views from the public, establish standards for evaluating the commercial potential of inventions to which the government may have the right of ownership. The head of each agency which has a significant research program (as determined by the Secretary of Commerce) shall designate either the senior technology transfer official or the senior research policy official to participate as a member of the interagency committee. The Secretary of Commerce shall report to the Congress annually on the use of statutory invention recordings. Such report shall include an assessment of the degree to which agencies of the Federal Government are making use of the statutory invention recording system, the degree to which it aids the management of federally developed technology, and an assessment of the cost savings to the Federal Government of the use of such procedures.

SEC. 3. Section 134 of title 35, United States Code, is amended by striking out "primary".

[SEC. 4. Section 151 of title 35, United States Code, is amended—

[(1) by amending the second sentence in the first paragraph to read as follows: "The notice shall specify the issue fee which shall be paid within three months thereafter, or within such shorter time, not less than one month, as fixed by the Commissioner in such notice."; and

[(2) by striking out the third paragraph.]

SEC. [5.] *4.* Section 361(d) of title 35, United States Code, is amended by inserting "or within one month [thereafter"] *after such date"* after "application" in the first sentence.

SEC. [6.] *5.* Section 366 of title 35, United States Code, is amended—

(1) by inserting "after the date of withdrawal," after "effect";

(2) by inserting ", unless a claim for the benefit of a prior filing date under section 365(c) of this part was made in a national application, or an international application designating the United States, filed before the date of such withdrawal" before the period at the end of the first sentence; and

(3) by inserting "withdrawn" after "such" in the second sentence.

SEC. [7.] *6.* (a) Section 371(a) of title 35, United States Code, is amended by—

(1) striking out "is" and inserting in lieu thereof "may be"; and

(2) striking out ", except those filed in the Patent Office".

(b) Section 371(b) of title 35, United States Code, is amended to read as follows:

"(b) Subject to subsection (f) of this section, the national stage shall commence with the expiration of the applicable time limit under article 22 (1) or (2) of the treaty.".

(c) Section 371(c)(2) of title 35, United States Code, is amended by—

(1) striking out "received from" and inserting in lieu thereof "communicated by"; and

(2) striking out "verified" before "translation".

(d) Section 371(d) of title 35, United States Code, is amended to read as follows:

"(d) The requirements with respect to the national fee referred to in subsection (c)(1), the translation referred to in subsection (c)(2), and the oath or declaration referred to in subsection (c)(4) of this section shall be complied with by the *date of the* commencement of the national stage or by such later time as may be fixed by the Commissioner. The copy of the international application referred to in subsection (c)(2) shall be submitted by the *date of the* commencement of the national stage. Failure to comply with these requirements shall be regarded as abandonment of the application by the parties thereof, unless it be shown to the satisfaction of the Commissioner that such failure to comply was unavoidable. The payment of a surcharge may be required as a condition [for] *of* accepting the national fee referred to in subsection (c)(1) or the oath or declaration referred to in subsection (c)(4) of this section if these requirements are not met by the *date of the* commencement of the national stage. The requirements of subsection (c)(3) of this section shall be complied with by the *date of the* commencement of the national stage, and failure to do so shall be regarded as a cancellation of the amendments to the claims in the international application made under article 19 of the treaty.".

SEC. [8] *7.* (a) Section 372(b) of title 35, United States Code, is amended by—

(1) striking out the period at the end of paragraph (2) and inserting in lieu thereof a semicolon; and

(2) inserting at the end thereof the following:

"(3) the Commissioner may require a verification of the translation of the international application or any other document pertaining thereto if the application or other document was filed in a language other than English.".

(b) Section 372 of title 35, United States Code, is amended by deleting subsection (c).

SEC. [9.] *8.* Section 376(a) of title 35, United States Code, is amended by striking out paragraph (5) and redesignating paragraph (6) as paragraph (5).

SEC. [10.] *9.* Title 35, United States Code, is amended by striking out "Patent Office" each place it appears and inserting in [its place] *lieu thereof* "Patent and Trademark Office".

SEC. [11.] *10.* Notwithstanding section 2 of the Public Law 96-517, no fee shall be collected for maintaining a plant patent in force.

SEC. 11. (a) Section 7 of title 35, United States Code, is amended to read as follows:

"§ 7. Board of Patent Appeals and Interferences

"The examiners-in-chief shall be persons of competent legal knowledge and scientific ability, who shall be appointed under the classified civil service. The Commissioner, the deputy commissioner, the assistant commissioners, and the examiners-in-chief shall constitute a Board of Patent Appeals and Interferences.

"The Board of Patent Appeals and Interferences shall, on written appeal of an applicant, review adverse decisions of examiners upon applications for patents and shall determine priority and patentability of invention in interferences declared pursuant to section 135(a) of this title. Each appeal and interference shall be heard by at least three members of the Board of Patent Appeals and Interferences, the members to be designated by the Commissioner. The Board of Patent Appeals and Interferences ha sole power to grant rehearings.

"Whenever the Commissioner considers it necessary to maintain the work of the Board of Patent Appeals and Interferences current, he may designate any patent examiner of the primary examiner grade or higher, having the requesite ability, to serve as examiner-in-chief for periods not exceeding six months each. An examiner so designated shall be qualified to act as a member of the Board of Patent Appeals and Interferences. Not more than one such primary examiner shall be a member of the Board of Patent Appeals and Interferences hearing an appeal or

any of the attributes specified for patents in any other title of this Code.".

(b) The analysis for chapter 14 of title 35, United States Code, is amended by adding at the end the following:

"156. [Issuance of patents without examination.".] *Statutory invention recording.".*

(c) The Secretary of Commerce shall convene an inter-agency committee to co-ordinate policy on the use of the statutory invention recording procedure by agencies of the United States. Such policy shall ordinarily require use of the statutory invention recording procedure for inventions as to which the United States may have the right of ownership that do not have commercial potential. The interagency committee shall also, after obtaining views from the public, establish standards for evaluating the commercial potential of inventions to which the government may have the right of ownership. The head of each agency which has a significant research program (as determined by the Secretary of Commerce) shall designate either the senior technology transfer official or the senior research policy official to participate as a member of the interagency committee. The Secretary of Commerce shall report to the Congress annually on the use of statutory invention recordings. Such report shall include an assessment of the degree to which agencies of the Federal Government are making use of the statutory invention recording system, the degree to which it aids the management of federally developed technology, and an assessment of the cost savings to the Federal Government of the use of such procedures.

(2) striking out "verified" before "translation".

(d) Section 371(d) of title 35, United States Code, is amended to read as follows:

"(d) The requirements with respect to the national fee referred to in subsection (c)(1), the translation referred to in subsection (c)(2), and the oath or declaration referred to in subsection (c)(4) of this section shall be complied with by the *date of the* commencement of the national stage or by such later time as may be fixed by the Commissioner. The copy of the international application referred to in subsection (c)(2) shall

"Whenever the Commissioner considers it necessary to maintain the work of the Board of Patent Appeals and Interferences current, he may designate any patent examiner of the primary examiner grade or higher, having the requesite ability, to serve as examiner-in-chief for periods not exceeding six months each. An examiner so designated shall be qualified to act as a member of the Board of Patent Appeals and Interferences. Not more than one such primary examiner shall be a member of the Board of Patent Appeals and Interferences hearing an appeal or

determining an interference. The Secretary of Commerce is authorized to fix the per annum rate of basic compensation of each designated examiner-in-chief in the Patent and Trademark Office at not in excess of the maximum scheduled rate provided for positions at GS-16 pursuant to section 5332 of title 5, United States Code. The per annum rate of basic compensation of each designated examiner-in-chief shall be adjusted, at the close of the period for which he was designated to act as examiner-in-chief, to the per annum rate of basic compensation which he would have been receiving at the close of such period if such designation had not been made.".

(b) The item relating to section 7 in the analysis for chapter 1 of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals".

