

the current customs regulations and the 50-year-old policy allowing parallel importation of genuine, trademarked articles in the case where related parties own the trademarks here and abroad. Second, my bill settles the issue the same way in trademark infringement suits, most of which have followed the customs regulations, by making clear that the Lanham Trademark Act of 1946 does not restrict the importation or sale of foreign-made articles bearing a genuine trademark.

Parallel markets are legal in Japan, France, Germany, and in every other country which is a major American trading partner. It would be entirely inappropriate for the U.S. Government to provide protection to foreign manufacturers whose own governments do not provide comparable protection for discriminatory pricing by American manufacturers.

Finally, contrary to the foreign manufacturers' claims, there are no warranty or other consumer "deception" problems with parallel imports. The Magnuson-Moss Warranty Act requires manufacturers of consumer products sold in the United States to honor the written warranties they provide with their products unless they explicitly disclaim those warranties in writing. The purchaser of a parallel import can also look to the discount retailer from whom he purchased the product for warranty service, under the extensive network of existing Federal, State, and municipal consumer

protection laws and agencies, as well as private sector consumer "hotlines." In fact, most discount retailers offer even more extensive warranties than the manufacturers. Sales of parallel imports would not continue to rise year after year if consumers were being deceived or confused by buying from price-competitive sources.

Mr. President, I ask that the text of the bill be printed at this point in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

#### S. 2614

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Price Competitive Products Act of 1986".*

Sec. 2. Section 526 of the Tariff Act of 1930 is amended by adding at the end thereof the following:

"(f)(1) Nothing in this section shall restrict the importation or sale of foreign-made articles bearing a trademark or trade name identical with one owned and registered by a citizen of the United States or a corporation or association created or organized within the United States when—

"(A) both the foreign and the United States trademark or trade name are owned by the same person or business entity;

"(B) the foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control; or

"(C) the articles of foreign manufacture bear a recorded trademark or trade name

applied under authorization of the United States owner.

"(2) As used in paragraph (1), the term—

"(A) 'common ownership' means individual or aggregate ownership of more than 50 percent of the business entity; and

"(B) 'common control' means effective control in policy and operations and is not necessarily synonymous with common ownership."

Sec. 3. Section 42 of the Act of July 5, 1946 (15 U.S.C. 1124), known as the Lanham Trademark Act, is amended by—

(1) inserting "(a)" before "Except"; and

(2) adding at the end thereof the following:

"(b)(1) Nothing in this section shall restrict the importation or sale of foreign-made articles bearing a trademark or trade name identical with one owned and registered by a citizen of the United States or a corporation or association created or organized within the United States when—

"(A) both the foreign and the United States trademark or trade name are owned by the same person or business entity;

"(B) the foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control; or

"(C) the articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the United States owner.

"(2) As used in paragraph (1), the term—

"(A) 'common ownership' means individual or aggregate ownership of more than 50 percent of the business entity; and

"(B) 'common control' means effective control in policy and operations and is not necessarily synonymous with common ownership."\*

## INTERIM FINAL RULE ON GOVERNMENT PATENT POLICY

### DEPARTMENT OF COMMERCE

#### 37 CFR Part 401

[Docket No. 41278-6009]

#### Rights to Inventions Made by Nonprofit Organizations and Small Business Firms

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

**ACTION:** Interim final rule.

**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. It also reassigned responsibility for the promulgation of regulations implementing 35 U.S.C. 202-204 and the establishment of standard

funding agreement provisions from the Office of Management and Budget (OMB) to the Secretary of Commerce. This regulation, to appear at 37 CFR Part 401, establishes such implementing regulations and standard funding agreement provisions.

**DATES:** July 14, 1986. Comments by: September 12, 1986.

**FOR FURTHER INFORMATION CONTACT:** Mr. Norman Latker, Director, Federal Technology Management Policy Division, Office of Productivity, Technology and Innovation, U.S. Department of Commerce, Room 4837, Washington, DC 20230. Phone: 202-377-0659.

#### SUPPLEMENTARY INFORMATION:

##### Background

Pub. L. 98-620 amended Chapter 18 of Title 35, United States Code, and

assigned 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. Section 206 of Title 35 U.S.C. requires that the regulations and the standard funding agreement be subject to public comment before their issuance. Accordingly, on April 4, 1985, the Assistant Secretary published a notice of proposed rulemaking in the Federal Register (50 FR 13524) for public comment. As noted at that time, the regulation closely follows OMB Circular A-124 which the regulation will replace. Differences between the proposed rule and the Circular were highlighted in Supplementary Information accompanying the notice of proposed rulemaking.

Additionally, to comply fully with section 206 of Title 35 U.S.C., the

Department is requesting public comments on this Final Interim Rule. Comments should be sent to the address listed in the "FOR FURTHER INFORMATION CONTACT" section above. Comments received by September 12, 1986 will be considered in promulgating a final rule.

Copies of all comments received are available for public inspection in the Department's Central Reference Records Inspection Facility (CRRIF), room 6628 in the Hoover Building. Information about the availability of these records for inspection may be obtained from Mrs. Hedy Walters at (202) 377-3271.

#### Treatment of Substantive Comments on Regulation Provisions

Twenty-three comments from seventeen different sources were received on the proposed rule in response to the April 4 notice. The substantive issues raised in the twenty-three comments will first be discussed as they refer to the specific sections of the proposed regulation. General comments on issues not mentioned in the regulation will be discussed later in this Supplementary Information Section.

**Section 401.1(a)**—Two comments were received on this subject. One suggested adding a sentence alerting readers to the fact that the regulation also includes policy guidance concerning the administration of funding agreements that predate the effective date of the regulation. This was done.

