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Assistant Secretary for Productivity, Technology, and Innovation

37 CFR Ch. IV

Rights to Inventions Made by Nonprofit Organizations and Small Business Firms; Proposed Rule

DEPARTMENT OF COMMERCE

Office of the Assistant Secretary for Productivity, Technology, and Innovation

37 CFR Part 401

[Docket No. 41278-4178]

Rights to Inventions Made by Nonprofit Organizations and Small Business Firms

AGENCY: Assistant Secretary for Productivity, Technology, and Innovation, Commerce.

ACTION: Notice of proposed rule making.

SUMMARY: Pub. L. 98-620 amended Chapter 18 of Title 35, United States Code, dealing with patent rights in inventions made with Federal funding by nonprofit organizations and small business firms and reassigned responsibility for the promulgation of regulations implementing 35 U.S.C. 202-204 to the Secretary of Commerce. The proposed regulation, if adopted, will implement 35 U.S.C. 202-204.

DATE: Comments due by June 3, 1985.

ADDRESS: Send comments to Mr. Norman Latker, Director, Federal Technology Management Policy Division, Office of Productivity, Technology and Innovation, Department of Commerce, Rm. H4837, Washington, D.C. 20230. Phone: 202-377-0659.

FOR FURTHER INFORMATION CONTACT: Norman Latker at the address above or Jesse E. Lasken (202-377-8100) at the same address.

SUPPLEMENTARY INFORMATION:

Background

Section 501 of Pub. L. 98-620 includes a series of amendments to chapter 18 of title 35, U.S.C., including the assignment of regulatory authority to the Secretary of Commerce. The Secretary has delegated his authority under 35 U.S.C. 206 to the Assistant Secretary for Productivity, Technology and Innovation. Since the amendments became effective on November 9, 1984 when Pub. L. 98-620 was signed, we are attempting to complete the rulemaking process in an expeditious manner. Pending the issuance of a final regulation, we believe that the provisions of OMB Circular A-124 continue to apply except to the extent that amendments to Chapter 18 are clearly inconsistent. We suggest that agencies use these proposed regulations as guidance in the modification of clauses and procedures that may be required pending the issuance of a final regulation.

Comparison of Proposed Regulation to OMB Circular A-124

The proposed regulation closely follows OMB Circular A-124. The following discussion compares the proposed regulation to OMB Circular A-124 with particular emphasis on the reasons for any substantive differences and additions.

Section 401.1 Scope.

This section contains provisions similar to those now found in parts 5, 7.c., 17, and 18 of OMB Circular A-124. Language has been included in section 401.1(a) giving recognition to the requirement of new 35 U.S.C. 212 that funding agreements made primarily for educational purposes would not be subject to the regulation and that agencies should not take any rights in inventions made under such agreements.

Section 401.1(b) is intended to make clear that the amended march-in rights procedures established by amended 35 U.S.C. 203 apply to proceedings initiated under existing funding agreements. We interpret the amended procedures to apply to all new march-in proceedings even if the funding agreement predates the amendment of chapter 18. This section takes the same approach to the various appeal rights established in part 14 of OMB Circular A-124, which are carried over in the proposed regulation with only minor revisions.

Section 401.1(c) directs agencies, at the request of the contractor, to amend outstanding funding agreements for the operation of Government-owned facilities by substituting the applicable clause at section 401.14 for the clause presently in such funding agreements. Pub. L. 98-620 has substantially narrowed the previous exception applicable to "GOCOs". Since these contracts are typically for extended terms (usually 5 years), we believe the intent of the Congress should not be delayed. Most of these contracts are routinely amended to adjust funds on a regular basis. As part of such an amendment the patent rights provisions should be amended if the contractor requests. A number of agencies have outstanding GOCO contracts in which the exception was not invoked and the contract includes the clause at Attachment A to OMB Circular A-124. Section 401.1(c) does not require that these contracts be amended unless the contractor so requests.

Section 401.1(f) is new and is intended to clarify the applicability of chapter 18 and the proposed regulations to arrangements for use of Government-owned facilities. Such arrangements, whether on a reimbursable or nonreimbursable basis, are not considered to fall under the Act's definition of "funding agreement" since the work is not being directly funded by the Government even though it is being assisted by the making available of facilities. Of course, if the Government were also funding the research through a grant or contract, the grant or contract transaction would make chapter 18 applicable if a small business firm or nonprofit organization was the recipient of the grant or contract.

Section 401.1(f) does point out, however, that in cases when the facility operator is a nonprofit organization or a small business firm, there is a possibility that the operator may be entitled to rights under its funding agreement if its employees make an invention in cooperation with a facility user. The regulation therefore notes the advisability of reaching advance agreements on the rights of the three parties if there is a liklihood that operator employees may be involved in the making of inventions by a facility user.

We have not attempted to state what the allocation of rights should be in such cases since this is beyond the scope of this regulation. However, we believe that consistency with chapter 18 of Title 35 U.S.C. and the President's Memorandum of February 18, 1983, would dictate that the user should normally retain title to its own inventions. If operator employees make an invention in cooperation with a facility user, then the operator-contractor should, perhaps, obtain some share of any income generated by the invention. However, absent the active cooperation and involvement of the operator in the project, title in any inventions may be assigned to the user as part of the initial arrangement and the agency should approve, in advance, the assignment of any rights in inventions made during a project from the operator to the user as authorized by 35 U.S.C. 202(c)(7)(A).

Section 401.2 Definitions.

Section 401.2 uses the same definitions as in part 6 of OMB Circular A-124 except that the definitions of "invention" and "subject invention" have been modified to accommodate Pub. L. 98-620 changes to the definitions at 35 U.S.C. 201. Definitions of "chapter 18" and "Assistant Secretary" have also been added.

Section 401.3 Use of the clauses at § 401.14.

Section 401.3(a) is based on part 7.a. of OMB Circular A-124 with some

modifications to reflect new 35 U.S.C. 212 and amended 35 U.S.C. 202(a).

Section 401.3(b) is new. In part it implements, in combination with § 401.14(b), language in amended 35 U.S.C. 202(a) concerning the exception for certain Department of Energy funding agreements. This section also prescribes for the first time certain guidelines in connection with the drafting of alternative provisions when certain of the exceptions at 35 U.S.C. 202(a) are used. We particularly encourage comments or suggestions regarding this proposed language.

Section 401.3(c) is new. It gives specific recognition that many contracts are of extended duration and may involve a variety of task orders. This section is intended to clarify that agencies have the flexibility to use the exceptions with respect to a specific task order, including one added after the original funding agreement is executed, even though the remainder of the contract is subject to one the clauses at § 401.14.

Section 401.3 (d) and (e) is equivalent to part 7.(b)(1) of OMB Circular A–124 except that it was necessary to make a number of changes because of amendments to 35 U.S.C. 202(b) (1) and (2). Section 401.3 (f) and (g) substantially follow parts 7. b.(2) and d. of the OMB Circular.