SEC. 12. Section 41(a)(6) of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals", each place it appears and inserting "in the appeal" after "oral hearing".

SEC. 13. (a) Section 134 of title 35, United States Code, including the section heading, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals" each place it appears.

(b) The item relating to section 134 in the analysis for chapter 12 of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals".

SEC. 14. (a) Section 135(a) of title 35, United States Code, is amended to read as follows:

"(a) Whenever an application is made for a patent which, in the opinion of the Commissioner, would interfere with any pending application, or with any unexpired patent, an interference may be declared and the Commissioner shall give notice thereof to the applicants, or applicant and patentee, as the case may be. The Board of Patent Appeals and Interferences shall determine the priority and patentability of invention in interferences. Any final decision, if adverse to the claim of an applicant, shall constitute the final refusal by the Patent and Trademark Office of the claims involved, and the Commissioner may issue a patent to the applicant who is adjudged the prior inventor. A final judgment adverse to a patentee from which no appeal or other review has been or can be taken or had shall constitute cancellation of the claims of the patent, and notice thereof shall be endorsed on copies of the patent thereafter distributed by the Patent and Trademark Office.".

(b) Section 135(b) of title 35, United States Code, is amended by striking out "may" and inserting in lieu thereof "shall".

SEC. 15. Section 141 of title 35, United States Code, is amended to read as follows:

"§ 141. Appeal to court of appeals for the Federal circuit

"An applicant dissatisfied with the decision in an appeal to the Board of Patent Appeals and Interferences under section 134 of this title may appeal to the United States Court of Appeals for the Federal Circuit, thereby waiving his right to proceed under section 145 of this title. A party to an interference dissatisfied with the decision of the Board of Patent Appeals and Interferences may appeal to the United States Court of Appeals for the Federal Circuit, but such appeal shall be dismissed if any adverse party to such interference, within twenty days after the appellant has filed notice of appeal according to section 142 of this title, files notice with the Commisisoner that he elects to have all further proceedings conducted as provided in section 146 of this title. Thereupon the appellant shall have thirty days thereafter within which to file a civil action under section 146, in default of which the decision appealed from shall govern the further proceedings in the case.".

SEC. 16. Section 145 of title 35, United States Code, is amended—

(1) by inserting "Board of Patent Appeals and Interferences in an appeal under section 134 of this title" in lieu of "Board of Appeals" in the first sentence; and

(2) by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals" in the second sentence.

SEC. 17. Section 146 of title 35, United States Code, is amended by striking "board of patent interferences on the question of priority" and inserting in lieu thereof "Board of Patent Appeals and Interferences".

SEC. 18. Section 305 of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals".

SEC. 19. Section 1295(a)(4)(A) of title 28, United States Code, is amended by striking out "Appeals or the Board of Patent" and inserting in lieu thereof "Patent Appeals and".

SEC. 20. Section 152 of the Atomic Energy Act of 1954 (42 U.S.C. 2182), is amended by striking out "a Board of Patent Interferences" and inserting in lieu thereof "the Board of Patent Appeals and Interferences", and by striking out "the Board of Patent Interferences" and inserting in lieu thereof "the Board of Patent Appeals and Interferences".

SEC. 21. (a) Section 305(d) of the National Aeronautics and Space Act of 1952 (42 U.S.C. 2457(d)) is amended by—

(1) striking out "Patent" in the title and inserting in lieu thereof "Patent Appeals and",

(2) striking out "a Board of Patent Interferences" and inserting in lieu thereof "the Board of Patent Appeals and Interferences", and

(3) striking out "the Board of Patent Interferences" and inserting in lieu thereof "the Board of Patent Appeals and Interferences".

(b) Section 305(e) of the National Aeronautics and Space Act of 1958 (42 U.S.C. 2457(e)) is amended by striking out "a Board of Patent Interferences" and inserting in lieu thereof "the Board of Patent Appeal and Interferences".

SEC. 22. The examiners-in-chief of the Board of Appeals and the examiners of interferences of the Board of Patent Interference on the effective date of this Act shall continue in office as members of the Board of Patent Appeals and Interferences.

SEC. 23. Section 3 of title 35, United States Code, is amended by adding at the end thereof the following:

"(e) The members of the Trademark Trial and Appeal Board of the Patent and Trademark Office shall receive compensation equal to that paid a GS-16 under the General Schedule contained in section 5332 of title 5, United States Code.".

SEC. [12] *24.* (a) Sections [10]*9* and [11]*10* of the Act shall take effect upon the date of enactment.

(b) Sections 1 through 9 *8* of this Act shall take effect [six]*three* months after the date of enactment.

(c) Sections 11 through 23 of this Act shall take effect three months after the date of enactment.

The amendments were agreed to.

The bill was ordered to be engrossed for the third reading, read the third time, and passed.

Mr. DOLE. Mr. President, I ask unanimous consent the committee amendments be agreed to.

The PRESIDING OFFICER. Without objection, it is so ordered.

AMENDMENT NO. 3382

(Purpose: To extend the patent on certain drug products)

Mr. DOLE. Mr. President, I send an amendment to the desk on behalf of Senator Thurmond and ask for its immediate consideration.

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk read as follows:

The Senator from Kansas [Mr. DOLE], on behalf of Mr. THURMOND, proposes an amendment numbered 3382.

Mr. DOLE. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

Redesignate section 24 as section 25.

Between section 23 and section 25, as redesignated, insert the following new section:

SEC. 24. (a) Title 35 of the United States Code is amended by adding immediately following section 155 the following new section:

"§ 155A. Patent extension.

"(a) Notwithstanding section 154 of this title, the term of any patent which encompasses within its scope a composition of matter which is a new drug product, if such new drug product is subject to the labeling requirements for oral hypoglycemic drugs of the sulfonylurea class as promulgated by the Food and Drug Administration in its final rule of March 22, 1984 (FR Doc. 84-9640) and was approved by the Food and Drug Administration for marketing after promulgation of such final rule and prior to the date of enactment of this law, shall be extended until April 21, 1992.

"(b) The patentee or licensee or authorized representative of any patent described in such subsection (a) shall, within ninety days after the date of enactment of such subsection, notify the Commissioner of Patents and Trademarks of the number of any patent so extended. On receipt of such notice, the Commissioner shall confirm such extension by placing a notice thereof in the official file of such patent and publishing an appropriate notice of such extension in the Official Gazette of the Patent and Trademark Office.".

(b) The table of sections for chapter 14 of title 35, United States Code is amended by adding after the item relating to section 155 the following new item:

"155A. Patent extension.".

Section 25(a) of the bill, as redesignated, is amended by striking out "9 and 10" and inserting in lieu thereof "9, 10, and 24".

Mr. THURMOND. Mr. President, the amendment which I am offering to S. 1538 would provide a limited patent term extension for certain oral antidiabetic drugs.

The drugs affected by this amendment were issued approvable letters by the FDA relating to their safety and effectiveness during the 1970's. Final approval was withheld while the FDA completed its rulemaking procedures

"An applicant dissatisfied with the decision in an appeal to the Board of Patent Appeals and Interferences under section 134 of this title may appeal to the United States Court of Appeals for the Federal Circuit, thereby waiving his right to proceed under section 145 of this title. A party to an interference dissatisfied with the decision of the Board of Patent Appeals and Interferences may appeal to the United States Court of Appeals for the Federal Circuit, but such appeal shall be dismissed if any adverse party to such interference, within twenty days after the appellant has filed notice of appeal according to section 142 of this title, files notice with the Commisisoner that he elects to have all further proceedings conequal to that paid a GS-16 under the General Schedule contained in section 5332 of title 5, United States Code.".

SEC. [12] *24.* (a) Sections [10]*9* and [11]*10* of the Act shall take effect upon the date of enactment.

(b) Sections 1 through 9 *8* of this Act shall take effect [six]*three* months after the date of enactment.