The second comment suggested the reference to the statute implemented by this regulation should be to 35 U.S.C. 200-206 and 212 rather than just 202-204. This suggestion was rejected as authority granted the Secretary of Commerce by 35 U.S.C. 206 is limited to issuing regulations related only to sections 202-204.

**Section 401.1(d)**—Several comments from federal agencies suggested rewriting the first part of this section to better reflect the relationship of this regulation, agency regulations, and the FAR system. One agency suggested the regulation should permit agency-initiated deviations without approval by the Secretary of Commerce. This was rejected as being inconsistent with the statute's requirement to develop a standard patent rights clause. However, the need to obtain approval by the Secretary of Commerce of certain deviations requested by contractors has been eliminated and it has been made clear that modification and tailoring of clauses, as authorized elsewhere in the regulation, are not considered "deviations."

The suggestion by two agencies that the FAR be used as the regulatory

implementation of Chapter 18 of Title 35, U.S.C. was not accepted because it would be inconsistent with the law and Congressional intent.

It was also suggested that limitations on deviations were too strict and that the more liberal deviation procedures of the FAR system should be adopted. This was not accepted.

As a result of one agency comment, § 401.1(d) has been revised to specify when regulations should be submitted to the Secretary for review.

One agency suggested that the opening sentence of § 401.1(d) be deleted or amended as it "may throw the validity of every other regulation implementing Pub. L. 98-620 into doubt since lack of coverage of a point by the Commerce regulations could suggest that no coverage is permitted." It is, in fact, the purpose of § 401.1(d) and the statute to override inconsistent regulations. That is also why it is directed that all regulations supplementing this part be submitted to the Secretary for review for consistency. The Department of Commerce will work with those responsible for Part 27 of the FAR system to ensure that it is consistent with this regulation.

**Section 401.2(a)**—A comment suggested that the definition of "funding agreement" include language removing 35 U.S.C. 212 from its coverage. This concern has been dealt with in §§ 401.1(a) and 401.3(a) which exclude 35 U.S.C. 212 awards.

**Section 401.2(h)**—A comment suggested that the word "possession" be added in the definition of "nonprofit organizations" after the word "state." This has not been done as the statutory definition does not include the word "possession." The need for seeking an amendment to the act is being studied.

**Section 401.3(a)(2)**—One agency comment raised the question of whether the exceptional circumstance provision of 35 U.S.C. 202(a)(ii) can be used to exempt from contractor ownership a class of research contracts and all their resulting inventions on the grounds that national security may require classification of some of the results of the research. Three responding agencies believed the general principle of contractor ownership should be preserved as it does not preclude the advanced classification of research contracts and their resulting inventions for national security reasons under provisions of law other than 35 U.S.C. 202(a)(ii). Agencies are encouraged to use established national security classification procedures set out in regulation and Executive Order to protect from public disclosure those

inventions which pose security risks. These procedures allow the contractor to elect to retain title to such inventions. Thus, if at some later date security classification is lifted the contractor can immediately commence commercialization. However, it is recognized that in some limited situations agencies may be able to use national security to justify an alternate ownership provision under the exceptional circumstance paragraph of 35 U.S.C. 202(a)(ii). In such cases provision must be made to permit the contractor to elect ownership if there is no security classification of a reported invention by the agency within six months. Accordingly, § 401.3(b) provides that should an agency exercise an exceptional circumstance exception under § 401.3(a)(2) and include provisions to own inventions on the basis of national security, the contractor shall be entitled to own any invention if the agency does not classify the contractor's invention report within six months of the date it is reported to the agency, or within the same period the Department of Energy does not, as authorized by regulation, law, Executive Order or implementing regulations thereto, prohibit unauthorized dissemination of the invention. Contracts in support of DOE's naval nuclear propulsion program are exempt from this paragraph.

**Section 401.3(b)**—Two agency comments suggested that the requirement to use the standard clause with modifications, even when exceptions under subsection 202(a) are invoked, is too restrictive. The language of the Act, particularly the introduction to 35 U.S.C. 202(c), makes no distinction between funding agreements under which the contractor retains the right to elect title and those in which this right has been curtailed through one of the exceptions. A standard clause will promote maximum uniformity and assurance that small business and nonprofit contractors understand their obligations.

**Section 401.3(e)**—Comments were requested on whether determinations of class exceptions should be allowed. One comment stated that the law contemplates case-by-case exceptions and felt that only rarely could a class exception be justified. On the other hand, one agency comment stated that class determinations are needed to reduce paperwork. That agency suggested the use of a single determination be authorized for multiple contracts involving identical circumstances to facilitate contracting so long as each contractor is accorded

its right of appeal. This suggestion was accepted.

In response to one comment, language has been added requiring an agency to advise a contractor of its appeal rights when it notifies the contractor that one of the exceptions at 35 U.S.C. 202(a) are being invoked.

**Section 401.3(g)**—One agency comment expressed concern about this section's requirement to provide information to the Comptroller General. The requirement has been retained as it was developed during the drafting of OMB Circular A-124 at the request of and in consultation with the GAO.

**Section 401.4(b)(3)**—In response to one comment, the word "present" has been changed to "rely upon."

**Section 401.4(b)(6)**—In response to one comment, language has been added requiring the agency head to detail the basis for the rejection of facts found during the fact-finding process.

**Section 401.5(a)**—One agency comment pointed out that, particularly in grants or cooperative agreements where an agency has a policy of applying the standard clause in all subcontracts, paragraph (g)(3) is not needed and the standard clause could be simplified by eliminating paragraph (g)(2). This has been done by expanding § 401.5(a) to authorize such modification of the subcontract provisions of the standard clause at § 401.14.