One issue that is not expressly addressed by these regulations on which we would like comments is whether agencies should be allowed to make class determinations to use exceptions. Commentators who favor this are asked to provide examples of when this might prove useful. We are seeking to determine whether we should generally authorize class determinations, generally bar them, or limit their use to specific types of situations.

Section 401.4 Contractor appeals of exceptions.

Section 401.4 is new and has no counterpart in the OMB Circular. It implements new 35 U.S.C. 202(b)(4) which allows a contractor certain rights to contest the use of the exceptions at 35 U.S.C. 202(a). We encourage comments on whether the proposed section carries out the statutory language and Congressional intent.

We interpret 35 U.S.C. 202(b)(4) as requiring an administrative procedure similar to that afforded under a march-in. The proposed procedure is intended to rapidly resolve contractor claims that agency authority to invoke the exceptions at 35 U.S.C. 202(a) was misused. The agency is authorized to execute the contract with alternative provisions pending the resolution of the issue. If the issue is resolved in the contractor's favor then the contract is to be amended retroactively. Of course, the contractor could refuse to sign a contract until the matter was resolved. However, in this case the agency could consider going to alternative sources. But the section provides, in effect, that if the contractor is willing to sign a contract subject to its retroactive amendment, the agency may not refuse to contract with the contractor on account of the contractor's exercise of its rights under 35 U.S.C. 202(b)(4).

We would also note that the contractors appeal is not to be handled under the Contract Disputes Act. We consider this a statutorily created right. Moreover, it cross references to 35 U.S.C. 203(2) which specifically states that determinations under that section are not subject to the Contracts Disputes Act.

Section 401.5 Modification and Tailoring of Clauses.

Sections 401.5(a)–(c) substantially follow parts 8.a.–c. of OMB Circular A–124.

Section 401.5(d) is based on part 8.d. of the OMB Circular. However, because of amendments to 35 U.S.C. 202(c)(4) it has been modified to require the listing of specific treaties or international agreements that will be applicable to the contractor. As amended, 35 U.S.C. 202(c)(4) no longer contains a reference to "future" treaties. Senator Dole's explanation of the bill at S14142 of the Congressional Record for October 10, 1984, states that the revised language was intended to require an agency "to tie its use of this right to a foreign treaty or agreement that is in existence at the time the contract is executed." However, in recognition of the fact that some funding agreements may extend over fairly long periods of time, we have included optional language that will allow an agency to add new treaties that go into effect after the date the contract is originally signed.

It should be noted that the provisions of § 401.5(d) should have application, albeit indirectly, to funding agreements with larger, commercial contractors as well as those with small businesses and nonprofit organizations. That is, 35 U.S.C. 210 was amended by Pub. L. 98–620 to provide "that all funding agreements, including those with other than small business firms and nonprofit organizations, shall include the requirements established in paragraph 202(c)(4) and section 203 of this title." Section 202(c)(4) establishes the minimum license rights of the Government, including its right to obtain rights to honor foreign agreements. We interpret this language as carrying with it the implementing language developed under 35 U.S.C. 206. Therefore, we believe that it will be necessary to amend the standard Federal Acquisition Regulation (FAR) patent rights clauses to conform to the language prescribed in § 401.5(d). Section 203 of Title 35 deals with march-in rights, and, thus, for the same reasons, for-profit contractors that are not small businesses should also review proposed § 401.6.

Section 401.5(e) is based on part 8.e. of the OMB Circular. However, two optional administrative requirements have been eliminated. The option to require periodic listing of invention reports has been dropped. This is considered an unjustified paperwork exercise. Agencies desiring this information can presently obtain it from their own files. The language concerning notification of R&D subcontracts has been dropped since such reporting is normally required under other FAR provisions or agency grant provisions.

Section 401.5(f) is new and implements the requirement of 35 U.S.C. 202(c)(7)(E) which was added by Pub. L. 98–620. The statutory language has been followed with some minor editorial revisions including some language to clarify that income is to be used "at the facility." This clarification was added to reflect the clear intent of the Congress as reflected on p. 21 of House Report 98–983 on HR 5003 that the income was to be in "a research account controlled by the facility."

One agency that informally reviewed this proposed rule suggested that another paragraph be added to section 401.5 advising agencies to supplement the clause in contracts for the operation of Government owned facilities with provisions dealing with the transfer of patent rights to successor contractors. We are considering including coverage in this area, and seek comments and suggestions concerning this. Any suggestions for specific language or particular concerns that should be addressed in either the regulatory guidance or the clause language are encouraged.

Section 401.6 Exercise of march-in rights.

Section 401.6 generally follows part 13 of OMB Circular A–124, except that language in the Circular authorizing the use of Boards of Contract Appeals to review appeals has been eliminated to reflect the amendment of 35 U.S.C. 203. Modifications have been made in § 401.6(e) to reflect the greater protection afforded utilization information by amended 35 U.S.C.

202(c)(5). 35 U.S.C. 401.6 (f) and (g) have been revised slightly to require the fact finder to transmit a proposed decision and to specifically give the contractor and agency representatives the right to prepare written arguments in response to these findings and recommendations. The contractor is also given the right to request oral arguments before the decision-maker. These changes are intended to reflect the fact that march-in decisions are policy as well as factual decisions.

Section 401.6(j) follows the principle of OMB Circular A–124 in requiring that march-in determinations be held in abeyance pending the exhaustion of all appeals. Previously 35 U.S.C. 203 did not cover this question. As amended, it now requires two of the four categories of march-ins be held in abeyance until exhaustion of appeals. However, we do not believe that the amended language precludes extending this requirement, as in the part, to all categories of march-ins.

Section 401.7 Small business preference.

Section 401.7, in combination with new language at paragraph (k)(4) of the clauses at § 401.14, implements the new requirement of amended 35 U.S.C. 202(c)(7) that funding agreements with nonprofit organizations contain provisions to effectuate a requirement that except where it proves infeasible after a reasonable inquiry that a preference in the licensing of subject inventions shall be given to small business firms. We encourage comments on these provisions.

It should be noted that there has been an inadvertent typographical error in the language of amended 35 U.S.C. 202(c)(7)(D) and that the words "a preference" should have been inserted between "inquiry," and "in the licensing . . ." Our implementation of this provision is based on the intended language, since without it the clause, at best, would be ambiguous.

We have attempted to develop a provision that will meet the objectives of the statute without interjecting agencies or this Department into the individual licensing negotiations and decisions of nonprofit contractors. The clause language and section 401.7 implement the preference in two ways. First, nonprofit organizations are required to make reasonable efforts under the circumstances to attract small business licensees. The regulations recognize that in some cases the nature of the development efforts may preclude seeking small business licensees. On the other hand, this will not always be the case, and the contractor would be expected to undertake efforts to seek small business licenses. It is not possible to say exactly what these efforts should consist of, but we would expect nonprofit organizations to ensure that their efforts to promote inventions are not exclusively focused on larger firms. If no other means are available, perhaps, in selected cases, a notice in a suitable trade journal might be satisfactory. We also think it is probably unreasonable and unrealistic for nonprofit organizations to be aware of the interests and capabilities of small businesses, especially those which they have not previously dealt with and which are not otherwise well known. Established small businesses that have an interest in developing university technology should let their interests be known to research universities and centers, particularly any local universities or centers.