(c) Sections 11 through 23 of this Act shall take effect three months after the date of enactment.

The amendments were agreed to.

The bill was ordered to be engrossed for the third reading, read the third time, and passed.

Section 25(a) of the bill, as redesignated, is amended by striking out "9 and 10" and inserting in lieu thereof "9, 10, and 24".

Mr. THURMOND. Mr. President, the amendment which I am offering to S. 1538 would provide a limited patent term extension for certain oral antidiabetic drugs.

The drugs affected by this amendment were issued approvable letters by the FDA relating to their safety and effectiveness during the 1970's. Final approval was withheld while the FDA completed its rulemaking procedures

with respect to class labeling for all oral antidiabetic drugs, which were begun in 1970. Despite the best efforts of the patent holders to cooperate and expedite these proceedings, they were not completed until earlier this year. One of the affected companies lost 10 years of patent protection because of these prolonged proceedings and, in the absence of a remedy, would only have 2 years of exclusive marketability left.

This amendment would provide partial relief to the companies affected by the lengthy rulemaking delay by extending their patents until April 21, 1992. This would amount to not more than approximately 6 years of additional patent protection. Thus, the patent holders would enjoy an effective patent life equivalent to that enjoyed by the average drug patent holder.

Mr. President, this provision is similar in its goal to those enacted with respect to aspertame and forane. U.S. patent law is designed to reward inventors for their innovation and investment, and to provide future incentives for research into new areas of technology and medicine. Accordingly, this patent term restoration, like the others, will afford affected parties the normal protections conferred by the patent laws on the drug industry.

The PRESIDING OFFICER. Is there further debate on the amendment? If not, the question is on agreeing to the amendment.

The amendment (No. 3382) was agreed to.

AMENDMENT NO. 3383

(Purpose: To amend the Textile Fiber Products Identification Act and the Wool Products Labeling Act of 1939 to improve the labeling of textile fiber and wool products)

Mr. DOLE. Mr. President, I send an amendment to the desk and ask for its immediate consideration.

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk read as follows:

The Senator from Kansas [Mr. DOLE], for Mr. THURMOND and Mr. HOLLINGS, proposes an amendment numbered 3383.

Mr. DOLE. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendments is as follows:

At the end of the bill insert the following new title:

TITLE—

SEC. . This title may be cited as the "Textile Fiber and Wool Products Identification Improvement Act".

SEC. 2. Subsection (b) of section 4 of the Textile Fiber Products Identification Act (15 U.S.C. 70b(b)) is amended by adding at the end thereof the following new paragraph:

"(5) If it is a textile fiber product processed or manufactured in the United States, it be so identified.".

SEC. 3. Subsection (e) of section 4 of the Textile Fiber Products Identification Act (15 U.S.C. 70b(e)) is amended to read as follows:

"(e) For purposes of this Act, in addition to the textile fiber products contained therein, a package of textile fiber products intended for sale to the ultimate consumer shall be misbranded unless such package has affixed to it a stamp, tag, label, or other means of identification bearing the information required by subsection (b), with respect to such contained textile fiber products, or is transparent to the extent it allows for the clear reading of the stamp, tag, label, or other means of identification on the textile fiber product, or in the case of hoisery items, this section shall not be construed as requiring the affixing to a stamp, tag, label, or other means of identification to each hoisery product contained in a package if (1) such hosiery products are intended for sale to the ultimate consumer in such package, (2) such package has affixed to it a stamp, tag, label, or other means of identification bearing, with respect to the hosiery products contained therein, the information required by subsection (b), and (3) the information on the stamp, tag, label, or other means of identification affixed to such package is equally applicable with respect to each textile fiber product contained therein.".

SEC. 4. Section 5 of the Textile Fiber Products Identification Act (15 U.S.C. 70b) is amended by adding at the end thereof the following new subsections:

"(i) For the purposes of this Act, a textile fiber product shall be considered to be falsely or deceptively advertised in any mail order catalog or mail order promotional material which is used in the direct sale or direct offering for sale of such textile fiber product, unless such textile fiber product description states in a clear and conspicuous manner that such textile fiber product is processed or manufactured in the United States, or imported, or both.

"(j) For purposes of this Act, a textile fiber product shall be misbranded if a stamp, tag, label, or other identification conforming to the requirements of this section is not on or affixed to the inside center of the neck midway between the shoulder seams, or if such product does not contain a neck in the most conspicuous place on the inner side of such product, unless it is on or affixed on the outer side of such product, or in the case of hosiery items on the outer side of such product or package.".

SEC. 5. Paragraph (2) of section 4(a) of the Wool Products Labeling Act of 1939 (15 U.S.C. 68b(a)(2)) is amended by adding at the end thereof the following new subparagraphs:

(D) the name of the country where processed or manufactured.".

SEC. 6. Section 4 of the Wool Products Labeling Act of 1939 (15 U.S.C. 68b) is amended by adding at the end thereof the following new subsections:

"(e) For the purposes of this Act, a wool product shall be considered to be falsely or deceptively advertised in any mail order promotional material which is used in the direct sale or direct offering for sale of such wool product, unless such wool product description states in a clear and conspicuous manner that such wool product is processed or manufactured in the United States, or imported, or both.

"(f) For purposes of this Act, a wool product shall be misbranded if a stamp, tag, label, or other identification conforming to the requirements of this section is not on or affixed to the inside center of the next midway between the shoulder seams, of if such product does not contain a neck in the most conspicious place on the inner side of such product, unless it is on or affixed on the outer side of such product or in the case of hosiery items, on the outer side of such product or package.".

SEC. 7. Section 5 of the Wool Products Labeling Act of 1939 (15 U.S.C. 68c) is amended—

(1) by striking out "Any person" in the first paragraph and inserting in lieu thereof "(a) Any person";

(2) by striking out "Any person" in the second paragraph and inserting in lieu thereof "(b) Any person"; and

(3) by inserting after subsection (b) (as designated by this section) the following new subsection:

"(c) For the purposes of subsections (a) and (b) of this section, any package of wool products intended for sale to the ultimate consumer shall also be considered a wool product and shall have affixed to it a stamp, tag, label, or other means of identification bearing the information required by section 4, with respect to the wool products contained therein unless such package of wool products is transparent to the extent that it allows for the clear reading of the stamp, tag, label, or other means of identification affixed to the wool product, or in the case of hosiery items this section shall not be construed as requiring the affixing of a stamp, tag, label, or other means of identification to each hosiery product contained in a package if (1) such hosiery products are intended for sale to the ultimate consumer in such package, (2) such package has affixed to it a stamp, tag, label, or other means of identification bearing, with respect to the hosiery products contained therein, the information required by subsection (4), and (3) the information on the stamp, tag, label, or other means of identification affixed to such package is eqully applicable with respect to each hosiery product contained therein.".

SEC. 8. The amendments made by this Act shall be effective 90 days after the date of enactment of this Act.

Mr. THURMOND. Mr. President, this amendment pertains to proper labeling of textile/apparel products.

I originally introduced this amendment as S. 1816 in an effort to strengthen domestic law as it relates to country of origin labeling requirements for textile and apparel products. While present law requires country of origin marking on textile products entering the United States, there have been increasing instances where textile and apparel products are entering the United States in violation of domestic labeling laws.

One of the major problems in the effectiveness of existing law is the fact that labels are often placed in inconspicuous places. This bill would designate that the label be attached to the neck of the garment if applicable, or if the garment does not contain a neck, to the most conspicuous place on the inner side of the foreign made textile/apparel product. This will allow easy identification of the label by consumers and will help with enforcement of present textile agreements.

My bill will also require that textile/apparel products produced in this country carry origin labels. Since there is no present law which requires American-made textile and apparel products to be labeled as such, foreign textile/apparel products that are mis-

TITLE—

SEC. . This title may be cited as the "Textile Fiber and Wool Products Identification Improvement Act".

