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OFFICE OF PATENT MANAGEMENT

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Call Joe Allen and let him know I O.K

September 27, 1979

Mr. Ralph Oman
Office of Senator Charles McC. Mathias, Jr.
Suite 358
Senate Office Building
Washington, D.C. 20510

Re: University and Small Business Patent Procedures Act (S. 414)

Dear Ralph:

Enclosed are the letter of August 29, 1979 from Senators Bayh and Dole to Senator Mathias and the attached proposed amendments to S. 414.

As I mentioned in our recent telephone conversation, I feel that all of the proposed amendments are good and obviate several of the concerns expressed at the hearings on the bill. If you would care to discuss the proposed changes further, please call me.

Let me take this opportunity to thank you for your continued interest in this bill.

With kind regards,

Sincerely yours,

EY

Edwin T. Yates, Ph.D.
Patent Management Officer

ETY/fr
Encl.

Mark up on Oct. 23. We will receive notice

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United States Senate

COMMITTEE ON THE JUDICIARY

WASHINGTON, D.C. 20510

August 29, 1979

Hon. Charles McC. Mathias, Jr.
Suite 358
Washington, D.C. 20510

Dear Mac:

As a cosponsor of S. 414, the University and Small Business Patent Procedures Act, you share our concerns that many good ideas and innovations that are being made under federally supported research and development programs are not being commercialized because of an inefficient government patent policy regarding ownership of these inventions.

During the recent Judiciary Committee hearings on the bill some excellent suggestions for improving this legislation were made. We plan to offer some of these suggestions as amendments to the bill when the Judiciary Committee has its mark-up of the bill, hopefully in the near future. We have attached a brief summary of the areas that these amendments will deal with. There will also be some technical amendments that we will offer which are not listed, but which we would be happy to discuss with you.

If you have any questions or comments on these proposals, please let us know, or you can call Joe Allen (X9263) or Brenda Levenson (X7563) of our staffs who will be happy to assist you.

Sincerely,

Birch Bayh

Bob Dole

Enclosure

AMENDMENTS TO S. 414

Return of Government Investment

One of the most important parts of S. 414 is Section 204, the return of government investment provision. A number of witnesses pointed out potential accounting problems with the current formula which would prevent effective implementation of this section. The university and small business witnesses generally agreed with the purpose of Section 204 which is to return to the government any money that it had invested in research or development leading to a successful invention.

The amendment that we plan to offer would change the present formula to one that would require universities, nonprofit organizations, or small businesses who are covered under the bill to pay the government 15% of any licensing income that they receive on patents arising from federally-supported research and development programs that have earned over $70,000 in licensing fees in any one year. Repayment would not be required for nonexclusive licenses because they are available to any interested parties without restrictions.

This new formula is no longer tied to the amount of agency funding that was involved in this research because it was pointed out that many universities and nonprofit organizations receive funding from many sources, and that federal support is frequently in the form of long-term contracts and grants which make it especially difficult to determine how much government funding went into any one patent. The new formula would also encourage the use of nonexclusive licenses since these would not be subject to the requirements of Section 204. Some witnesses felt that nonexclusive licensing was in the public interest because these are available to any potential developer. This revised pay back formula will be an incentive to grant nonexclusive licenses whenever practical.

The second part of the reimbursement formula deals with contractors who manufacture products embodying patents that they own which arose from federal research and development efforts covered by the bill. This provision would usually cover the small business contractors rather than the universities or nonprofit organizations which rarely, if ever, manufacture products.

The amended formula would require these contractors to repay the funding agency which had supported the research leading to the invention for any income above $1 million in gross sales for any year. The agency would be entitled to 5% of this additional income until the level of its support of the research had been repayed. Determining the amount of federal support which led to the development of these patents should not be too difficult because most small business contracts and grants are short-term and specific.

Background Rights

The small business witnesses felt very strongly that one of the most serious problems preventing more small business involvement in government research and development was the existence of "background rights" clauses in many government research contracts.

Government agencies can require contractors to make available to other parties "background rights" which are related to an invention that the contractor made while working for the government. This information can include privately funded patents or trade information which the contractor held before working for the agency. When small businesses are forced to license out this information it can have a very detrimental effect on their ability to compete in highly competitive markets. Many of these small companies have only their privately developed technology to enable them to compete successfully against large corporations. When forced to license out this information, many small companies could find themselves on the point of financial ruin.

We would like to offer an amendment which would require any agency seeking to take a small companies' background rights to justify this action in writing by the head of the agency. The contractor would then be given the opportunity of appearing before an open agency hearing to contest this action if they felt that it was unjustified. An opportunity would also be provided for judicial review of the agency actions.

The addition of this language will guarantee small business contractors that a formal procedure will have to be followed in order to obtain background rights. There are presently no such procedures. The only option now open to small businesses is to simply reject unfavorable government contracts and grants. The result has been that many of the most innovative small companies refuse any involvement with government research and development programs when they feel that they might be jeopardizing their valuable background rights.

Licensing of Government-Owned Patents

The final major amendment to S. 414 that we would like to offer is to amend Section 208 and Section 210 to make sure that the authorization provided in the bill for licensing of government-owned patents does not unintentionally create an unnecesaary federal bureaucracy. We believe that this licensing program (which is designed to commercialize some of the largely unused 28,000 government patents) can be accomplished with a minimum of paperwork. The provisions currently in the bill might be interpreted as allowing the agencies to set up revolving funds not under the control of Congress. We recommend striking such language from the bill so that the Congress will be assured that this program will not be allowed to create any undue bureaucracy.