The specific preference required by the clause is modeled after the language at 35 U.S.C. 209(c)(3) which requires a preference for small business firms in Government licensing programs. This appears to be consistent with Congressional intent as set forth in Senator Dole's statement at p. S14142 of the October 10, 1984, Congressional Record.

The clause language and section 401.7 provide that the Assistant Secretary of Commerce for Productivity, Technology, and Innovation will provide a forum to consider small businesses complaints that a particular contractor is not meeting his obligations under the clause. However, only an informal procedure is established. The Assistant Secretary will initiate further investigation and discussions with a particular institution when it appears warranted. Formal hearings and the like are not contemplated. In no event will the Assistant Secretary become involved in the negotiation of specific licenses or in attempts to have specific licenses terminated and renegotiated. We have not assigned this review function to the individual agency, since we believe that any review of the contractor's licensing efforts will have to focus on the full range of its program and not just on those subject inventions that may eminate from the support of a single agency. However, the Department will coordinate its activities in this area with the Small Business Administration and, as warranted, appropriate agencies. For example, if the complaint stems from the activities of a contractor operating a Government-owned facility, the funding agency will be consulted. The Department also anticipates working with university organizations such as the Society of University Patent Administrators and the Committee on Government Relations to foster compliance with the requirements of these provisions.

Section 401.8 Reporting on utilization of subject inventions.

Section 401.8 generally follows part 10 of OMB Circular A–124. However, subparagraph (b) has been revised to reflect changes made by Pub. L. 98–620. Marking of data is not required and agencies must protect all utilization information, since amended 35 U.S.C. 202(c)(5) has established an absolute requirement for confidentiality and a so-called "(b)(3)" exemption under the Freedom of Information Act. Section 401.8 requires that the revised requirement be also applied to information collected under funding agreements predating the new Part 401.

Section 401.9 Retention of rights by inventor.

Section 401.9 substantially follows part 11 of OMB Circular A–124.

Section 401.10 Government assignment to contractor of rights in invention of government employee.

Section 401.10 substantially follows part 12 of OMB Circular A–124, but some wording changes have been made to further clarify that contractor rights in the invention are subject only to the conditions in the standard patent rights clause that was included in the funding agreement. Agencies exercising the authority of 35 U.S.C. 202(e) to assign the rights of the agency derived through an agency employee co-inventor to the contractor are not to condition such an assignment with additional terms beyond those specified in the statute and applicable patent rights clause that was included in the funding agreement.

Section 401.11 Appeals.

Section 401.11 substantially follows part 14 of OMB Circular A–124. Because of certain revisions to the march-in procedures discussed above which are cross-referenced in this section, there are minor differences between the appeals procedures in the proposed regulation and those now prescribed by the OMB Circular. As provided at section 401.1(b), these procedures will apply to actions initiated under earlier funding agreements.

Section 401.12 Licensing of background patent rights to third parties.

Section 401.12 substantially follows part 15 of OMB Circular A–124.

Section 401.13 Administration of patent rights clauses.

Section 401.13 is, in part, derived from part 16 of OMB Circular A-124, but also contains new material.

Section 401.13(a) substantially follows part 16.c. of the OMB Circular. However, part 16.a. has been eliminated since the subject matter is covered in the clauses at § 401.14. Part 16.b. has been dropped since the Federal Procurement Regulations (FPR) references are obsolete and do not appear to have any counterparts in the FAR.

Section 401.13(b), coupled with the change to section 401.5(e) discussed earlier, further emphasizes that annual or other periodic listing of subject inventions, except at close-out of the funding agreement is not to be imposed on contractors.

Section 401.13(c) reflects Pub. L. 98-620 elimination of two limitations on the conditions under which nonprofit organizations may license or assign subject inventions. Since these limitations are included in many outstanding funding agreements which allow agencies to waive them, the proposed language advises agencies to normally make such waivers. This is consistent with the legislative history of the bill, as reflected in Senator Dole's answer at S14142, Congressional Record October 10, 1984, which indicates that agencies are expected to grant such waivers liberally.

Section 401.13(d) establishes requirements for agencies to treat certain contractor information on a confidential basis. It cross-references language in the standard clause that is based on part 9 of OMB Circular A-124. While modified, we believe that in combination with the clause language this section is substantially the same as part 9. of the OMB Circular.

Section 401.14 Standard clauses.

Section 401.14(a) contains the basic clause to be used in most contracts with small businesses and nonprofit organizations. Section 401.14(b) contains a standard clause for use in situations when the Department of Energy exercises the exception at 35 U.S.C. 202(a)(iv).

The clause at § 401.14(a) substantially follows the clause at Attachment A of OMB Circular A-124 with the following changes:

1. The definitions of "invention" and "subject invention" have been revised to conform to statutory changes.

2. The period for election of rights in paragraph (c)(2) has been lengthened to 2 years to conform to statutory changes.

3. The period for filing after election has been reduced from two years to one year because of the extended election period.

4. Subparagraphs (4) and (5) have been added to paragraph (e) which reflect the obligations of the agency to maintain certain records in confidence as required by 35 U.S.C. 205 and the President's Memorandum of February 18, 1983, on Government Patent Policy. We believe it will be helpful to both contractor and agency personnel if these obligations are clearly spelled out in the contract document.

5. The last sentence of paragraph (h) has been amended to conform to the revision of 35 U.S.C. 202(c)(5).

6. Paragraph (k), the special provisions for contracts with nonprofit organizations, has been revised to conform to the amendment of 35 U.S.C. 202(c)(7). Most of these changes are simply deletions of conditions that were removed by the amendment. However paragraph (k)(4) implements the new statutory language on small business preferences and we would encourage comments on this proposal.

The clause at § 401.14(b) is designed to be used by the Department of Energy in those cases in which it exercises 35 U.S.C. 202(a)(iv). The standard clause at § 401.14(a) is prescribed with two main changes.

First, paragraph (c) is amended to create a two tier system. Inventions falling under the naval nuclear propulsion and nuclear weapons programs of DOE will be subject to deferred determinations. Those that fall outside the programs will belong to the contractor under the standard clause provisions if the contract elects title. And a procedure is established for determining under which category individual inventions fall.

Second, paragraph (e) has been amended to guarantee the contractor an exclusive license in inventions to which the Government obtains title in fields of use outside of naval nuclear propulsion and nuclear weapons. This provision would not come into effect, of course, if DOE waives its right to obtain title. However, pending such waiver, this should provide the contractor with the ability and incentive to attempt to commercialize promising inventions.

Section 401.15 Deferred determinations.