SEC. 2. Subsection (b) of section 4 of the Textile Fiber Products Identification Act (15 U.S.C. 70b(b)) is amended by adding at the end thereof the following new paragraph:

"(5) If it is a textile fiber product processed or manufactured in the United States, it be so identified.".

SEC. 3. Subsection (e) of section 4 of the Textile Fiber Products Identification Act (15 U.S.C. 70b(e)) is amended to read as follows:

"(e) For purposes of this Act, in addition to the textile fiber products contained therein, a package of textile fiber products intended for sale to the ultimate consumer shall be misbranded unless such package has affixed to it a stamp, tag, label, or other means of identification bearing the information required by subsection (b), with respect to such contained textile fiber products, or is transparent to the extent it allows for the clear reading of the stamp, tag, label, or other means of identification on the textile fiber product, or in the case of hoisery items, this section shall not be construed as requiring the affixing to a stamp, tag, label, or other means of identification to each hoisery product contained in a package if (1) such hosiery products are intended for sale to the ultimate consumer in such package, (2) such package has affixed to it a stamp, tag, label, or other means of identification bearing, with respect to the hosiery products contained therein, the information required by subsection (b), and (3) the information on the stamp, tag, label, or other means of identification affixed to such package is equally applicable with respect to each textile fiber product contained therein.".

to the most conspicuous place on the inner side of the foreign made textile/apparel product. This will allow easy identification of the label by consumers and will help with enforcement of present textile agreements.

My bill will also require that textile/apparel products produced in this country carry origin labels. Since there is no present law which requires American-made textile and apparel products to be labeled as such, foreign textile/apparel products that are mis-

branded are often mistaken for American-made products.

Another provision of the bill will require that, in the case of bulk packaging of textile products, both the package, as well as the garments within be labeled as to country of origin.

The final major feature of this legislation would mandate that mail order catalog sale descriptions contain country of origin information. A large portion of all textile/apparel products sold in this country are purchased through mail order catalog-type systems. Through these mail order transactions, the consumer does not have access to country of origin information for textile/apparel products at the actual point of purchase.

Reports have shown that U.S. consumers prefer to buy American-made textile products. My legislation will simply allow consumers to better identify the products they wish to purchase.

Mr. President, it is most important for this legislation to be approved by the full Senate and signed into law as soon as possible. The domestic textile, fiber and apparel complex employs over 2 million Americans nationwide. This industry provides more jobs than the U.S. auto and steel industries combined. Unfortunately, the U.S. textile/apparel industry is suffering through its most severe crisis in recent history. Textile/apparel imports from low-wage paying countries, such as the People's Republic of China, Taiwan, and Hong Kong, have flooded our markets and displaced thousands of American workers.

In 1983, imports of textile/apparel products increased 25 percent over 1982. For the first 4 months of 1984, textile/apparel imports were up 49 percent over the same period in 1983. Last year's trade deficit for textiles and apparel was $10.6 billion—15 percent of the entire U.S. trade deficit, which totaled $69.3 billion. Finally, over the past 7 years, 413,000 textile and apparel jobs have been lost in this country. While this legislation will not correct all the problems confronting our domestic textile/apparel industry, it is a positive step toward preserving one of America's most vital and strategically important industries.

Mr. President, S.1816 was unanimously approved by the Senate Commerce, Science, and Transportation Committee on June 13, 1984. I ask unanimous consent that a list displaying the numerous textile/apparel related associations that fully support this bill be printed in the RECORD following my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See Exhibit 1.)

Mr. THURMOND. Before concluding, Mr. President, I should like to thank the 22 Member of this body who chose to cosponsor S.1816. I would also like to especially thank Senators PACKWOOD and KASTEN, and their very capable committee staff members, for their invaluable assistance on this legislation during its review by the Commerce Committee.

In closing, Mr. President, I strongly believe that this bill is a positive step toward stabilizing the jobs of the over 2 million Americans employed in the textile, fiber, and apparel complex, and I hope that the Senate will give this legislation the strong vote of approval which it merits.

EXHIBIT 1

Amalgamated Clothing & Textile Workers Union.
American Apparel Manufacturers Association.
American Textile Manufacturers Institute.
American Yarn Spinners Association.
Clothing Manufacturers Association of America.
International Ladies' Garment Workers Union.
Knitted Textile Association.
Luggage & Leather Goods Manufacturers of America.
Man-Made Fiber Producers Association, Inc.
National Association of Hosiery Manufacturers.
National Association of Uniform Manufacturers.
National Cotton Council of America.
National Knitwear Manufacturers Association.
National Knitwear & Sportswear Association.
National Wool Growers Association.
Neckwear Association of America.
Northern Textile Association.
Textile Distributors Association, Inc.
Work Glove Manufacturers Association.

Mr. HOLLINGS. Mr. President, as a cosponsor of the original S. 1816 and this amendment, I hope the Senate will give swift approval to this legislation. Perhaps then President Reagan will begin to understand the depth of concern over what is happening to America's textile apparel industry and its workers. Perhaps then President Reagan will begin to carry out candidate Reagan's 1980 pledge to help our Nation's textile workers. If this legislation, which I was pleased to help expedite through the Commerce Committee, manages to win the attention of the administration, it will be one giant step for our beleaguered textile and apparel workers.

Unfortunately, this amendment does not come close to getting at the nub of the problem. In fact, we already have origin labeling requirements on the books in existing tariff legislation. But our President has chosen to ignore them. When we talk about "buy American and save American jobs," I get a feeling of having been there before, because that is exactly the problem we addressed 25 years ago when Congress passed the Textile Fiber Products Identification Act. The requirements contained in that legislation—while they do not go quite so far in all instances as the provisions of S. 1816—would, if enforced, obviate the need for S. 1816. The point is that the President is refusing to use the weapons Congress has already given him to combat the illegal trade practices of our foreign competition and to level the field of play. He does so because he is captive to a thoroughly discredited "free trade" policy coming from the State Department and from the huge multinational conglomerates who could not care less about American jobs.

If this administration—or for that matter any recent administration—was serious about saving textile jobs, it could start by enforcing existing laws against mislabeling, against dumping, and against the many other illegal trade practices being used against the United States.

The problem is that we do not have trade policy in this country. There's a trade war going on out there and our Government sits blithely in the bleachers—watching. Instead of competing, we stand by as our industries and jobs get picked off. Other countries are using every weapon at their command—subsidies, licensing requirements, tax rebates, inspection practices, artificial currency rates, and so on to close their markets to us while we open our markets to them. Is it any wonder we are not doing better? And the President has recently had his trade people up here talking to Senators and Congressmen in an attempt to broaden the President's tariff-cutting authority so we can export more jobs. It is just unbelievable.

In 1980, candidate Ronald Reagan made a commitment to relate the growth of textile imports to the growth of the domestic market. The figures show he has reneged on that promise. Our textile apparel trade deficit has more than doubled in the 3 years of this administration, soaring from $4 billion in 1980 to $10.6 billion in 1983. And the situation is rapidly getting worse. So far this year, textile-apparel imports are running more than 45 percent ahead of last year. Just this spring, three more mills were shut down in South Carolina alone.

There is no secret to how we should control the textile import tide. A President who understood trade and the threat to American jobs could stem the flow in short order. First, he would suggest global quotas, setting a limit on what we allow into our market. Second, he would enforce the laws already on the books to safeguard against dumping and all those other illegal trade practices.

The amendment before us today does not take that approach. Frankly, I am concerned that when this measure passes, it will serve no greater purpose than to give politicians cause to thump our chests and carry on about how we've done something great for the textile industry. But let us not kid ourselves. Even if we are fortunate enough to get it passed, signed, and on the books, it will not markedly slow the rising tide of textile and apparel imports. Because chances are the President will simply ignore this label-

ing the numerous textile/apparel related associations that fully support this bill be printed in the RECORD following my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See Exhibit 1.)