**Section 401.5(d)**—At the suggestion of one agency, several minor changes to this section have been made. The most significant of these changes is the additional language that agencies are authorized to add to the standard clauses which allow agencies to identify international agreements that are "to be entered into." This change is needed to enable future agreements to be entered into during contract performance and is only to be applied to subject inventions made after the date of contract amendment.

In response to agency comments, the number of situations in which the language at the end of the subsection related to international agreements can be used has been increased to include all long-term contracts such as those frequently used for funding operation of Government-owned research facilities, and not just those involving a series of task orders.

**Section 401.5(e)(2)**—One comment suggested adding "or other form of protection of intellectual property" to this requirement. This has not been done because it goes beyond the scope of the Act.

**Section 401.5(e)(3)**—In response to several agency comments, the option of

the agencies to obtain annual listings of reported subject inventions has been retained.

**Section 401.5(f)**—One university comment raised the question of whether a university licensing office on the same campus but organizationally separate from a university-operated, Government-owned facility would meet the "most effective technology transfer" standard in the last sentence of paragraph (k)(3) which is prescribed at § 401.5(f). The situation described meets the standard.

One agency comment suggested that language be added at the end of § 401.5(f) as follows: "However, in the case of facilities of the Department of Energy, the paragraph shall be used in contracts designated by the Department of Energy as management and operating contracts for such facilities in accordance with Subpart 17.6 of the Federal Acquisition Regulations as supplemented by the Department of Energy Acquisition Regulations." This suggestion has not been accepted because it is inappropriate to include language that is tied to other regulations that could change and which may contain definitions based on other objectives and purposes. However, DOE may designate such contracts, and to the extent it finds that the proposed language is consistent with 35 U.S.C. 204(c)(7)(E) and § 401.5(f) it may prescribe such language in its supplementary regulations or instructions.

Several comments suggested the deletion of the words "at the facility" from the clause language prescribed by § 401.5(f). The basis for this suggestion was that limiting the use of income to research at the facility will act as a deterrent to university investment in the promotion of inventions. This change has been made because it is more appropriate to leave the question of royalty sharing with the facility to negotiations among the interested parties.

**Section 401.5(g)**—For clarity, a paragraph has been added authorizing agencies to require that contractors operating Government-owned facilities furnish certain information concerning their invention reporting and disclosure procedures.

**Section 401.6(c)**—For clarity, a change has been made that agencies are expected to give notice only if they have actual knowledge of assignees or licensees.

**Section 401.6(f)**—For clarity, the words "or adopt" have been added to the subsection.

**Section 401.6(g)**—To conform with § 401.4(b)(6), language has been added requiring the agency head to detail the reasons for rejecting facts found during the fact-finding process.

**Section 401.6(k)**—For clarity, a paragraph has been added providing that exclusive licensees include "partially exclusive licensees" for purposes of march-in proceedings.

**Section 401.7**—Several comments expressed concern that it should be made clear that the small business preference not be construed to prevent a university from providing a right of first refusal or other type of option to a larger business that is providing support under a long-term agreement for research related to the invention. This change has been made because small business preference is intended to inhibit industrial support of university research.

One agency comment suggested that the Secretary's role may conflict with that of the agency in matters pertaining to the "domestic preference" in licensing agreements. Therefore, it was suggested that "matters in regard to the contractor's licensing practices would be better handled by the contractor agency." This comment was rejected because the role of the Secretary will not include involvement in an individual licensing decision.

One comment suggested that the regulations "need to reflect that no individual small business will have standing to attack any particular license agreement." This suggestion was not accepted because it is already reflected in the subsection and the clause.

**Section 401.8(a)**—One agency comment suggested relaxing the requirement that agencies receive periodic information on the utilization of inventions pending instructions by this Department. In response, a change has been made that agencies refrain, to the extent feasible, from specifying specific formats for the information and instead rely on information in the form in which it is customarily prepared by the contractor for its own internal reporting purposes. The Paperwork Reduction Act will apply to any information gathering efforts. If further experience under the regulations indicates that agencies' requests to contractors are developed on an uncoordinated basis or create undue burden, a uniform reporting system may be instituted.

**Section 401.8(b)**—In response to one agency comment, a provision has been added requiring contractor marking of utilization data which they wish to have protected.

**Section 401.10**—Several agencies suggested revising this subsection so that agencies may apply additional

conditions. This has been permitted, providing the additional conditions are consistent with sections 201-206 of the statute. In addition, the royalty-sharing requirement with Government employee/inventors under paragraph (k)(2) of the clause at § 401.14(a) has been eliminated. Agencies may still require royalty-sharing with their employee/inventors on a case-by-case or other broader basis.

One university comment suggests that the coverage of this subsection be expanded so that disparate regulations do not develop among the various agencies. Agency activities will be monitored in order to attain consistency.

**Section 401.12**—One university comment suggests adding language to § 401.12 requiring the payment of reasonable royalties when licensing of background inventions is required. This change was not accepted because such payments can be negotiated in connection with the use of such provisions.

**Section 401.13**—One comment suggested that we add language to § 401.13 to state that the duration of an exclusive license granted by a university can extend for the life of the patent plus an extension of the patent term granted under the Drug Price Competition and Patent Term Restoration Act of 1984. As the Act now contains no restrictions on licensing, no such language is required.

One comment also requested the inclusion of language in § 401.13 making clear that a long-term license granted by a university to a small business firm prior to the enactment of Pub. L. 98-620 can be transferred to a large business firm without agency approval as part of the acquisition of the smaller firm. This suggestion was not accepted because under the current law, such a transfer does not require agency approval. The approvals required under OMB Circular A-124 for long-term licenses to other than small business firms are not applicable when a small business firm assigns this as part of a transfer of the firm to a larger firm.