Section 401.15 is new and contains guidance and procedures for the handling of contractor requests for greater rights in those cases when one of the exceptions at 35 U.S.C. 202(a) has been applied. As noted earlier § 401.3(b) requires that in most instances when an exception is used that the contractor be allowed at least the right to request greater rights. The proposed procedures are intended to foster the expeditious handling of these requests in a manner that is consistent with the reasons behind the original application of an exception and the policies and objectives of 35 U.S.C. 200. We encourage comments on these proposed procedures.

Applicability of E.O. 12291

This proposed rule is not considered a major rule as defined in Executive Order 12291. Its purposes, objectives, and basic substance are the same as OMB Circular A-124 which was not considered a major rule. Nevertheless a regulatory impact analysis was prepared for that rule which concluded that its benefits substantially outweighed any costs and that there should be a net cost savings. That continues to be true. Several years experience have now borne this out. This regulation adds no new paperwork burdens, and, in fact, reduces certain paperwork requirements of the current FAR and OMB Circular A-124.

The General Counsel of the Department of Commerce has certified to the Small Business Administration that this rule will not have a substantial economic impact on a substantial number of small entities. However, for these limited number of small business concerns in areas of high technology that deal with the Government, the proposed regulation, like OMB Circular A-124, makes it easier for small business firms to participate in Government R&D programs by guaranteeing the protection of their intellectual property. The small business preference provisions in § 401.7 and the clauses at § 401.14 should also prove of benefit to the limited number of small businesses that may be interested in obtaining licenses to university technology.

List of Subjects in 37 CFR Ch. IV

Inventions, Patents, Nonprofit Organizations, Small business firms.

Dated: March 28, 1985.

D. Bruce Merrifield,

Assistant Secretary for Productivity, Technology and Innovation.

Accordingly, it is proposed to add a new Chapter IV to title 37 of the Code of Federal Regulations consisting at this time of Part 401 to read as follows:

CHAPTER IV—ASSISTANT SECRETARY FOR PRODUCTIVITY, TECHNOLOGY, AND INNOVATION, DEPARTMENT OF COMMERCE

PART 401—RIGHTS TO INVENTIONS MADE BY NONPROFIT ORGANIZATIONS AND SMALL BUSINESS FIRMS UNDER GOVERNMENT GRANTS, CONTRACTS, AND COOPERATIVE AGREEMENTS

Sec.

Authority: 35 U.S.C. 206 and the delegation of authority by the Secretary of Commerce to the Assistant Secretary for Productivity, Technology and Innovation at section 3(g) of DOO 10-1.

§ 401.1 Scope.

(a) This part implements 35 U.S.C. 202–204 and is applicable to all Federal agencies. It applies to all funding agreements with small business firms and nonprofit organizations executed after the effective date of this part, except for a funding agreement made primarily for educational purposes. In accordance with 35 U.S.C. 212 no scholarship, fellowship, training grant, or other funding agreement made by a Federal agency primarily to an awardee for educational purposes will contain any provision giving the Federal agency any rights to inventions made by the awardee.

(b) The "march-in" and appeals procedures in §§ 401.6 and 401.11 shall apply with respect to any march-in or appeal proceeding initiated after the effective date of this part, under a funding agreement subject to chapter 18 of title 35, U.S.C., even if the funding agreement was executed prior to that date.

(c) At the request of the contractor, a funding agreement for the operation of a Government-owned facility which is in effect on the effective date of this part shall be promptly amended to include the provisions required by § 401.3(a) unless the Agency determines that one of the exceptions at 35 U.S.C. 202(a)(i)–(iv) (§ 401.3(a)(1)–(4) of this part) is applicable and will be applied. If the exception at § 401.3(a)(4) is determined to be applicable, the funding agreement will be promptly amended to include the provisions required by § 401.3(b).

(d) This regulation supercedes OMB Circular A–124 and shall take precedence over any agency regulations, including regulations issued under the FAR system, which are inconsistent with it. Existing agency regulations, including those under the FAR system, shall be promptly amended to conform to this part and amended Chapter 18 of title 35. No deviations from this regulation or the clauses prescribed in it shall be made except with the approval of the Assistant Secretary. Regulations supplementing this part shall be submitted to the Assistant Secretary for review for consistency with this part prior to their issuance.

(e) In the event an agency has outstanding prime funding agreements that do not contain patent flow-down provisions consistent with this part or earlier OFPP regulations (OMB Circular A–124 or OMB Bulletin 81–22), the agency shall take appropriate action to ensure that small business firms or nonprofit organizations that are subcontractors under any such agreements and that received their subcontracts after July 1, 1981, receive rights in their subject inventions that are consistent with chapter 18 and this part.

(f) This part is not intended to apply to arrangements under which nonprofit organizations, small business firms, or others are allowed to use Government-owned research facilities and normal technical assistance provided to users of those facilities, whether on a reimbursable or nonreimbursable basis. Such arrangements are not considered "funding agreements" as defined at 35 U.S.C. 201(b) and § 401.2(a) of this part. However, if such facilities are operated by nonprofit organizations or small business firms and if an employee of the operator is a co-inventor (along with a user's employee) or a sole inventor, then chapter 18 and this regulation will govern the rights of the operator in the invention as derived through its employee-inventor. It is therefore advisable, and especially so if collaborative research is contemplated, for the user, the operator, and the agency to reach advance agreement on how rights to inventions will be allocated under arrangements for use of Government-owned facilities being operated by nonprofit organizations or small business firms.

§ 401.2 Definitions.

As used in this part—

(a) The term "funding agreement" means any contact, 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. This term also 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 defined in the first sentence of this paragraph.

(b) The term "contractor" means any person, small business firm or nonprofit organization which 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, or any novel variety of plant which is or may be protectable under the Plant Variety Protection Act (7 U.S.C. 2321 et seq.).

(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; provided that in the case of a variety of plant, the date of determination (as defined in section 41(d) of the Plant Variety Protection Act, 7 U.S.C. 2401(d)) must also occur during the period of contract performance.

(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. 85536 (15 U.S.C. 632) and implementing regulations of the Administrator of the Small Business Administration. For the purposes of this part, 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.

(i) The term "chapter 18" means chapter 18 of title 35 of the United States Code.

(j) The term "Assistant Secretary" means the Assistant Secretary of Commerce for Productivity, Technology, and Innovation or his or her designee.

§ 401.3 Use of the standard clauses at § 401.14.

(a) Each funding agreement awarded to a small business firm or nonprofit organization (except those subject to 35 U.S.C. 212) shall contain the clause found in § 401.14(a) with such modifications and tailoring as authorized or required elsewhere in this part. However, a funding agreement may contain alternative provisions—

(1) when the contractor is not located in the United States or does not have a place of business located in the United States or is subject to the control of a foreign Government; 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 18 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; or

(4) when the funding agreement includes the operation of a Government-owned, contractor-operated facility of the Department of Energy primarily dedicated to that Department's naval nuclear propulsion or weapons related programs.

