

## THE PENNSYLVANIA STATE UNIVERSITY

207 OLD MAIN BUILDING  
UNIVERSITY PARK, PENNSYLVANIA 16802Vice President for  
Research and Graduate Studies

October 2, 1979

Area Code 814  
865-6332The Honorable Allen E. Ertel  
1030 Longworth House Office Building  
Washington, DC 20515

Dear Congressman Ertel:

Our patent program is administered through this office, and I have followed with great interest the development of S414 and HR2414 revisions to Title 35 of the United States Code. On July 25 Dave Schuckers and I visited with Bob Hall to discuss HR 2414. As I indicated to Mr. Hall, we strongly endorse the main features of this legislation, but we feel that Section 204 should be revised before enactment. As agreed during our July 25 meeting, this letter is to provide specific recommended changes in Section 204. I wish to acknowledge the major help provided in preparing this material by Robert F. Custard, University Patent Counsel.

Recommendations

The attachment consists of a definition of "gross royalties" to be inserted on page 5, plus a mark-up of Section 204. The recommended changes (a) eliminate all negotiating and accounting problems related to the administration of this provision; and (b) provide the Government a small fixed share in all "gross royalties" and "after-tax" profits.

"Gross royalties" has been carefully defined so that a prospective licensee can fund the filing and prosecution of patent applications without having such funding classed as "royalties" thereby facilitating the critical element of advance limited funding of marginally valuable inventions, without which no technology transfer occurs.

We recommend a "small Government sharing" rather than having a threshold to pass, because the "threshold" might require the adoption of governmentally-approved accounting procedures. Further, this sharing would be on total royalty or sales in order to eliminate the extensive negotiation which would be entailed whenever multiple patent licenses are included in a single royalty payment; or when multiple patents result from one Federal funding; or when the Federally-funded portion is the minor portion of a multi-million dollar Federal funding. This latter point is especially important when the contractor/patentee may have contributed many years of effort and extensive investment prior to the Government supplying minor Federal funding.

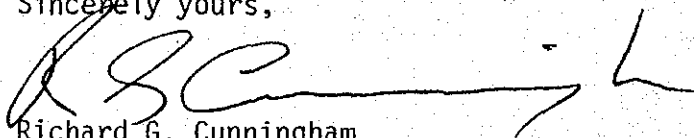
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We consider this approach superior to that presently embodied in Section 204 even though the Government may obtain "Return of Investment" exceeding the initial investment. Simplicity and uniformity are more desirable than procedures which entail protracted negotiation and separate administrative interpretation for each invention and by each funding agency. This seems particularly important, since one of the main justifications of this legislation is the elimination of the extreme variability in patent policies from one Federal agency to the next.

In summary, we are impressed with the substantial effort involved in the preparation and sponsorship of this legislation, and we endorse it as having the potential to enhance University/Industry technology transfer. It will be appreciated if you will consider the attachment which we feel contains desirable amendments to this legislation; and if you agree, forward it to the appropriate staff members for detailed consideration. If discussion of these suggestions would be helpful, please call me or Robert F. Custard, our University Patent Counsel (814-865-1765).

Your personal efforts on behalf of the University community are appreciated.

Sincerely yours,



Richard G. Cunningham  
Vice President for Research  
and Graduate Studies

RGC:hw

Attachment

cc: W. Marcy  
D. R. Schuckers  
✓ R. F. Custard

1 501(a) of the Internal Revenue Code (26 U.S.C.  
2 501(a)).

Insert { "(J) THE TERM 'GROSS ROYALTIES' WHEN USED IN  
RELATION TO A 'SUBJECT INVENTION' MEANS ALL INCOME  
FROM THE LICENSING OF THE INVENTION, BUT SHALL  
EXCLUDE ADVANCES FROM PROSPECTIVE LICENSEES FOR THE  
DOCUMENTED EXPENDITURES FOR THE OBTAINING OF U. S.  
AND FOREIGN PATENTS UP TO AND INCLUDING THE GRANT  
OF THE PATENTS.