**Section 401.13(b)**—In response to suggestions, advice in § 401.13(b) has been expanded to cover contract clauses predating Pub. L. 98-517.

Two university comments suggested waiving any requirement for agency approvals under funding agreements predating Pub. L. 98-620. This comment was not accepted as there is no authority to apply the law retroactively.

**Section 401.13(c)**—One agency suggested that the requirement that agencies not disclose information, which is part of a patent application, be limited to a period of no more than 18 months. This suggestion was accepted.

**Section 401.14(a) (Standard Clause)—Paragraph (c)(1)**—One comment suggested that this subparagraph should specifically state that a proposed patent application would meet the disclosure requirements. This suggestion was not accepted as a proposed patent application, by definition, would meet the disclosure requirement.

**Paragraph (c)(3)**—In response to one suggestion, language has been added to make clear that filing in supranational patent offices will satisfy the foreign filing requirements.

Several comments suggested:

(a) The requirement to make foreign filings within ten months of the corresponding initial patent application forces a university to make a commitment to file foreign much earlier than such a decision would normally be made.

(b) Amending the subsection to either "authorize the filing" or "make a commitment to file."

(c) Adding "will file or authorize the preparation and filing."

One agency comment opposed the above changes noting that a contractor may withdraw its authorization to file at a time too late to permit the agency to protect its reversionary interests.

The issue raised by the above comments has been deferred pending a more comprehensive cost-benefit analysis. Contractors are reminded that paragraph (c)(4) of the standard clause (Sec. 401.14(a)) allows contractors to request extensions of time to file patent applications.

**Paragraph (d)(ii)**—One comment suggested that it is unreasonable to expect a contractor to file in every patent office in the world in order to protect its foreign rights. No change has been made because the statute clearly specifies the steps a contractor must take to secure title against reversion to the agency.

**Paragraph (e)(4)-(6)**—One agency comment recommended that the content of these clauses be moved into the preamble to the standard clause in the same manner as OMB Circular A-124. This has been done.

**Paragraph (f)**—One agency comment suggested adding language to paragraph (f) requiring contractors to submit, without agency request, a confirmatory license and a copy of any U.S. patent. This suggestion was not accepted as paragraph (f)(1) already requires a confirmatory license and the optional language at § 401.5(e) allows agencies to add language so they can obtain patent numbers.

**Paragraph (h)**—One agency comment suggested altering the last sentence of

this paragraph to follow the statutory language most closely. Alternatively, the comment suggested that "without permission of the contractor" be inserted at the end of that sentence. The alternative suggestion has been adopted as disclosure with the permission of the contractor would appear consistent with the statutory intent and language.

**Paragraph (i)**—One comment noted that other countries have local manufacture regulations and that in some cases there could be conflicts with the domestic manufacturing requirement. The comment suggested that some provision should be made in this subsection that an agency will automatically ameliorate the U.S. manufacture requirement if there is a direct conflict with a similar clause in another country and a single commercial embodiment would involve inventions from both countries. This suggestion was not accepted as there is sufficient latitude under the existing language to allow an agency to waive its requirements under such circumstances and therefore explicit discussion in the regulation is not warranted.

**Paragraph (k)(2)**—Several agency comments have pointed out that by requiring royalty-sharing with agency employees, there may be situations in which the employee would be placed in a violation of the conflict-of-interest statutes. This change has been accepted by adding to the paragraph the words "where the agency deems it appropriate."

One university comment suggested "inventor" be changed to "inventors" and that "we would like to hold open the possibility of sharing royalties with close technical associates of the inventor(s)." For clarity the first change has been made. The second change has not been made as such payments can be made and considered as "expenses incidental to the administration of subject inventions."

**Section 401.14(b)**—For clarification, several changes have been made to the alternative language prescribed for use by DOE when the exception at § 401.3(a)(4) is invoked and title to inventions made under the Navy nuclear propulsion or nuclear weapons programs are retained by DOE. These changes included elimination of the exclusive license provided to the contractor in fields of use other than Navy nuclear propulsion or nuclear weapons. While the statute does not mandate this right to contractors, DOE is urged to take a liberal approach in providing such right on a case-by-case basis as being within the spirit of the statute.

One university comment suggested that the requirement to assign title to inventions under paragraph (c)(1)(B) as prescribed at 401.14(b)(2) be limited to subject inventions that are "nuclear weapons, naval propulsion systems, components thereof, or directly therein." This suggestion has been rejected because it is not consistent with the statute. DOE is urged to take a liberal approach to granting waivers to inventions that fall within paragraph (c)(1)(B) as it is written but which are not within the scope of this suggested language, since we believe that to be within the spirit and intent of the statute.

At the request of DOE, provision has been made for the use of an alternative clause. Provisions for record keeping and reporting requirements will be submitted to OMB for review under the Paperwork Reduction Act.

**Section 401.15(a)**—This section has been revised to allow the Department of Energy to use their existing waiver procedures in lieu of the procedures prescribed in this section.

#### Treatment of Comments on Issues Not Mentioned in the Regulation

**Successor contracts**—The notice of proposed rulemaking requested comments on the issue of transfer of patent rights to successor contractors in contracts for the operation of Government-owned facilities. One agency favored authorizing agencies to add provisions dealing with this. Several universities and nonprofit organizations opposed transfer of their ownership as not being authorized by law. The Department believes the best solution to this issue would be to allow the federal agency and each of the contractors involved to negotiate issues of allocation of royalties, continuation of commercialization efforts, and other related issues taking into account the equities of the parties.

**Cooperative Research Arrangements and "de minimus" Support**—Several commenters suggested that some "de minimus" standard be established to define a threshold contribution of Government funding to the making of a jointly funded invention below which the regulations should not apply. There is no authority to make this change because the Act does not define "subject invention" in terms of the size of the Government financial contributions in making the invention.