Mr. THURMOND. Before concluding, Mr. President, I should like to thank the 22 Member of this body who chose to cosponsor S.1816. I would also like to especially thank Senators PACKWOOD and KASTEN, and their very capable committee staff

feeling of having been there before, because that is exactly the problem we addressed 25 years ago when Congress passed the Textile Fiber Products Identification Act. The requirements contained in that legislation—while they do not go quite so far in all instances as the provisions of S. 1816—would, if enforced, obviate the need for S. 1816. The point is that the President is refusing to use the weapons Congress has already given him to combat the illegal trade practices of

I am concerned that when this measure passes, it will serve no greater purpose than to give politicians cause to thump our chests and carry on about how we've done something great for the textile industry. But let us not kid ourselves. Even if we are fortunate enough to get it passed, signed, and on the books, it will not markedly slow the rising tide of textile and apparel imports. Because chances are the President will simply ignore this label-

ing law just as he has ignored the other labeling laws already passed.

Mr. President, the American textile worker is the most productive in the world. American mills are the most modern. We can compete not only in the home market, but overseas—if the field of trade is level and fair. But our Government refuses to lend a hand. That is why textile jobs are needlessly disappearing—not because of mislabling, but because of misgovernment.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment (No. 3383) was agreed to.

AMENDMENT NO. 3384

(Purpose: To make technical amendments)

Mr. DOLE. Mr. President, I send a technical amendment to the desk, on behalf of Mr. MATHIAS.

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk read as follows:

The Senator from Kansas (Mr. DOLE), for Mr. MATHIAS, proposes an amendment numbered 3384.

Mr. DOLE. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with.

The PRESIDING OFFICER. (Mr. RUDMAN). Without objection, it is so ordered.

The amendment is as follows:

Section 156(a) of such title 35, United States Code, as added by section 2(a) of the bill is amended in the first sentence by striking out "registration" after "statutory invention" and inserting in lieu thereof "recording",

Section 156(c) of such title 35, as added by section 2(a) is amended by striking out the final quotation marks and final period.

Section 156 of such title 35 is further amended by adding at the end thereof the following new subsection:

"(d) The secretary of Commerce shall convene an interagency committee to coordinate policy on the use of the statutory invention recording prpcedure by agencies of the United States. Such policy shall ordinarily require use of the statutroy invention recording procedure for inventions as to which the United States may have the right of ownership that do not have commercial potential. The interagency committee shall also, after obtaining views from the public, establish standards for evaluating the commercial potential of inventions to which the government may have the right of ownership. The head of each agency which has a significant research program (as determined by the Secretary of Commerce) shall designate either the senior technology transfer official or the senior research policy official to participate as a member of the interagency committee. The Secretary of Commerce shall report to the Congress annually on the use of statutory invention recordings. Such report shall include an assessment of the degree to which agencies of the Federal Government are making use of the statutory invention recording system, the degree to which it aids the management of federally developed techonlogy, and an assessment of the cost savings to the Federal Government of the use of such procedures".

Redesignate section 2 (c) of the bill.

Section 21 (a) of the bill is amended by striking out paragraph (1) and redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment (No. 3384) was agreed to.

The PRESIDING OFFICER. The bill is open to further amendment. If there be no further amendment to be proposed, the question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading, was read the third time, and passed, as follows:

S. 1538

Be it enacted by the Senate and House of Representative of the United States of America in Congress assembled,

TITLE I—PATENT LAW

SEC. 101. This title may be cited as the "Patent Law Amendments of 1984".

SEC. 102. (a) Chapter 14 of title 35, United States Code, is amended by adding at the end thereof the following new section:

"§ 156. Statutory invention recording

"(a) Notwithstanding any other provisions of this title, the Commissioner is authorized to publish a statutory invention recording containing the specification and drawings of a regularly filed application for a patent without examination, except as may be required to conduct an interference proceeding, to determine compliance with section 112 of this title, or to review for formalities required for printing, if the applicant—

"(1) waives the right to receive a patent on the invention within such period as may be prescribed by the Commissioner, and

"(2) pays application, publication and other processing fees Commissioner.

"(b) The waiver under this section shall take effect upon publication of the statutory invention recording.

"(c) A statutory invention recording published pursuant to this section shall have all of the attributes specified for patents in this title except those specified in section 183, and sections 271 through 289 of this title. A statutory invention recording shall not have any of the attributes specified for patents in any other title of this Code.

"(d) The Secretary of Commerce shall convene an interagency committee to coordinate policy on the use of the statutory invention recording procedure by agencies of the United States. Such policy shall ordinarily require use of the statutory invention recording procedure for inventions as to which the United States may have the right of ownership that do not have commercial potential. The interagency committee shall also, after obtaining views from the public, establish standards for evaluating the commercial potential of inventions to which the government may have the right of ownership. The head of each agency which has a significant research program (as determined by the Secretary of Commerce) shall designate either the senior technology transfer official or the senior research policy official to participate as a member of the interagency committee. The Secretary of Commerce shall report to the Congress annually on the use of statutory invention recordings. Such report shall include an assessment of the degree to which agencies of the Federal Government are making use of the statutory invention recording system, the degree to which it aids the management of federally developed technology, and an assessment of the cost savings to the Federal Government of the use of such procedures".

SEC. 103. Section 134 of title 35, United States Code, is amended by striking out "primary".

SEC. 104. Section 361(d) of title 35, United States Code, is amended by inserting "or within one month after such date" after "application" in the first sentence.

(b) The analysis for chapter 14 of title 35, United States Code, is amended by adding at the end the following:

SEC. 105. Section 366 of title 35, United States Code, is amended—

(1) by inserting "after the date of withdrawal," after "effect";

(2) by inserting ", unless a claim for the benefit of a prior filing date under section 365(c) of this part was made in a national application, or an international application designating the United States, filed before the date of such withdrawal" before the period at the end of the first sentence; and

(3) by inserting "withdrawn" after "such" in the second sentence.

SEC. 106. (a) Section 371(a) of title 35, United States Code, is amended by—

(1) striking out "is" and inserting in lieu thereof "may be"; and

(2) striking out ", except those filed in the Patent Office".

(b) Section 371(b) of title 35, United States Code, is amended to read as follows:

"(b) Subject to subsection (f) of this section, the national stage shall commence with the expiration of the applicable time limit under article 22 (1) or (2) of the treaty.".

(c) Section 371(c)(2) of title 35, United States Code, is amended by—

(1) striking out "received from" and inserting in lieu thereof "communicated by"; and

(2) striking out "verified" before "translation".

(d) Section 371(d) of title 35, United States Code, is amended to read as follows:

"(d) The requirements with respect to the national fee referred to in subsection (c)(1), the translation referred to in subsection (c)(2), and the oath or declaration referred to in subsection (c)(4) of this section shall be complied with by the date of the commencement of the national stage or by such later time as may be fixed by the Commissioner. The copy of the international application referred to in subsection (c)(2) shall be submitted by the date of the commencement of the national stage. Failure to comply with these requirements shall be regarded as abandonment of the application by the parties thereof, unless it be shown to the satisfaction of the Commissioner that such failure to comply was unavoidable. The payment of a surcharge may be required as a condition of accepting the national fee referred to in subsection (c)(1) or the oath or declaration referred to in subsection (c)(4) of this section if these requirements are not met by the date of the commencement of the national stage. The requirements of subsection (c)(3) of this section shall be complied with by the date of the commencement of the national stage, and failure to do so shall be regarded as a cancellation of the amendments to the claims in the international application made under article 19 of the treaty.".