3 "SEC. 202. DISPOSITION OF RIGHTS.—(a) Each non-  
4 profit organization or small business firm may, within a rea-  
5 sonable time after disclosure as required by paragraph (c)(1)  
6 of this section elect to retain title to any subject invention:  
7 *Provided, however,* That a funding agreement may provide  
8 otherwise (i) when the subject invention is made under a con-  
9 tract for the operation of a Government-owned research or  
10 production facility, or (ii) in exceptional circumstances when  
11 it is determined by the agency that restriction or elimination  
12 of the right to retain title to any subject invention will better  
13 promote the policy and objectives of this chapter. The rights  
14 of the nonprofit organization or small business firm shall be  
15 subject to the provisions of paragraph (c) of this section and  
16 the other provisions of this chapter.

17 "(b)(1) Any determination under (ii) of paragraph (a) of  
18 this section shall be in writing and accompanied by a written  
19 statement of facts justifying the determination. A copy of  
20 each such determination and justification shall be sent to the  
21 Comptroller General of the United States within thirty days

1 pected to take within a reasonable time, effective steps  
 2 to achieve practical application of the subject invention  
 3 in such field of use; or

4 "(b) that such action is necessary to alleviate  
 5 health or safety needs which are not reasonably satis-  
 6 fied by the contractor, assignee, or their licensees; or

7 "(c) that such action is necessary to meet require-  
 8 ments for public use specified by Federal regulations  
 9 and such requirements are not reasonably satisfied by  
 10 the contractor, assignee, or licensees; or

11 "(d) that such action is necessary because the  
 12 agreement required by section 205 has not been ob-  
 13 tained or waived or because a licensee of the exclusive  
 14 right to use or sell any subject invention in the United  
 15 States is in breach of its agreement obtained pursuant  
 16 to section 205.

17 "SEC. 204. RETURN OF GOVERNMENT INVEST-

18 MENT.—(a) If a nonprofit organization or small business firm  
 19 receives ~~\$250,000~~ <sup>GROSS ROYALTIES</sup> in after tax profits from the licensing of

20 any subject invention, within a period of ten years following

21 ~~disclosure of the invention,~~ <sup>THE GOVERNMENT</sup> the United States shall be entitled

22 to a share, ~~to be negotiated,~~ <sup>OF 3 PER CENTUM OF ALL SAID ROYALTIES.</sup> of up to 50 per centum of all net

23 income during said period from licensing received by the con-

24 tractor above \$250,000; ~~Provided, however, That in no event~~

25 shall the United States be entitled to an amount greater than

1 ~~that portion of the Federal funding under the funding agree-~~  
2 ~~ment under which the subject invention was made which was~~  
3 ~~expended on activities related to the making of the invention.~~

4       “(b) In addition, if a nonprofit organization or small  
5 business firm <sup>SELLS</sup> ~~receives~~ after tax profits in excess of  
6 \$2,000,000 on sales of products embodying or manufactured  
7 by a process employing a subject invention, during a period  
8 of ten years commencing with commercial exploitation of the  
9 subject invention, the Government shall be entitled to a  
10 share, <sup>OF 1 PER CENTUM OF ALL SAID SALES AS LONG AS</sup> ~~to be negotiated,~~ of all additional income accruing  
11 <sup>A VALID PATENT COVERS THE PRODUCT OR PROCESS,</sup> ~~from such sales up to the amount of the portion of the Gov-~~  
12 ~~ernment funding under the funding agreement under which~~  
13 ~~the invention was made which was expended on activities~~  
14 ~~related to the making of the invention less any amounts re-~~  
15 ~~ceived by the Government in accordance with paragraph (a)~~  
16 ~~of this section 204.~~

17       “(c) ~~The Director of the Office of Federal Procurement~~  
18 ~~Policy is authorized and directed to revise the figures of~~  
19 ~~\$250,000 and \$2,000,000 in paragraphs (a) and (b) of this~~  
20 ~~section at least every three years in light of changes to the~~  
21 ~~Consumer Price Index or other indices which he considers~~  
22 ~~reasonable to use.~~

23       “SEC. 205. PREFERENCE FOR UNITED STATES INDUS-  
24 TRY.—Notwithstanding any other provision of this chapter,  
25 no small business firm or nonprofit organization which re-

1 501(a) of the Internal Revenue Code (26 U.S.C.  
2 501(a)).

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