**Plant Variety Protection**—One university comment suggested that separate regulatory coverage was needed in this area and indicated an intent to discuss this with the Department of Agriculture and to submit

suggested changes later. A second comment expressed concern that, if literally read, the disclosure and election requirements could require substantial paperwork for plant varieties that were not found to be commercially viable. The Department of Agriculture indicates that they have no intent to require such paperwork. The Department of Commerce is working with the Department of Agriculture to determine whether changes in the clause may be appropriate for plant varieties.

#### Rulemaking Requirements

As stated in the proposed notice this regulation is not a major rule as defined in Executive Order 12291, and it adds no paperwork burdens. In fact, it reduces certain paperwork requirements of the regulations it replaces. And, as discussed in connection with the proposed rule, 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.

#### List of Subjects in 37 CFR Part 401

Inventions and patents, Nonprofit organizations, Small businesses, Grant programs, Government contracts, Administrative practice and procedure.

Dated: July 9, 1986.

D. Bruce Merrifield,

*Assistant Secretary for Productivity, Technology and Innovation.*

Accordingly, Chapter IV of Title 37 of the Code of Federal Regulations is amended by the addition of a new Part 401. to read as follows:

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

##### Sec.

- 401.1 Scope.
- 401.2 Definitions.
- 401.3 Use of the Standard Clauses at § 401.14
- 401.4 Contractor appeals of exceptions.
- 401.5 Modification and tailoring of clauses.
- 401.6 Exercise of match-in rights.
- 401.7 Small business preference.
- 401.8 Reporting on utilization of subject inventions.
- 401.9 Retention of rights by contractor employee inventor.
- 401.10 Government assignment to contractor of rights in invention of Government employee.
- 401.11 Appeals.
- 401.12 Licensing of background patent rights to third parties.

401.13 Administration of patent rights clauses.

401.14 Standard patent rights clauses.

401.15 Deferred determinations.

401.16 Submissions and Inquiries.

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 DDO 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. Certain sections also provide guidance for the administration of funding agreements which predate the effective date of this part. 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 to any march-in or appeal proceeding under a funding agreement subject to Chapter 18 of Title 35, U.S.C., initiated after the effective date of this part 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) (section 401.3(a)(i)-(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 supersedes OMB Circular A-124 and shall take precedence over any regulations dealing with ownership of inventions made by small businesses and nonprofit organizations which are inconsistent with it. This regulation will be followed by all agencies pending amendment of agency regulations to conform to this part and amended Chapter 18 of Title 35. Only deviations requested by a contractor and not inconsistent with Chapter 18 of Title 35, United States Code, may be made without approval of the Secretary. Modifications or tailoring of clauses as authorized by § 401.5 or § 401.3, when alternative provisions are used under

§ 401.3(a) (i)-(4), are not considered deviations requiring the Secretary's approval. Three copies of proposed and final agency regulations supplementing this part shall be submitted to the Secretary at the office set out in § 401.16 for approval for consistency with this part before they are submitted to the Office of Management and Budget for review under Executive Order 12291 or, if no submission is required to be made to OMB, before their submission to the Federal Register for publication.

(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 subcontractors 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. This part is also not intended to apply to arrangements under which sponsors reimburse the Government or facility contractor for the contractor employee's time in performing work for the sponsor. Such arrangements are not considered "funding agreements" as defined at 35 U.S.C. 201(b) and § 401.2(a) of this part.

#### § 401.2 Definitions.

As used in this part—

(a) The term "funding agreement" means any contract, grant, or cooperative agreement entered into between any Federal agency, other than the Tennessee Valley Authority, and any contractor for the performance of experimental, developmental, or research work funded in whole or in part by the Federal Government. 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. 85-536 (15 U.S.C. 632) and implementing regulations of the Administrator of the Small Business Administration. For the purpose of this part, the size standards for small business concerns involved in Government procurement and subcontracting at 13 CFR 121.5 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 "Secretary" means the Secretary of Commerce 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 and all funding agreement limitations under this subparagraph on the contractor's right to elect title to a subject invention are limited to inventions occurring under the above two programs.

(b) When an 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. When an agency justifies and exercises the exception at § 401.3(a)(2) and uses an alternative provision in the funding agreement on the basis of national security, the provision shall provide the contractor with the right to elect ownership to any invention made under such funding agreement as provided by the Standard Patent Rights Clause found at § 401.14(a) if the invention is not classified by the agency within six months of the date it is reported to the agency, or within the same time period the Department of Energy does not, as authorized by regulation, law or Executive Order or implementing regulations thereto, prohibit unauthorized dissemination of

the invention. Contracts in support of DOE's naval nuclear propulsion program are exempted from this paragraph.

(c) 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.

(d) 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.

(e) Before utilizing any of the exceptions in paragraph 401.3(a) of this section, the agency shall prepare a written determination, including a statement of facts supporting the determination, that the conditions identified in the exception exist. A separate statement of facts shall be prepared for each exceptional circumstances determination, except that in appropriate cases a single determination may apply to both a funding agreement and any subcontracts issued under it or to any funding agreement to which an exception is applicable. 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 along with a notification to the contractor or prospective contractor of its rights to appeal the determination of the exception under 35 U.S.C. 202(b)(4) and § 401.4 of this part.

(f) Except for determinations under § 401.3(a)(3), the agency shall also provide copies of each determination, statement of fact, and analysis to the 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. If the Secretary of Commerce believes that any individual determination or pattern of determinations is contrary to the policies and objectives of this chapter or

otherwise not in conformance with this chapter, the Secretary shall so advise the head of the agency concerned and the Administrator of the Office of Federal Procurement Policy and recommend corrective actions.