(b) When the Department of Energy exercises the exception at § 401.3(a)(4), it shall use the clause prescribed at § 401.14(b) with such modification and tailoring as authorized or required elsewhere in this part. When any agency exercises the exceptions at § 401.3(a)(2) or (3), it shall use the standard clause at § 401.14(a) with only such modifications as are necessary to address the exceptional circumstances or concerns which led to the use of the exception. For example, if the justification relates to a particular field of use or market, the clause might be modified along lines similar to those described in § 401.14(b). In any event, the clause should provide the contractor with an opportunity to receive greater rights in accordance with the procedures at § 401.15.

(c) When a funding agreement involves a series of separate task orders, an agency may apply the exceptions at § 401.3(a)(2) or (3) to individual task orders, and it may structure the contract so that modified patent rights provisions will apply to the task order even though the clauses at either § 401.14(a) or (b) are applicable to the remainder of the work. Agencies are authorized to negotiate such modified provisions with respect to task orders added to a funding agreement after its initial award.

(d) Before utilizing any of the exceptions in paragraph (a) the agency shall prepare a written determination, including a statement of facts supporting the determination, that the conditions identified in the exception exist. In cases when § 401.3(a)(2) is used the determination shall also include an analysis justifying the determination. This analysis should address with specificity how the alternate provisions will better achieve the objectives set forth in 35 U.S.C. 200. A copy of each determination, statement of facts, and, if applicable, analysis shall be promptly provided to the contractor or prospective contractor.

(e) Except for determinations under § 401.3(a)(3), the agency shall also provide copies of each determination, statement of fact, and analysis to Assistant Secretary. These shall be sent within 30 days after the award of the funding agreement to which they pertain. Copies shall also be sent to the Chief Counsel for Advocacy of the Small Business Administration if the funding agreement is with a small business firm.

(f) To assist the Comptroller General of the United States 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 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 in this part or under OMB Circular A–124 for each period of October 1 through September 30, beginning with October 1, 1982.

(g) To qualify for the standard clause a prospective contractor may be required by an agency to certify that it is either a small business firm or a nonprofit organization. If the agency has reason to question the status of the prospective contractor as a small business firm or nonprofit organization, it may file a protest in accordance with 13 CFR 121.3–5 if small business firm status is questioned or require the prospective contractor to furnish evidence to establish its status as a nonprofit organization.

§ 401.4 Contractor appeals or exceptions.

(a) In accordance with 35 U.S.C. 202(b)(4) a contractor has the right to an administrative review of a determination to use one of the exceptions at §§ 401.3(a) (1)–(4) if the contractor believes that a determination is either contrary to the policies and objectives of this chapter or constitutes an abuse of discretion by the agency. Paragraph (b) of this section specifies the procedures to be followed by contractors and agencies in such cases. The assertion of such a claim by the contractor shall not be used as a basis for withholding or delaying the award of a funding agreement or for suspending performance under an award. However, pending final resolution of the claim the contract may be issued with the patent rights provision proposed by the agency; but should the final decision be in favor of the contractor, the funding agreement will be amended accordingly and the amendment made retroactive to the effective date of the funding agreement.

(b)(1) A contractor may appeal a determination by providing written notice to the Agency within 30 working days from the time it receives a copy of the agency's determination, or within such longer time as an agency may specify in its regulations. The contractor's notice should specifically identify the basis for the appeal.

(2) The appeal shall be decided by the head of the agency or by an official of the agency designated by the head of the agency who is at a level above the person who made the determination. If the notice raises a genuine dispute over the material facts, the head of the agency or the designee shall undertake or refer the matter for fact-finding.

(3) Fact-finding shall be conducted in accordance with 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.

(4) 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 along with a recommended decision. A copy of the findings of fact and recommended decision shall be sent to the contractor (assignee or exclusive licensee) by registered or certified mail.

(5) Fact-finding should be completed within 45 working days from the date the agency receives the contractor's written notice.

(6) When fact-finding has been conducted, the head of the agency or designee shall base his or her decision on the facts found, together with any argument submitted by the contractor, agency officials or any other information in the administrative record. In cases referred for fact-finding the agency head or the designee may reject only those facts that have been found that are clearly erroneous and the agency head or the designee may hear oral arguments after fact-finding provided that the contractor or contractor's attorney or representative is present and given an opportunity to make its own arguments and rebuttal. The decision of the agency head or the designee shall be in writing and include an explanation of the basis of the decision if it is unfavorable to the contractor. The decision of the agency or designee shall be made within 30 working days after fact-finding or, if there was no fact-finding, within 45 working days from the date the agency received the contractor's written notice.

§ 401.5 Modification and tailoring of clauses.

(a) Agencies should complete the blank in paragraph (g)(2) of the clauses at § 401.14 in accordance with their own or applicable Government-wide regulations such as the Federal Acquisition Regulation.

(b) Agencies should complete paragraph (1), "Communications" at the end of the clauses at § 401.14 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 underlined words and phrases in the clauses at § 401.14 with those appropriate to the particular funding agreement. For example, "contracts" 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 the agency.

(d)(1) When the agency head or duly authorized designee determines at the time of contracting with a small business firm or nonprofit organization that it would be in the national interest to acquire the right to sublicense foreign Governments or international organizations pursuant to any existing treaty or international agreement, a sentence may be added at the end of paragraph (b) of the clauses at § 401.14 as follows:

This license will include the right of the Government to sublicense foreign Governments and international organizations pursuant to the following treaties or international agreements: ————.

The blank above should be completed with the names of applicable existing treaties or international agreements, agreements of cooperation, memoranda of understanding, or similar arrangements including military agreements relating to weapons development and production. The above language is not intended to apply to treaties or other agreements that are in effect on the date of the award but which are not listed. Alternatively, agencies may use substantially similar language relating the Government's rights to specific treaties or other agreements identified elsewhere in the funding agreement. The language may also be modified to make clear that the rights granted to the foreign Government or international organization may be for additional rights beyond a license or sublicense if so required by the applicable treaty or international agreement. For example, in some cases exclusive licenses or even the assignment of title in the foreign country involved might be required. Agencies may also modify the language above to provide for the direct licensing by the contractor of the foreign Government or international organization.

(2) If the funding agreement is expected to involve a series of changing tasks over an extended period of time, such as the typical funding agreement for the operation of a Government-owned facility, the following language may also be added:

The *agency* reserves the right to unilaterally amend this *funding agreement* to identify specific treaties or international agreements entered into by the Government after the effective date of this *funding agreement* pursuant to which the *contractor* shall grant the Government (or foreign Governments or international organizations designated by the *Agency*) with respect to subject inventions made after the date of the amendment those license or other rights which are necessary for the Government to meet its obligations to foreign Governments and international organizations under such treaties or international agreements.

(e) Agencies may add additional subparagraphs to paragraph (f) of the clauses at § 401.14 to require the contractor to do one or both of the following:

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

(2) 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.