SEC. 107. (a) Secion 372(b) of title 35, United States Code, is amended by—

(1) striking out the period at the end of paragraph (2) and inserting in lieu thereof a semicolon; and

(2) inserting at the end thereof the following:

"(3) the Commissioner may require a verification of the translation of the international application or any other document pertaining thereto if the application or

committee. The Secretary of Commerce shall report to the Congress annually on the use of statutory invention recordings. Such report shall include an assessment of the degree to which agencies of the Federal Government are making use of the statutory invention recording system, the degree to which it aids the management of federally developed techonlogy, and an assessment of the cost savings to the Federal Government of the use of such procedures".

Redesignate section 2 (c) of the bill.

Section 21 (a) of the bill is amended by striking out paragraph (1) and redesignating

nate either the senior technology transfer official or the senior research policy official to participate as a member of the interagency committee. The Secretary of Commerce shall report to the Congress annually on the use of statutory invention recordings. Such report shall include an assessment of the degree to which agencies of the Federal Government are making use of the statutory invention recording system, the degree to which it aids the management of federally developed technology, and an assessment of the cost savings to the Federal Government of the use of such procedures".

amendments to the claims in the international application made under article 19 of the treaty.".

SEC. 107. (a) Secion 372(b) of title 35, United States Code, is amended by—

(1) striking out the period at the end of paragraph (2) and inserting in lieu thereof a semicolon; and

(2) inserting at the end thereof the following:

"(3) the Commissioner may require a verification of the translation of the international application or any other document pertaining thereto if the application or

other document was filed in a language other than English.".

(b) Section 372 of title 35, United States Code, is amended by deleting subsection (c).

SEC. 108. Section 376(a) of title 35, United States Code, is amended by striking out paragraph (5) and redesignating paragraph (6) as paragraph (5).

SEC. 109. Title 35, United States Code, is amended by striking out "Patent Office" each place it appears and inserting in lieu thereof "Patent and Trademark Office".

SEC 110. Notwithstanding section 2 of Public Law 96-517, no fee shall be collected for maintaining a plant patent in force.

SEC. 111. (a) Section 7 of title 35, United States Code, is amended to read as follows:

"§ 7. Board of Patent Appeals and Interferences

"The examiners-in-chief shall be persons of competent legal knowledge and scientific ability, who shall be appointed under the classified civil service. The Commissioner, the deputy commissioner, the assistant commissioners, and the examiners-in-chief shall constitute a Board of Patent Appeals and Interferences.

"The Board of Patent Appeals and Interferences shall, on written appeal of an applicant, review adverse decisions of examiners upon applications for patents and shall determine priority and patentability of invention in interferences declared pursuant to section 135(a) of this title. Each appeal and interference shall be heard by at least three members of the Board of Patent Appeals and Interferences, the members to be designated by the Commissioner. The Board of Patent Appeals and Interferences has sole power to grant rehearings.

"Whenever the Commissioner considers it necessary to maintain the work of the Board of Patent Appeals and Interferences current, he may designate any patent examiner of the primary examiner grade or higher, having the requisite ability, to serve as examiner-in-chief for periods not exceeding six months each. An examiner so designated shall be qualified to act as a member of the Board of Patent Appeals and Interferences. Not more than one such primary examiner shall be a member of the Board of Patent Appeals and Interferences hearing an appeal or determining an interference. The Secretary of Commerce is authorized to fix the per annum rate of basic compensation of each designated examiner-in-chief in the Patent and Trademark Office at not in excess of the maximum schedule rate provided for positions at GS-16 pursuant to section 5332 of title 5, United States Code. The per annum rate of basic compensation of each designated examiner-in-chief shall be adjusted, at the close of the period for which he was designated to act as examiner-in-chief, to the per annum rate of basic compensation which he would have been receiving at the close of such period if such designation had not been made.".

(b) The item relating to section 7 in the analysis for chapter 1 of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals".

SEC. 112. Section 41(a)(6) of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals", each place it appears and inserting "in the appeal" after "oral hearing".

SEC. 113. (a) Section 134 of title 35, United States Code, including the section heading, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals" each place it appears.

(b) The item relating to section 134 in the analysis for chapter 12 of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals".

SEC. 114. (a) Section 135(a) of title 35, United States Code, is amended to read as follows:

"(a) Whenever an application is made for a patent which, in the opinion of the Commissioner, would interfere with any pending application, or with any unexpired patent, an interference may be declared and the Commissioner shall give notice thereof to the applicants, or applicant and patentee, as the case may be. The Board of Patent Appeals and Interferences shall determine the priority and patentability of invention in interferences. Any final decision, if adverse to the claim of an applicant, shall constitute the final refusal by the Patent and Trademark Office of the claims involved, and the Commissioner may issue a patent to the applicant who is adjudged the prior inventor. A final judgment adverse to a patentee from which no appeal or other review has been or can be taken or had shall constitute cancellation of the claims of the patent, and notice thereof shall be endorsed on copies of the patent thereafter distributed by the Patent and Trademark Office.".

(b) Section 135(b) of title 35, United States Code, is amended by striking out "may" and inserting in lieu thereof "shall".

SEC. 115. Section 141 of title 35, United States Code, is amended to read as follows:

"§ 141. Appeal to court of appeals for the Federal circuit

"An applicant dissatisfied with the decision in an appeal to the Board of Patent Appeals and Interferences under section 134 of this title may appeal to the United States Court of Appeals for the Federal Circuit, thereby waiving his right to proceed under section 145 of this title. A party to an interference dissatisfied with the decision of the Board of Patent Appeals and Interferences may appeal to the United States Court of Appeals for the Federal Circuit, but such appeal shall be dismissed if any adverse party to such interference, within twenty days after the appellant has filed notice of appeal according to section 142 of this title, files notice with the Commissioner that he elects to have all further proceedings conducted as provided in section 146 of this title. Thereupon the appellant shall have thirty days thereafter within which to file a civil action under section 146, in default of which the decision appealed from shall govern the further proceedings in the case.".

SEC. 116. Section 145 of title 35, United States Code, is amended—

(1) by inserting "Board of Patent Appeals and Interferences in an appeal under section 134 of this title" in lieu of "Board of Appeals" in the first sentence; and

(2) by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals" in the second sentence.

SEC. 117. Section 146 of title 35, United States Code, is amended by striking "board of patent interferences on the question of priority" and inserting in lieu thereof "Board of Patent Appeals and Interferences".

SEC. 118. Section 305 of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals".

SEC. 119. Section 1295(a)(4)(A) of title 28, United States Code, is amended by striking out "Appeals or the Board of Patent" and inserting in lieu thereof "Patent Appeals and".

SEC. 120. Section 152 of the Atomic Energy Act of 1954 (42 U.S.C. 2182), is amended by striking out "a Board of Patent Interferences" and inserting in lieu thereof "the Board of Patent Appeals and Interferences", and by striking out "the Board of Patent Interferences" and inserting in lieu thereof "the Board of Patent Appeals and Interferences".

SEC. 121. (a) Section 305(d) of the National Aeronautics and Space Act of 1952 (42 U.S.C. 2457(d)) is amended by—

(1) striking out "a Board of Patent Interferences" and inserting in lieu thereof " the Board of Patent Appeals and Interferences", and

(2) striking out "the Board of Patent Interferences" and inserting in lieu thereof "the Board of Patent Appeals and Interferences".

(b) Section 305(e) of the National Aeronautics and Space Act of 1958 (42 U.S.C. 2457(e)) is amended by striking out "a Board of Patent Interferences" and inserting in lieu thereof "the Board of Patent Appeals and Interferences".

SEC. 122. The examiners-in-chief of the Board of Appeals and the examiners of interferences of the Board of Patent Interferences on the effective date of this Act shall continue in office as members of the Board of Patent Appeals and Interferences.

SEC. 123. Section 3 of title 35, United States Code, is amended by adding at the end thereof the following:

"(e) The members of the Trademark Trial and Appeal Board of the Patent and Trademark Office shall receive compensation equal to that paid at GS-16 under the General Schedule contained in section 5332 of title 5, United States Code.".