(g) 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 fiscal year beginning with October 1, 1982.

(h) 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, it may file a protest in accordance with 13 CFR 121.9. If it questions nonprofit status, it may require the prospective contractor to furnish evidence to establish its status as a nonprofit organization.

#### § 401.4 Contractor appeals of 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 (1) contrary to the policies and objectives of this chapter or (2) 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. Pending final resolution of the claim the contract may be issued with the patent rights provision proposed by the agency; however, 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 his/her designee 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 rely upon. 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 or adopt 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 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 to be clearly erroneous, but must explicitly state the rejection and indicate the basis for the contrary finding. 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 arguments and rebuttal. The decision of the agency head or the designee shall be in writing and, if it is unfavorable to the contractor shall include an explanation of the basis of the decision. 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. A contractor adversely affected by a determination under this section may, at any time within sixty days after the determination is issued, file a petition in the United States Claim Court, which shall have jurisdiction to determine the appeal on the record and to affirm, reverse, remand, or modify as appropriate, the determination of the Federal agency.

#### § 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. In grants and cooperative agreements (and in contracts, if not inconsistent with the Federal Acquisition Regulation) agencies wishing to apply the same clause to all subcontractors as is applied to the contractor may delete paragraph (g)(2) of the clause and delete the words "to be performed by a small business firm or domestic nonprofit organization" from paragraph (g)(1). Also, if the funding agreement is a grant or cooperative agreement, paragraph (g)(3) may be deleted. When either paragraph (g)(2) or paragraphs (g)(2) and (3) are deleted, the remaining paragraph or paragraphs should be renumbered appropriately.

(b) Agencies should complete paragraph (l), "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 (l).

(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, their nationals, 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, and its nationals or an 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 involves performance 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 or to be entered into by the Government after the effective date of this *funding agreement* and effectuate those license or other rights which are necessary for the Government to meet its obligations to foreign governments, their nationals and international organizations under such treaties or international agreements with respect to subject inventions made after the date of the amendment.

(e) Agencies may add subparagraphs to paragraph (f) of the clauses at § 401.14 to require the contractor to do one or more 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.

(3) Provide periodic (but no more frequently than annual) listings of all subject inventions which were disclosed to the agency during the period covered by the report.

(f) If the contract is with a nonprofit organization and is for the operation of a Government-owned contractor-operated 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 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 paid 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 effective technology transfer, the licensing of subject inventions shall be administered by contractor employees on location at the facility.

(g) If the contract is for the operation of a Government-owned facility, agencies may add the following at the end of paragraph (f) of the clause at § 401.14(a):

(5) The contractor shall establish and maintain active and effective procedures to ensure that subject inventions are promptly identified and timely disclosed and shall submit a description of the procedures to the contracting officer so that the contracting officer may evaluate and determine their effectiveness.

#### § 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 paragraph (j) of 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 within 30 days, or later if the agency has not initiated the procedures below, 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 on the basis of the available information.

(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 and if known to the agency, 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 designee shall undertake or refer the matter to another official for fact-finding.

(e) Fact-finding shall be conducted in accordance with the procedures established by the agency. Such procedures shall be as informal as practicable and be consistent with principles of fundamental fairness. The procedures should afford the contractor the opportunity to appear with counsel, submit documentary evidence, present witnesses and confront such persons as the agency may present. A transcribed record shall be made and shall be available at cost to the contractor upon request. The requirement for a transcribed record may be waived by mutual agreement of the contractor and the agency. Any portion of 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 or adopt 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 to be clearly erroneous, but must explicitly state the rejection and indicate the basis for the contrary finding. Written notice of the determination whether march-in rights will be exercised shall be made by the head of the agency or designee and sent to the contractor (assignee or exclusive licensee) by certified or registered mail within 90 days after the completion of fact-finding or 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 exercised.

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

(i) The procedures of this Part shall also apply to the exercise of march-in rights against inventors receiving title to subject inventions under 35 U.S.C. 202(d) and, for that purpose, the term "contractor" as used in this 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. 203(2).

(k) For purposes of this section the term "exclusive licensee" includes a partially exclusive licensee.

(l) 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. Paragraph (k)(4) is not intended, for example, to prevent nonprofit organizations from providing larger firms with a right of first refusal or other options in inventions that relate to research being supported under long-term or other arrangements with larger companies. Under such circumstances it would not be reasonable to seek and to give a preference to small business licensees.

(b) Small business firms that believe a nonprofit organization is not meeting its obligations under the clause may report their concerns to the Secretary. To the extent deemed appropriate, the 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 meeting its obligations under the clause. However, in no event will the Secretary intervene in ongoing negotiations or contractor decisions concerning the licensing of a specific subject invention. All the above investigations, discussions, and negotiations of the Secretary will be in coordination with other interested 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 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. Agencies exercising this right should accept such information, to the extent feasible, in the format that the contractor normally prepares it for its own internal purposes. The prescription of forms should be avoided. However, any forms or standard questionnaires that are adopted by an agency for this purpose must comply with the requirements of the Paperwork Reduction Act. Copies shall be sent to the Secretary.

(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. Contractors will continue to provide confidential markings to help prevent inadvertent release 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)(i) and (iii); (f)(4); (h); (i); and (j) of the clause at section 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 as apply to the contractor under the patent rights clause of its funding agreement. Agencies may add additional conditions

so long as they are consistent with 35 U.S.C. 201-206.

**§ 401.11 Appeals.**

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

(b) 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.

(c) Each agency shall establish and publish procedures under which any of the agency actions listed in paragraph (b) 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.

