

May 21, 1968

Mr. Raymond J. Woodrow
Associate Treasurer and Director
Research and Project Administration
Princeton University
Princeton, New Jersey 08540

Dear Ray:

We appreciate very much your sending us the recent correspondence between Mr. Charles B. Brown of the Department of Health, Education and Welfare and yourself relating to the proposed Institutional Patent Agreement. We also are pleased that you asked for our comments.

We note that Mr. Wallace Treibel forwarded you a copy of his comments on the agreement as well as to us. We will comment on both your and his responses, sending copies of this letter to him and to Mr. Brown for their information.

In studying both responses we are struck in general, by the favorable tone of your letters. It seems to us that the major differences of opinion relate primarily to possible conflicts between the Department patent policies and the policies in effect at the various universities. All other stated differences appear to involve primarily inconsistencies between the terminology used in various paragraphs or beliefs that some sections are unduly restrictive, particularly those with specified time limits.

To provide a somewhat different perspective on the problem, it might be worthwhile to examine the alternatives to the institutional agreement. In essence there are two. These are a) to allow the Department to retain patent rights and b) to obtain a determination of patent rights ownership on a case-by-case basis. Both of these alternatives have been and are being used today.

It is our belief that in the light of the experience the Department has had using these alternatives, the Department wishes now to provide a third alternative which will provide an efficient, effective and workable method for obtaining the greatest public benefit through maximum use of the incentives provided by the patent system.

In our view the existence of the proposed Institutional agreements will greatly facilitate this process, yet at the same time provide adequate safeguards for the prevention of unreasonable royalties and repressive practices.

The proposed agreement should overcome the following very real and major disadvantages which the two present alternatives have:

- a) In the case of retention of patent rights ownership by the Government.
 1. No mechanism exists or is contemplated in Government agencies for developing an adequate licensing program which would allow inventions to be brought widely and promptly to the marketplace.
 2. The Government is obliged to license royalty-free and non-exclusively to all comers, with no provision for selecting the best licensee.
 3. Inordinately long times are required to process the patents and develop licenses.

- b) In the case of case-by-case ownership determination
 1. A lengthy and complicated petition must be prepared on every case providing justification for the request.
 2. Processing of these petitions by the Department is inordinately time-consuming and costly.

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For approximately the past four years we have been operating under alternative (b), above, and find that it is workable. The overall time required in any given case can be and has been greatly reduced by preparing and processing the various documents required concurrently. We now have filed 10 petitions for determination under Paragraph 8.2(b) of the Department regulations, and have received 3 favorable determinations and no unfavorable ones. We have successfully negotiated one license on one of the cases and are currently well advanced in negotiating similar licenses in three additional cases.

I would estimate that our costs in developing and filing these petitions averages about \$1000 to \$1500 each.

To bring this perspective into direct focus on the proposed agreement in the light of our past four year's experience, we will comment on the numbered points in your letter as follows:

- a) We agree completely with you on your numbered paragraphs:
1. The agreement would benefit the public interest, the university and the inventor.
 3. We agree that the terminology appearing to distinguish between contracts and grants is muddy in the proposed agreement and should be clarified and that the same patent policy should apply to both.
 10. The agreement provisions should be specified for inclusion in the license.
 11. Proof of lack of administrative facilities for patenting should not be required.
 12. Your suggestion on time limits is reasonable and necessary.
 13. Publication should not be inhibited, but a requirement to publish is not necessary or desirable.
 14. Routine reporting of data on production and royalties paid are considered confidential by industrial licensees

and will not materially aid the Government in determining whether undesirable practices are occurring.

15. We agree with your suggestion that the Assistant Secretary make the final authoritative decision on whether the institutional agreement should apply in any given case.

b) We agree in part with your numbered paragraphs:

2. The proposed agreement, although more restrictive than the original agreements in some respects, represents a considerably less restrictive arrangement than was in effect some five to eight years ago, and reflects quite faithfully the terms being used in case-by-case determinations currently. In our experience, we are finding these terms quite workable.
4. We feel that where the institution's existing patent policy conflicts with HEW's patent policy, the HEW policy should govern. In this case there are two alternatives for the professor and the institution:
 - a. Refuse to accept the grant or contract in the first place.
 - b. Accept the grant or contract abiding by HEW patent policy in a separate memorandum or agreement of understanding.