SEC. 124. (a) Title 35 of the United States Code is amended by adding immediately following section 155 the following new section:

"§ 155A. Patent extension.

"(a) Notwithstanding section 154 of this title, the term of any patent which encompasses within its scope a composition of matter which is a new drug product, if such new drug product is subject to the labeling requirements for oral hypoglycemic drugs of the sulfonylurea class as promulgated by the Food and Drug Administration in its final rule of March 22, 1984 (FR Doc. 84-9640) and was approved by the Food and Drug Administration for marketing after promulgation of such final rule and prior to the date of enactment of this law, shall be extended until April 21, 1992.

"(b) The patentee or licensee or authorized representative of any patent described in such subsection (a) shall, within ninety days after the date of enactment of such subsection, notify the Commissioner of Patents and Trademarks of the number of any patent so extended. On receipt of such notice, the Commissioner shall confirm such extension by placing a notice thereof, in the official file of such patent and publishing an appropriate notice of such extension in the official Gazette of the Patent and Trademark office.".

(b) The table of sections for chapter 14 of title 35, United States Code is amended by adding after the item relating to section 155 the following new item:

"155A. Patent extension.".

SEC. 125. (a) Sections 109, 110, and 124 of this Act shall take effect upon the date of enactment.

SEC. 112. Section 41(a)(6) of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals", each place it appears and inserting "in the appeal" after "oral hearing".

SEC. 113. (a) Section 134 of title 35, United States Code, including the section heading, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals" each place it appears.

(b) The item relating to section 134 in the analysis for chapter 12 of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences".

SEC. 118. Section 305 of title 35, United States Code, is amended by inserting "Board of Patent Appeals and Interferences" in lieu of "Board of Appeals".

SEC. 119. Section 1295(a)(4)(A) of title 28, United States Code, is amended by striking out "Appeals or the Board of Patent" and inserting in lieu thereof "Patent Appeals and".

SEC. 120. Section 152 of the Atomic Energy Act of 1954 (42 U.S.C. 2182), is amended by striking out "a Board of Patent Interferences" and inserting in lieu thereof

mark office.".

(b) The table of sections for chapter 14 of title 35, United States Code is amended by adding after the item relating to section 155 the following new item:

"155A. Patent extension.".

SEC. 125. (a) Sections 109, 110, and 124 of this Act shall take effect upon the date of enactment.

(b) Sections 101 through 108 of this Act shall take effect three months after the date of enactment.

(c) Sections 111 through 123 of this Act shall take effect three months after the date of enactment.

TITLE II—TEXTILE FIBER AND WOOL PRODUCTS IDENTIFICATION IMPROVEMENT ACT

SEC. 201. This title may be cited as the "Textile Fiber and Wool Products Identification Improvement Act".

SEC. 202. Subsection (b) of section 4 of the Textile Fiber Products Identification Act (15 U.S.C. 70b(b)) is amended by adding at the end thereof the following new paragraph:

"(5) If it is a textile fiber product processed or manufactured in the United States, it be so identified.".

SEC. 203. Subsection (e) of section 4 of the Textile Fiber Products Identification Act (15 U.S.C. 70b(e)) is amended to read as follows:

"(e) For purposes of this Act, in addition to the textile fiber products contained therein, a package of textile fiber products intended for sale to the ultimate consumer shall be misbranded unless such package has affixed to it a stamp, tag, label, or other means of identification bearing the information required by subsection (b), with respect to such contained textile fiber products, or is transparent to the extent it allows for the clear reading of the stamp, tag, label, or other means of identification on the textile fiber product, or in the case of hosiery items, this section shall not be construed as requiring the affixing of a stamp, tag, label, or other means of identification to each hosiery product contained in a package if (1) such hosiery products are intended for sale to the ultimate consumer in such package, (2) such package has affixed to it a stamp, tag, label, or other means of identification bearing, with respect to the hosiery products contained therein, the information required by subsection (b), and (3) the information on the stamp, tag, label, or other means of identification affixed to such package is equally applicable with respect to each textile fiber product contained therein.".

SEC. 204. Section 4 of the Textile Fiber Products Identification Act (15 U.S.C. 70b) is amended by adding at the end thereof the following new subsections:

"(i) For the purposes of this Act, a textile fiber product shall be considered to be falsely or deceptively advertised in any mail order catalog or mail order promotional material which is used in the direct sale or direct offering for sale of such textile fiber product, unless such textile fiber product description states in a clear and conspicuous manner that such textile fiber product is processed or manufactured in the United States, or imported, or both.

"(j) For purposes of this Act, a textile fiber product shall be misbranded if a stamp, tag, label, or other identification conforming to the requirements of this section is not on or affixed to the inside center of the neck midway between the shoulder seams, or if such product does not contain a neck in the most conspicuous place on the inner side of such product, unless it is on or affixed on the outer side of such product, or in the case of hosiery items on the outer sider of such product or package.".

SEC. 205. Paragraph (2) of section 4(a) of the Wool Products Labeling Act of 1939 (15 U.S.C. 68b(a)(2)) is amended by adding at the end thereof the following new subparagraphs:

"(D) the name of the country where processed or manufactured.".

SEC. 206. Section 4 of the Wool Products Labeling Act of 1939 (15 U.S.C. 68b) is amended by adding at the end thereof the following new subsections:

"(e) For the purposes of this Act, a wool product shall be considered to be falsely or deceptively advertised in any mail order promotional material which is used in the direct sale or direct offering for sale of such wool product, unless such wool product description states in a clear and conspicuous manner that such wool product is processed or manufactured in the United States, or imported, or both.

"(f) For purposes of this Act, a wool product shall be misbranded if a stamp, tag, label, or other identification conforming to the requirements of this section is not on or affixed to the inside center of the next midway between the shoulder seams, or if such product does not contain a neck in the most conspicuous place on the inner side of such product, unless it is on or affixed on the outer side of such product or in the case of hosiery items, on the outer side of such product or package.".

SEC. 207. Section 5 of the Wool Products Labeling Act of 1939 (15 U.S.C. 68c) is amended—

(1) by striking out "Any person" in the first paragraph and inserting in lieu thereof "(a) Any person";

(2) by striking out "Any person" in the second paragraph and inserting in lieu thereof "(b) Any person"; and

(3) by inserting after subsection (b) (as designated by this section) the following new subsection;

"(c) For the purposes of subsections (a) and (b) of this section, any package of wool products intended for sale to the ultimate consumer shall also be considered a wool product and shall have affixed to it a stamp, tag, label, or other means of identification bearing the information required by section 4, with respect to the wool products contained therein, unless such package of wool products is transparent to the extent that it allows for the clear reading of the stamp, tag, label, or other means of identification affixed to the wool product, or in the case of hosiery items this section shall not be construed as requiring the affixing of a stamp, tag, label, or other means of identification to each hosiery product contained in a package if (1) such hosiery products are intended for sale to the ultimate consumer in such package, (2) such package has affixed to it a stamp, tag, label, or other means of identification bearing, with respect to the hosiery products contained therein, the information required by subsection (4), and (3) the information on the stamp, tag, label, or other means of identification affixed to such package is equally applicable with respect to each hosiery product contained therein.".

SEC. 208. The amendments made by this Act shall be effective 90 days after the date of enactment of this Act.

Mr. DOLE. Mr. President, I move to reconsider the vote by which the bill was passed.

Mr. LONG. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

REFERRAL OF THE NUCLEAR REGULATORY COMMISSION BILL

Mr. DOLE. Mr. President, I ask unanimous consent that once the Environment and Public Works Committee reports the authorization bill for fiscal year 1984 and 1985 for the Nuclear Regulatory Commission, it be referred to the Energy Committee until no later than August 10, 1984.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DOLE. The purpose of this referral is to permit the Energy Committee to review the provision (sec. 201) of the bill, amending the Nuclear Waste Policy Act of 1982.