(d) Appeals procedures established under paragraph (c) 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 clause, including any dispute as to whether or not an invention is a subject invention.

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

**§ 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. The contractor shall be given prompt notification of the determination by certified or registered mail. Any action commenced for judicial review of such determination shall be brought within sixty days after notification of such determination.

**§ 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 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 inasmuch as 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. The policy of this subsection should also be followed in connection with similar approvals that may be required under Institutional Patent Agreements, other patent rights clauses, or waivers that predate Chapter 18 of Title 35, United States Code.

(c) The President's Patent Policy Memorandum of February 18, 1983, states that agencies should protect the confidentiality of invention disclosure, patent applications, and utilization reports required in performance or in consequence of awards to the extent permitted by 35 U.S.C. 205 or other applicable laws. The following requirements should be followed for funding agreements covered by and predating this Part 401.

(1) To the extent authorized by 35 U.S.C. 205, agencies shall not disclose to third parties pursuant to requests under the Freedom of Information Act (FOIA) any information disclosing a subject invention for a reasonable time in order for a patent application to be filed. With respect to subject inventions of contractors that are small business firms or nonprofit organizations, a reasonable time shall be the time during which an initial patent application may be filed under paragraph c of the standard clause found at 401.14(a) or such other clause may be used in the funding agreement. However, an agency may disclose such subject inventions under the FOIA, at its discretion, after a contractor has elected not to retain title or after the time in which the contractor is required to make an election if the contractor has not made an election within that time. Similarly, an agency may honor an FOIA request at its discretion if it finds that the same information has previously been published by the inventor, contractor, or otherwise. If the agency plans to file itself when the contractor has not elected title, it may, of course, continue to avail itself of the authority of 35 U.S.C. 205.

(2) In accordance with 35 U.S.C. 205, agencies shall not disclose or release for a period of 18 months from the filing date of the application 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 (of its assignees, licensees, or employees) on a subject invention to

which the contractor has elected to retain title.

(3) A number of agencies have policies to encourage public dissemination of the results of work supported by the agency through publication in Government or other publications of technical reports of contractors or others. In recognition of the fact that such publication, if it included descriptions of a subject invention could create bars to obtaining patent protection, it is the policy of the executive branch that agencies will not include in such publication programs copies of disclosures of inventions submitted by small business firms or nonprofit organizations, pursuant to paragraph c of the standard clause found at 401.14(a), except that under the same circumstances under which agencies are authorized to release such information pursuant to FOIA requests under paragraph (c)(1) of this section, agencies may publish such disclosures.

(4) Nothing in this paragraph is intended to preclude agencies from including in the publication activities described in the first sentence of paragraph (c)(3) of this section, the publication of materials describing a subject invention to the extent such materials were provided as part of a technical report or other submission of the contractor which were submitted independently of the requirements of the patent rights provisions of the contract. However, if a small business firm or nonprofit organization notifies the agency that a particular report or other submission contains a disclosure of a subject invention to which it has elected title or may elect title, the agency shall use reasonable efforts to restrict its publication of the material for six months from date of its receipt of the report or submission or, if earlier, until the contractor has filed an initial patent application. Agencies, of course, retain the discretion to delay publication for additional periods of time.

(5) Nothing in this paragraph (c) is intended to limit the authority of agencies provided in 35 U.S.C. 205 in circumstances not specifically described in this paragraph (c).

#### § 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)

###### (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 Public Law 85-536 (15 U.S.C. 832) 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 of the disclosure, of the nature, purpose, operation, and the physical, chemical, biological or electrical characteristics of the invention. The disclosure shall also identify any publication, on sale or public use of the

invention and whether a manuscript describing the invention has been submitted for publication and, if so, whether it has been accepted for publication at the time of disclosure. In addition, after disclosure to the agency, the contractor will promptly notify the agency of the acceptance of any manuscript describing the invention for publication or of any on sale or public use planned by the contractor.

(2) The contractor will elect in writing whether or not to retain title to any such invention by notifying the Federal agency within 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 initial 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 or international patent offices within either ten months of the corresponding initial patent application or six months from the date permission is granted by the Commissioner of Patents and Trademarks to file foreign patent applications where such filing has been prohibited by a Secrecy Order.

(4) Requests for extension of the time for disclosure, election, and filing under subparagraphs (1), (2), and (3) may, at the discretion of the agency, be granted.

(d) Conditions When the Government May Obtain Title.

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; provided that the agency may only request title within 60 days after learning of the failure of the contractor to disclose or elect within the specified times.

(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 contract 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 the subject invention pursuant to an application for an exclusive license submitted in accordance with applicable provisions at 37 CFR Part 404 and agency licensing regulations (if any). 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 and agency regulations (if any) concerning the licensing of Government-owned inventions, any decision concerning the revocation or modification of the license.

(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 agree that the mutual obligations of the parties created by this clause constitute a contract between the subcontractor and the Federal agency with respect to 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 without permission of the contractor.

(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 invention will be manufactured substantially in the United States. However, in individual cases, the requirement for such an agreement may be waived by the Federal agency upon a showing by the contractor or its assignee that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or that under the circumstances domestic manufacture is not commercially feasible.

(j) March-in Rights.

The contractor agrees that with respect to any subject invention in which it has acquired title, the Federal agency has the right in accordance with the procedures in 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 agency deems it appropriate) 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 inventions, 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 Secretary 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 Secretary when the Secretary's review discloses that the contractor could take reasonable steps to implement more effectively 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 unless a substitute clause is drafted by DOE:

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

**Patent Rights to Nonprofit DOE Facility Operators**

(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 subject invention occurred under activities funded by the naval nuclear propulsion or weapons related programs of DOE, then the provisions of this subparagraph (c)(1)(B) will apply in lieu of paragraphs (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, with authorization of the contractor, may submit a request for greater rights at the time the invention is disclosed or within a reasonable time thereafter. DOE will process such a request in accordance with procedures at 37 CFR 401.15. Each determination of greater rights will be subject to paragraphs (h)-(k) 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 occurred under a naval nuclear propulsion or 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 determination of the Contracting Officer will be deemed conclusive unless the contractor files a claim under the Contract Disputes Act within 60 days after the Contracting Officer's determination. Pending resolution of the matter, the invention will be subject to subparagraph (c)(1)(B).