(f) If the contract is with a nonprofit organization and is for the operation of a Government-owned facility the following will be substituted for paragraph (k)(3) of the clause at § 401.14(a):

(3) After payment of patenting costs, licensing costs, payments to inventors, and other expenses incidental to the administration of subject inventions, the balance of any royalties or income earned and retained by the *contractor* during any fiscal year on subject inventions under this or any successor *contract* containing the same requirement, up to any amount equal to five percent of the budget of the facility for that fiscal year, shall be used by the contractor for scientific research, development, and education at the facility consistent with the research and development mission and objectives of the facility, including activities that increase the licensing potential of other inventions of the facility. If the balance exceeds five percent, 75 percent of the excess above five percent shall be payed by the contractor to the Treasury of the United States and the remaining 25 percent shall be used by the *contractor* only for the same purposes as described above. To the extent it provides the most efficient technology transfer, the licensing of subject inventions shall be administered by *contractor* employees on location at the facility.

This paragraph shall not be used in contracts for the operation of or performance of work at facilities or laboratories that are not Government-owned regardless of what percentage of the work at the facility or laboratory is funded by the Government and regardless of whether or not the construction or equipping of the facility was paid for out of funds provided by the Government.

§ 401.6 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 § 401.14.

(b) Whenever an agency receives information that it believes might warrant the exercise of march-in rights, before initiating any march-in proceeding, it shall notify the contractor in writing of the information and request informal written or oral comments from the contractor as well as information relevant to the matter. 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 section and in any supplemental agency regulations. The determination to exercise march-in rights shall be made by the head of the agency or his or her designee.

(d) Within 30 days after the 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 disignee 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 the march-in proceeding, including 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. In accordance with 35 U.S.C. 202(c)(5), agencies shall not disclose any such information obtained during a march-in proceeding to persons outside the Government except when such release is authorized by the contractor (assignee or licensee).

(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 along with a recommended determination. A copy of the findings of fact shall be sent to the contractor (assignee or exclusive licensee) by registered or certified mail. The contractor (assignee or exclusive licensee) and agency representatives will be given 30 days to submit written arguments to the head of the agency or designee; and, upon request by the contractor oral arguments will be held before the agency head or designee that will make the final determination.

(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 written or oral arguments submitted by the contractor (assignee or exclusive licensee) and agency representatives, 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 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 exercise 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 90 days after oral arguments, whichever is later, 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 exercise.

(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 section shall be deemed to include the inventor.

(j) An agency determination unfavorable to the contractor (assignee or exclusive licensee) shall be held in abeyance pending the exhaustion of appeals or petitions filed under 35 U.S.C. 206(2).

(k) Agencies are authorized to issue supplemental procedures not inconsistent with this part for the conduct of march-in proceedings.

§ 401.7 Small business preference.

(a) Paragraph (k)(4) of the clauses at § 401.14 implements the small business preference requirement of 35 U.S.C. 202(c)(7)(D). Contractors are expected to use efforts that are reasonable under the circumstances to attract small business licensees. They are also expected to give small business firms that meet the standard outlined in the clause a preference over other applicants for licenses. What constitutes reasonable efforts to attract small business licensees will vary with the circumstances and the nature, duration, and expense of efforts needed to bring the invention to the market.

(b) Small business firms that believe a nonprofit organization is not meeting its obligations under the clause may report their concerns to the Assistant Secretary. To the extent deemed appropriate, the Assistant Secretary will undertake informal investigation of the concern, and, if appropriate, enter into discussions or negotiations with the nonprofit organization to the end of improving its efforts in meetings its obligations under the clause. However, in no event will the Assistant Secretary intervene in negotiations or contractor decisions concerning the licensing of a specific subject invention. As appropriate the investigations, discussions, and negotiations of the Assistant Secretary will be coordinated with other agencies, including the Small Business Administration; and in the case of a contract for the operation of a Government-owned, contractor operated research or production facility, the Assistant Secretary will coordinate with

the agency responsible for the facility prior to any discussions or negotiations with the contractor.

§ 401.8 Reporting on utilization of subject inventions.

(a) Paragraph (h) of the clauses at §401.14 and its counterpart in the clause at Attachment A to OMB Circular A-124 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.

(b) In accordance with 35 U.S.C. 202(c)(5) and the terms of the clauses at § 401.14, agencies shall not disclose such information to persons outside the Government. Agencies should note that because of the amendment to 35 U.S.C. 202(c)(5), the clauses at § 401.14 do not require the contractor to mark the data as proprietary. This is a change from the clause prescribed by OMB Circular A-124 which requires the contractor to mark data if it wishes the agency to protect it. Agencies which obtain reports on utilization of subject inventions made under funding agreements with the marking requirements of the earlier OMB clause shall treat these reports in accordance with the provisions of amended 35 U.S.C. 202(c)(5) and shall not require them to be marked in order to afford them protection. The provisions of 35 U.S.C. 202(c)(5), as amended, shall take precedence over the conflicting language in the clause previously prescribed by OMB Circular A-124. Despite the lack of a formal requirement for contractors to mark reports on utilization, contractors are encouraged to include confidentiality markings to better insure that their reports will not be inadvertently released outside the agency.

§ 401.9 Retention of rights by contractor employee inventor.

Agencies which allow an employee/inventor of the contractor 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)(1) (i) and (iii); (f)(4); (h); (i); and (j) of the clause at § 401.14(a).

§ 401.10 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, but no others, as apply to the contractor under the patent rights clause of its funding agreement so that only one set of conditions applies to the subject invention.

§ 401.11 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 standard clauses.

(2) A request for a conveyance of title under paragraph (d) of the standard clauses.

(3) A refusal to grant a waiver under paragraph (i) of the standard clauses.

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

(5) A refusal to grant an extension of the exclusive license period under paragraph k. (2) of the clauses prescribed by either OMB Circular A-124 or OMB Bulletin 81-22.

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

(c) Appeals procedures established under paragraph (b) of this section shall include administrative due process procedures and standards for fact-finding at least comparable to those set forth in § 401.6(e)-(g) whenever there is a dispute as to the factual basis for an agency request for a conveyance of title under paragraph d. of the standard clauses, including any dispute as to whether or not an invention is a subject invention.

(d) To the extent that any of the actions described in paragraph (a) of this section are subject to appeal under the Contracts Dispute Act, the procedures under that Act will satisfy the requirements of paragraphs (b) and (c) of this section.

(e) As used in this section the term "standard clause:" means the clauses of § 401.14 of this Part and the clauses previously prescribed by either OMB Circular A-124 or OMB Bulletin 81-22.

§ 401.12 Licensing of background patent rights to third parties.

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

(b) A Federal agency will not require the licensing of third parties under any such provision unless the agency head determines that the use of the invention by others is necessary for the practice of a subject invention or for the use of a work object of the funding agreement and that such action is necessary to achieve practical application of the subject invention or work object. Any such determination will be on the record after an opportunity for an agency hearing and the contractor shall be given prompt notification of the determination by certified or registered mail.

§ 401.13 Administration of patent rights clauses.

(a) 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.

(b) Agencies shall not require yearly or other periodic reports by contractors listing subject inventions in any funding agreements entered into after the effective date of this Part. Close out reports are authorized at § 401.5(e).