EXECUTIVE SESSION

Mr. DOLE. Mr. President, I ask unanimous consent that the Senate go into executive session to consider Calendar No. 662.

The PRESIDING OFFICER. Without objection, it is so ordered.

The nomination will be stated.

DEPARTMENT OF THE INTERIOR

The legislative clerk read the nomination of Robert N. Broadbent, of Nevada, to be an Assistant Secretary of the Interior.

Mr. DOLE. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. DOLE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DOLE. Mr. President, it is my understanding that we have not been able to clear the nomination of Mr. Robert N. Broadbent to be an Assistant Secretary of the Interior, so we will take up the nomination, I assume, when we return in July.

THE NOMINATION OF ROBERT N. BROADBENT

● Mr. DECONCINI. Mr. President, the Senate Energy and Natural Resources Committee favorably reported the nomination of Robert N. Broadbent to be Assistant Secretary of the Interior for Water and Science. Bob Broadbent served as Commissioner of Reclamation from 1980 to 1983 and throughout that period demonstrated to all westerners that he clearly understood the value of reclamation projects and the important role reclamation programs play in the lives of all citizens in Western States. Mr. President, water is perhaps the single-most important natural resource in this country. In States like Arizona, where there is always a threatened shortage of this precious resource, reclamation has become the only method of insuring a sufficient supply of water to meet the needs of

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

February 10, 1982

CIRCULAR No. A-124

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Patents - Small Business Firms and Nonprofit Organizations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b. Agencies should complete paragraph 1. "Communications" at the end of the clause of Attachment A by designating a central point of contact for communications on matters relating to the clause. Additional instructions on communications may also be included in paragraph 1.

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

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.

(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

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.

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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

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

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

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

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

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

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

14. Appeals.

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

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

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.

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

rights of the Government in the invention.

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

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

a. Definitions

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

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

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

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

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

(6) "Nonprofit Organization" means a university or other institution of higher education or an organization of the type described in section 501(c)(3) of the Internal Revenue Code of 1954 (26 USC §501(c)) and exempt from taxation under section 501(a) of the Internal Revenue Code (26 USC §501(a)) or any nonprofit scientific or educational organization qualified under a state nonprofit organization statute.

under section 501(a) of the Internal Revenue Code (26 USC §501(a)) or any nonprofit scientific or educational organization qualified under a state nonprofit organization statute.

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 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

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

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

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

(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

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

FOR IMMEDIATE RELEASE
February 12, 1982

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Public Affairs
395-3080

The Office of Management and Budget and its component agency, the Office of Federal Procurement Policy, have jointly issued a new circular to all government agencies carrying out the provisions of Public Law 96-517, which deals with the rights of small businesses, universities and other non-profit organizations to inventions made under research sponsored by the Government.

The new OMB Circular 124 replaces an interim directive that was issued last July to implement the 1980 legislation.

The Circular is designed to encourage innovation and the utilization of inventions arising from Government supported research and developmenmt by small businesses, universities and non-profits. It covers the disposition of the invention results from approximately $1.2 billion of grant and contract awards to small business and $5 billion to universities and non-profits each year. The Administration anticipates that this large investment coupled for the first time with a Government-wide policy of allowing the private sector the incentive of patent ownership will lead to a significant increase in the commercialization of resulting inventions.

The Circular is designed to simplify the current regulatory framework by replacing numerous separate and diverse agency regulations and procedures covering small business, universities and nonprofits with a single, Government-wide policy. As mandated by Public Law 96-517 the new Circular establishes a standard Patent Rights clause to be included in all Government grants and contracts with such organizations, which gives these inventing organizations the right to retain ownership of inventions. The Circular also requires agencies to modify exising regulations to bring them into conformity with the Circular.

To further encourage a uniform and effective application of the law, the Circular establishes the Department of Commerce as the lead agency to monitor its implementation, evaluate its effect on innovation, and serve as the clearinghouse for information regarding Government patent policy. Since the Act applies to a wide range of Government procurement and assistance activities, it is expected that the assignment of coordination functions to the Department of Commerce will help to prevent inconsistent implementation and the proliferation of new regulations.

its implementation, evaluate its effect on innovation, and serve as the clearinghouse for information regarding Government patent policy. Since the Act applies to a wide range of Government procurement and assistance activities, it is expected that the assignment of coordination functions to the Department of Commerce will help to prevent inconsistent implementation and the proliferation of new regulations.

Small businesses should benefit because:

- More highly qualified small businesses will seek Government funded research projects since fear of losing the rights to valuable innovative concepts will no longer be a problem when dealing with the Government.

- Federally-sponsored research which results in invention and does not threaten proprietary positions will aid in restoring the vitality of small business. Without such rights many small firms could not justify the risk of further commercial development or attract private risk capital for such development.

Non-profits and universities are also benefited because:

- Patent rights are critical to university and non-profit technology transfer or patent licensing programs.

- Substantial private investment is required to further develop university invention. Patent ownership provides the incentive for the university to seek private firms to undertake the risk of development.

- In addition to improving the climate for university licensing, the Circular also stimulates increased university-industry cooperative programs by virtually eliminating industry concerns about Government claims under related research.

- Because a substantial portion of all medical research is done at universities and because of the importance of patent rights in the pharmaceutical and related industries, the Circular is critical to the development of new drugs and medical devices and procedures.

FOR ADDITIONAL INFORMATION CONTACT: Fred Dietrich, 202-395-6810

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

FOR IMMEDIATE RELEASE
February 12, 1982

OMB 82-5
Public Affairs
395-3080

The Office of Management and Budget and its component agency, the Office of Federal Procurement Policy, have jointly issued a new circular to all government agencies carrying out the provisions of Public Law 96-517, which deals with the rights of small businesses, universities and other non-profit organizations to inventions made under research sponsored by the Government.

The new OMB Circular 124 replaces an interim directive that was issued last July to implement the 1980 legislation.

The Circular is designed to encourage innovation and the utilization of inventions arising from Government supported research and developmenmt by small businesses, universities and non-profits. It covers the disposition of the invention results from approximately $1.2 billion of grant and contract awards to small business and $5 billion to universities and non-profits each year. The Administration anticipates that this large investment coupled for the first time with a Government-wide policy of allowing the private sector the incentive of patent ownership will lead to a significant increase in the commercialization of resulting inventions.

The Circular is designed to simplify the current regulatory framework by replacing numerous separate and diverse agency regulations and procedures covering small business, universities and nonprofits with a single, Government-wide policy. As mandated by Public Law 96-517 the new Circular establishes a standard Patent Rights clause to be included in all Government grants and contracts with such organizations, which gives these inventing organizations the right to retain ownership of inventions. The Circular also requires agencies to modify exising regulations to bring them into conformity with the Circular.

To further encourage a uniform and effective application of the law, the Circular establishes the Department of Commerce as the lead agency to monitor its implementation, evaluate its effect on innovation, and serve as the clearinghouse for information regarding Government patent policy. Since the Act applies to a wide range of Government procurement and assistance activities, it is expected that the assignment of coordination functions to the Department of Commerce will help to prevent inconsistent implementation and the proliferation of new regulations.

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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

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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 U.S.C. 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 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

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 U.S.C. 202(c)(5), and the same statutory exclusion from disclosure is applicable to it. It can also be expected that the same information

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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

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

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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

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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 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 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

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

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

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

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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).

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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

Bulletin No. 81-22 (46 FR 34776, July 2, 1981).

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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 U.S.C. 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 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

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 U.S.C. 202(c)(5), and the same statutory exclusion from disclosure is applicable to it. It can also be expected that the same information

information; monitor administrative or compliance measures; evaluate the Pub. L. 96–517's implementation; and recommend appropriate changes to OMB/OFPP.

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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 represenative 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

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

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

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

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

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

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

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 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 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

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).

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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,