(3) 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, except that the Department of Energy is authorized to process deferred determinations either in accordance with its waiver regulations of this section. 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 of 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 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.

#### § 401.16 Submissions and inquiries.

All submissions or inquiries should be directed to Federal Technology Management Policy Division, telephone number 202-377-0659, Room H4837, U.S. Department of Commerce, Washington, DC 20230.

## NOTICE OF AVAILABILITY OF SUPPLEMENT TO MOTION PICTURE AGREEMENT

### LIBRARY OF CONGRESS

#### Copyright Office

#### Availability of Supplement to the Motion Picture Agreement for the Use of Independent Filmmakers Making Ten or Fewer Motion Picture Prints

**AGENCY:** Copyright Office, Library of Congress.

**ACTION:** Notice of availability of supplement to the Motion Picture Agreement.

**SUMMARY:** This notice is issued to advise the public that the Library of Congress is making available a Motion Picture Supplement for the Use of Independent Filmmakers Making Ten or Fewer Motion Picture Prints. The effect of this Supplement to the Motion Picture Agreement is to make possible, under certain conditions, the deposit of a videotape copy in lieu of a best edition film print to satisfy the deposit requirements of sections 407 and 408 of the copyright law where independent filmmakers, as that term is commonly understood in the trade, have made no more than ten prints of a motion picture. This Supplement is immediately available for use.

**FOR FURTHER INFORMATION CONTACT:** Dorothy Schrader, General Counsel, Copyright Office, Library of Congress, Washington, DC 20559, Telephone: (202) 287-8380.

**SUPPLEMENTARY INFORMATION:** Under 17 U.S.C. 407, the owner of copyright, or of the exclusive right of publication, in a work published with notice of copyright in the United States is required to deposit two copies of the work in the Copyright Office for the use or disposition of the Library of Congress. Section 408 requires deposit of two

copies of published works in connection with applications for copyright registration. By establishing deposit requirements, Congress intended to provide a useful legal record of the copyrighted work that meets both the practical needs of depositors and the needs and wants of the Library. In keeping with this policy, the statute authorizes the Copyright Office to issue regulations liberalizing the deposit requirements. With respect to motion pictures, the regulations permit the deposit of only one copy.

In addition to reducing the number of copies to be deposited, a long standing solution to the hardship posed by the deposit of motion pictures at a time when demand for prints is most urgent has been the Motion Picture Agreement. The Agreement, available since 1946 except for a short period during initial implementation of the 1976 Copyright Act, provides that a motion picture may be returned to the depositor in exchange for a promise to deposit, upon recall, a best edition copy of archival quality. Although the Agreement continues to work well with the film community at large, it fails to resolve the deposit problems of independent filmmakers who often are operating on tight budgets. In late 1983, the Office became aware of the hardships the deposit requirements impose on independent filmmakers. Representatives of independent filmmakers pointed out that

for an independent producer with only one or two existing prints of a work, the requirement to surrender a 'best edition' print to the Copyright Office can impose a substantial hardship. Moreover, for independent distributors who are willing to distribute films of artistic merit but marginal commercial potential, the additional cost of an archive print can make the difference between distributing the work or not. Films which cannot be distributed are less likely to

be made. The adverse impact of the deposit requirement, then, is real and significant to the fragile economy of independent filmmaking. (Letter of November 30, 1983 from Lawrence Sapadin, Executive Director, Association of Independent Video and Filmmakers, Inc.)

The Copyright Office has held meetings with interested parties, representatives of the Association of Independent Video and Filmmakers, Inc., and Library officials to determine the best way to both alleviate the financial hardship on small filmmakers, and meet the acquisition needs of the Library. After extensive discussion, the Library has decided that the severe financial hardship that these filmmakers experience in fulfilling normal deposit requirements merits making available a Supplement to the Motion Picture Agreement. This Supplement allows independent filmmakers who have made no more than ten prints of a motion picture to satisfy the copyright requirements for deposit and registration with a nonreturnable archival quality 3/4 inch videotape. However, the Supplement also gives the Librarian the option of requesting a best edition film print within five years after the deposit of the videotape. Where the Librarian exercises this option, the additional deposit will not ordinarily be required until ninety days after the five year period has expired.

If the producer makes an eleventh print within five years, the Librarian may request deposit before the five year period has expired. Under the terms of the Supplement, the Depositor must immediately notify the Librarian of production of the eleventh print within the specified period. Within 30 days of such notification, the Library of Congress will decide whether to demand a best edition film print.

★  
**COUNCIL ON GOVERNMENTAL RELATIONS**

Eleven Dupont Circle, Suite 480 Washington, D.C. 20036 202-861-2595

*COG R memo 5/12*

April 18, 1985

TO: Patents, Copyrights and Rights in Data Committee  
FROM: George B. Bush *GBB*  
SUBJECT: Regulations to Implement PL 98-620

Enclosed is a self-explanatory memo from Norm Latker with its marked-up version of PL 96-517 as amended by PL 98-620.

Since my memo of April 8, 1985 furnished you with the proposed replacement to OMB Circular A-128, the draft implementing regulations mentioned in the enclosed memo have been omitted.

Enclosure