Princeton is one of a rather small minority of institutions which have strong feelings against the institution retaining patent rights ownership. We see no reason why this whole situation could not be resolved easily, as we have done in several individual cases, by arranging for Research Corporation or other such non-profit organization to provide patenting and licensing services on all inventions resulting from HEW grants and contracts under a contractual

arrangement separate and distinct from that used for other types of inventions from that institution. This sort of an arrangement obviously needs much further exploration however.

5. Paragraph IV(b) seems to us to be mostly red tapish, costly and perhaps unnecessary, but not necessarily too stringent or unjust. We do not feel that mere complaints from industrial concerns are sufficient justification to do away with such a provision. We would think that this provision can and should be modified to make it acceptable to all parties without much difficulty.
6. It is our understanding that prompt reporting of inventions and the intention to patent can be interpreted to include a suitable time for evaluation of the invention as to patentability and commercial potential. As we see it simply reporting that patenting will be attempted does not commit the university irrevocably to that course of action should later study show that patenting is not suitable. The main purpose of this provision appears to be to ensure that either the university or the DHEW will seriously consider this course of action before the Patent Office time clock runs out.
7. While we agree with you that the form of the license to the government should be flexible, we do not agree that including state and municipal governments should inhibit licensing generally. What will suffer, of course, will be the universities and the inventor, as they will collect no royalties. We also feel you are interpreting the language of this section much too strictly; it is our opinion that this provision refers only to sales by the licensee to his original customer, and does not require the licensee to trace down the distribution train to the ultimate consumer.
8. Our view is that five years after first commercial sale or eight years after the date of the license

would be fair, equitable and workable in today's climate in the drug industry. Shorter periods than these can sometimes be tolerated in other industries where Food and Drug Administration clearance is not required. However, these times may well have to be lengthened in future years.

9. Article VI(f) regarding royalty payments to inventors, is not drafted to recognize differences between institutions and differences in the ways inventions may be handled. The article states how DHEW inventions are to be handled irrespective of the institution's policies and desired manner of handling royalty income. The special Princeton case you cite as an example where the inventor receives more than the 15% is not pertinent, since it was not encumbered by a DHEW grant and was not in the drug field.

Turning now to Wally Treibel's comments we find he has agreed generally with your comments and suggestions. Taking them up one by one:

Rights to Sub-contractors - Article IV(b)

This is discussed under 5. above. We feel it is DHEW's intent to make special provisions in the circumstances outlined by Mr. Treibel. For example, the Department, Merck and Stevens Institute of Technology have developed and are operating under a three-way agreement to deal with essentially this very situation, and for which Research Corporation is handling the patenting and licensing.

Decision to File - Article V(c)

This is discussed under 6. above.

Period of Exclusivity - Article VI(d)

Discussed under 8. above.

Formula for Royalties to Inventor VI(f)

Discussed under 9. above. Here again it should be pointed out

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that DHEW policy may conflict with university policy, but that in our opinion DHEW policy should prevail on all those inventions arising from use of DHEW funds. It is our responsibility as university research administrators to help DHEW develop a fair royalty payment policy for all such inventions whether such a policy conflicts with an especially liberal university policy or not. In our opinion, the inventor's share listed in the proposed DHEW is fair under today's conditions.

Applicability of Agreement - Article XV

Discussed under 15. above.

The above comments and remarks are meant to be constructive and objective, and are based on our rather long and varied experience in dealing with all manner of inventions having all kinds of strings attached. We feel Mr. Brown has done a remarkable job in bringing a logical and acceptable solution to a very complex and emotion-ridden problem within our grasp in such a short time. He deserves every kind of cooperation and understanding that can be given him and what he needs most are honest objective and thoughtful responses from all of us. I think you, Wally and most others have done this, and expect you will continue to do so as long as there are receptive ears in Washington.

We would be pleased to receive your further comments on our opinions at any time, and thank you again for keeping us informed on this vital subject.

Sincerely yours,



Willard Marcy

WM:kp

copies to:

Mr. Wallace C. Treibel
Mr. Charles B. Brown
Mr. Howard Wile