(c) Agencies shall promptly grant, unless there is a significant reason not to, a request by a nonprofit organization under paragraph k. (2) of the clauses prescribed by either OMB Circular A-

124 or OMB Bulletin 81-22 since 35 U.S.C. 202(c)(7) has since been amended to eliminate the limitation on the duration of exclusive licenses. Similarly, unless there is a significant reason not to, agencies shall promptly approve an assignment by a nonprofit organization to an organization which has as one of its primary functions the management of inventions when a request for approval has been necessitated under paragraph k. (1) of the clauses prescribed by either OMB Circular A-124 or OMB Bulletin 81-22 because the patent management organization is engaged in or holds 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. As amended, 35 U.S.C. 202(c)(7) no longer contains this limitation.

(d) Paragraph (e)(4)-(6) of the clauses at § 401.14 obligates agencies to treat contractor invention disclosures and other related documents as confidential. These requirements were in part 9 of OMB Circular A-124 and should also be followed with respect to funding agreements predating this Part 401.

§ 401.14 Standard patent rights clauses.

(a) The following is the standard patent rights clause to be used as specified in § 401.3(a).

Patent Rights (Small Business Firms and Nonprofit Organizations) (Mar 1984)

(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, or any novel variety of plant which is or may be protected under the Plant Variety Protection Act (7 U.S.C. 2321 et. seq.).

(2) "Subject invention" means any invention of the *contractor* conceived or first actually reduced to practice in the performance of work under this *contract*, provided that in the case of a variety of plant, the date of determination (as defined in section 41(d) of the Plant Variety Protection Act, 7 U.S.C. 2401(d)) must also occur during the period of *contract* performance.

(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 (25 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 nonexclusive, nontransferable, 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 Application 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 or 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 two years of disclosure to the *Federal agency*. However, 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 initital patent application on a subject invention to which it elects to retain title within one year after election of title 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 disclosing and electing title under subparagraphs (1) and (2) may, at the discretion of the *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 title to 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* and Protection of the *Contractor* Right to File.

(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 invention within the times specified in (c), above. The *contractor's* license extends to its domestic subsidiary 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 *contractor* was awarded. The license is transferable only with the approval of the *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 subject invention pursuant to an application for an exclusive license submitted in accordance with applicable provisions at 37 CFR Part 404. This license will not be revoked in that field of use or the geographical areas in which the *contractor* has achieved practical application and continues to make the benefits of the invention reasonably accessible to the public. The license in any foreign country may be revoked or modified at the discretion of the *funding Federal agency* to the extent the *contractor*, its licensees, or the domestic

subsidiaries or affiliates have failed to achieve practical application in that foreign country.

(3) Before revocation or modification of the license, the *funding Federal agency* will furnish the *contractor* a written notice of its intention to revoke or modify the license, and the *contractor* will be allowed thirty days (or such other time as may be authorized by the *funding Federal agency* for good cause shown by the *contractor*) after the notice to show cause why the license should not be revoked or modified. The *contractor* has the right to appeal, in accordance with applicable regulations in 37 CFR Part 404, concerning the licensing of Government-owned inventions, any decision concerning the revocation or modification of the license.

(4) The *agency* agrees that in accordance with 35 U.S.C. 205 it will not disclose or release to third parties pursuant to requests under the Freedom of Information Act or otherwise copies of any document which the *agency* obtained under this clause which is part of an application for patent with the U.S. Patent and Trademark Office or any foreign patent office filed by the *contractor* (or its assignees, licensees, or employees) on a subject invention to which the *contractor* has elected to retain title.

(5) The *agency* agrees that in accordance with 35 U.S.C. 205 it will not disclose or release to third parties pursuant to requests under the Freedom of Information Act or otherwise any information submitted under paragraph (c), above, disclosing a subject invention for a reasonable time in order for the *contractor* to file a patent application on any subject invention in which it has elected or retains the right to elect retention of title. For purposes of this paragraph, a reasonable time shall be the time during which an initial patent application may be filed under paragraph (c) of this clause; provided, however, that the *agency* may make disclosure at its discretion if it finds that the same information has been previously published by the inventor, *contractor*, or otherwise.

(6) Nothing in subparagraphs (4) and (5) of this paragraph shall preclude the *agency* publishing as part of its regular technical information dissemination programs materials describing a subject invention to the extent such materials were provided as part of a technical report or other submissions of the *contractor* which were submitted independently of the requirements of this clause. However, if the *contractor* notifies the *agency* that a particular report or submission contains a disclosure of a subject invention to which it has elected or may elect title, the *agency* will use reasonable efforts to restrict its publication of the material for at least six months from the date of its receipt of the report or submission or, if earlier, until the *contractor* has filed an initial patent application. Moreover, nothing in subparagraphs (4) and (5) of this paragraph shall preclude the *agency* from releasing the documents described in those subparagraphs to other contractors of the *agency* on a confidential basis if such documents are relevant to the work being performed by those contractors.

(f) *Contractor* Action to Protect the Government's Interest.

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

(2) The *contractor* agrees to require, by written agreement, its employees, other than clerical and nontechnical employees, to disclose promptly in writing to personnel identified as responsible for the administration of patent matters and in a format suggested by the *contractor* each subject invention made under *contract* in order that the *contractor* can comply with the disclosure provisions of paragraph (c), above, and to execute all papers necessary to file patent applications on subject inventions and to establish the Government's rights in the subject inventions. This disclosure format should require, as a minimum, the information required by (c)(1), above. The *contractor* shall instruct such employees through employee agreements or other suitable educational programs on the importance of reporting inventions in sufficient time to permit the filing of patent applications prior to U.S or foreign statutory bars.

(3) The *contractor* will notify the *Federal agency* of any decisions 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 applications 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 the 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 or FAR*).

(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 agreed that the mutual obligations of the parties created by this clause constitute a contract between the subcontractor and the Federal agency with respect to the matters covered by the clause; provided, however, that nothing in this paragraph is intended to confer any jurisdiction under the Contract Disputes Act in connection with proceedings under paragraph (j) of this clause.

(h) Reporting on Utilization of Subject Inventions.

The *contractor* agrees to submit on request periodic reports no more frequently than annually on the utilization of a subject invention or on efforts at obtaining such utilization that are being made by the *contractor* or its licensees or assignees. Such reports shall include information regarding the status of development, date of first commercial sale or use, gross royalties received by the contractor, and such other data and information as the *agency* may reasonably specify. The *contractor* also agrees to provide additional reports as may be requested by the *agency* in connection with any march-in proceeding undertaken by the *agency* in accordance with paragraph (j) of this clause. As required by 35 U.S.C 202(c)(5), the *agency* agrees it will not disclose such information to persons outside the Government.

(i) Preference for United States Industry.

Notwithstanding any other provision of this clause, the *contractor* agrees that neither it nor any assignee will grant to any person the exclusive right to use or sell any subject inventions in the United States unless such person agrees that any products embodying the subject invention or produced through the use of the subject inventions will be manufactured substantially in the United States. However, in individual cases, the requirement for such an agreement may be waived by the *Federal agency* upon a showing by the *contractor* or its assignee that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or that under the circumstances domestic manufacture is not commercially feasible.

(j) March-in Rights.

The *contractor* agrees that with respect to any subject invention in which it has required title, the *Federal agency* has the right in accordance with the procedures in 37 CFR 401.6 and any supplemental regulations of the *agency* to require the *contractor*, an assignee or exclusive licensee of a subject invention to grant a nonexclusive, partially exclusive, or exclusive license in any field of use to a responsible applicant or applicants, upon terms that are reasonable under the circumstances, and if the *contractor*, assignee, or exclusive licensee refuses such a request the *Federal agency* has the right to grant such a license itself if the *Federal agency* determines that:

(1) Such action is necessary because the *contractor* or assignee has not taken, or is not expected to take within a reasonable time, effective steps to achieve practical application of the subject invention in such field of use.

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

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

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

(k) Special Provisions for *Contracts* with Nonprofit Organizations. If the *contractor* is a nonprofit 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, provided that such assignee will be subject to the same provisions as the *contractor*;

(2) The *contractor* will share royalties collected on a subject invention with the inventor, including Federal employee co-inventors when the subject invention is assigned in accordance with 35 U.S.C. 202(e) and 37 CFR 401.10;

(3) 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 invention will be utilized for the support of scientific research or education; and

(4) It will make efforts that are reasonable under the circumstances to attract licensees of subject inventions that are small business firms and that it will give a preference to a small business firm when licensing a subject invention if the *contractor* determines that the small business firm has a plan or proposal for marketing the invention which, if executed, is equally as likely to bring the invention to practical application as any plans or proposals from applicants that are not small business firms; provided, that the *contractor* is also satisfied that the small business firm has the capability and resources to carry out its plan or proposal. The decision whether to give a preference in any specific case will be at the discretion of the *contractor*. However, the *contractor* agrees that the Assistant Secretary of Commerce for Productivity, Technology, and Innovation or his or her designee may review the *contractor's* licensing program and decisions regarding small business applicants, and the contractor will negotiate changes to its licensing policies, procedures, or practices with the Assistant Secretary or designee when the Assistant Secretary's review discloses that the contractor could take reasonable steps to more effectively implement the requirements of this paragraph (k)(4).

(l) Communications. (Complete According to Instructions at 401.5(b))

(b) When the Department of Energy (DOE) determines to use alternative provisions under §401.3.(a)(4), the standard clause at § 401.14(a), above, shall be used with the following modifications:

(1) The title of the clause shall be changed to read as follows:

Patent Rights to Nonprofit DOE Facility Operators (Mar 1984)

(2) Add an "(A)" after "(1)" in paragraph (c)(1) and add subparagraphs (B) and (C) to paragraph (c)(1) as follows:

(B) If the invention was made under activities funded by the Naval Nuclear Propulsion or Nuclear Weapons Programs of *DOE*, then the provisions of this subparagraph (c)(1)(B) will apply in lieu of paragraph (c)(2) and (3). In such cases the contractor agrees to assign the Government the entire right, title, and interest thereto throughout the world in and to the subject invention except to the extent that rights are retained by the contractor through a greater rights determination or under paragraph (e), below. The contractor, or an employee-inventor, after consideration with the contractor, may submit a request for greater rights at the time the invention is disclosed and anytime thereafter. *DOE* agrees to process such a request in accordance with procedures at 37 CFR 401.15. Each determination of greater rights will be subject to paragraphs (b) and (g) of this clause and such additional conditions, if any, deemed to be appropriate by the *Department of Energy*.

(C) At the time an invention is disclosed in accordance with (c)(1)(A) above, or within 90 days thereafter, the contractor will submit a written statement as to whether or not the invention was made under a naval nuclear propulsion or nuclear weapons related program of the Department of Energy. If this statement is not filed within this time, subparagraph (c)(1)(B) will apply in lieu of paragraphs (c) (2) and (3). The contractor statement will be deemed conclusive unless, within 60 days thereafter, the Contracting Officer disagrees in writing, in which case the matter will be handled as a dispute under the Contract Disputes Act. Pending resolution of the matter the invention will be subject to paragraph (c)(1)(B). Pending resolution of the dispute the Department will either allow the contractor to file for a patent or work with the contractor so that any patent application filed by the Department is adequately drawn to address potential commercial applications of the invention.

(3) Paragraph (e) of the clause will be modified by adding the following:

(7) In addition to the license rights provided by subparagraph (1), above, in subject inventions to which the Government obtains title, the contractor will retain in such inventions an exclusive, royalty-free license, with right to sublicense, throughout the world, except if the contractor fails to disclose the invention within the times specified in (c) above, for the practice of the subject invention in all fields of use other than naval nuclear propulsion or nuclear weapons. Contractor's rights under this subparagraph are subject to paragraphs (h)–(k) of this clause, but they are not subject to subparagraph (2) of this paragraph. The Department will work with the contractor, if the contractor requests, so that any patent application filed by the Department is adequately drawn to address potential commercial applications of the invention in fields of use of interest to the contractor.

4. Paragraph (k)(3) of the clause will be modified as prescribed at § 401.5(f).

§ 401.15 Deferred determinations.

(a) This section applies to requests for greater rights in subject inventions made by contractors when deferred determination provisions were included in the funding agreement because one of the exceptions at § 401.3(a) was applied. A contractor requesting greater rights should include with its request information on its plans and intentions to bring the invention to practical application. Within 90 days after receiving a request and supporting information, or sooner if a statutory bar to patenting is imminent, the agency should seek to make a determination. In any event if a bar to patenting is imminent, unless the agency plans to file on its own, it shall authorize the contractor to file a patent application pending a determination by the agency. Such a filing shall normally be at the contractor's own risk and expense. However, if the agency subsequently refuses to allow the contractor to retain title and elects to proceed with the patent application under Government ownership, it shall reimburse the contractor for the cost of preparing and filing the patent application.

(b) If the circumstances or concerns which originally led the agency to invoke an exception under § 401.3(a) are not applicable to the actual subject invention or are no longer valid because of subsequent events, the agency should allow the contractor to retain title to the invention on the same conditions as would have applied if the standard clause at § 401.14(a) had been used originally.

(c) If paragraph (b) is not applicable then the agency shall make its determination based on an assessment whether its own plans regarding the invention will better promote the policies and objectives of 35 U.S.C. 200 than will contractor ownership of the invention. Moreover, if the agency is concerned only about specific uses or applications of the invention, it shall consider leaving title in the contractor with additional conditions imposed upon the contractor's use of the invention for such applications or with expanded Government license rights in such applications.

(d) A determination not to allow the contractor to retain title to a subject invention or to restrict or condition its title with conditions differing from those in the clause at § 401.14(a), unless made by the head of the agency, shall be appealable by the contractor to an agency official at a level above the person who made the determination. This appeal shall be subject to the procedures applicable to appeals under § 401.11 of this part.

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