

THE UNIVERSITY OF WISCONSIN
MADISON 6, WISCONSIN

OFFICE OF THE PRESIDENT

March 22, 1968

Mr. Charles B. Brown
Special Assistant for Patent Policy
U. S. Department of Health,
Education, & Welfare
Office of Secretary
Washington, D. C. 20201

Dear Mr. Brown:

This is in reply to your letter of March 5 presenting us with a proposed form of an institutional agreement on patent matters. Enclosed please find a memorandum of suggestions representing the combined views of the Wisconsin Alumni Research Foundation and the University of Wisconsin on ways in which we think the institutional agreement might be improved.

In general, may I say that I think you are to be congratulated for having brought a long and arduous effort to a successful conclusion. In the main, we are very well pleased with the proposed agreement that you have devised. We make the suggestions enclosed in the spirit of trying to achieve what all of us are interested in; that is, to bring discoveries financed wholly or in part by HEW into early and general use in the public interest.

If our suggestions need any further clarification or explanation, we would be pleased to meet with you or to prepare additional information, as you wish. In any event, I expect to be in Washington on April 4 and 5 and would be pleased to meet in your office to discuss these matters.

Thank you again for your considerable effort in developing the institutional agreement form.

Sincerely yours,

William H. Young
Assistant to the President

WHY/nmb

Enc. 1

cc: Mr. Howard Bremer, WARF

bcc: Mr. Ward Ross
Mr. Marvin Woerpel

SUGGESTED AMENDMENTS AND MODIFICATIONS
TO PROPOSED INSTITUTIONAL PATENT AGREEMENT
SUBMITTED BY THE UNIVERSITY OF WISCONSIN
AND WISCONSIN ALUMNI RESEARCH FOUNDATION

The following amendments and modifications of the proposed institutional patent agreement reflect our past experience in seeking determinations on a case-by-case basis and the attitudes of industry toward some of the restrictive provisions in those determinations. We fully believe that adoption of these changes will make the proposed institutional patent agreement not only more acceptable to Grantees, but more workable as a practical matter. The sections of the proposed institutional agreement in which changes are suggested will be reproduced below, with any added material being indicated by underlining and any deleted material by bracketing.

1. VI. Administration of Inventions on Which the Grantee Elects to File Patent Applications

(c) The Grantee shall administer those subject inventions to which it elects to retain title in the public interest and shall, except as provided in paragraph (d) below, make them available through licensing on a nonexclusive, irrevocable, royalty-free, or reasonable and uniform royalty basis to competent and properly qualified applicants.

In our judgment, the addition indicated strengthens the ability of the Grantee or its designee to select licensees who will most quickly bring the subject inventions into early and general use in the public interest. The addition further serves to bring the language of the institutional agreement into conformity with the language used in an earlier determination

(Case No. N-G21-65).

2. VI. (d) The Grantee may license a subject invention on an exclusive basis if it determines that nonexclusive licensing will not be effective in bringing such inventions to the commercial market in a satisfactory manner. Exclusive licenses should be

issued only after reasonable efforts have been made to license on a nonexclusive basis, or where the Grantee has determined that an exclusive license is necessary as an incentive for development of the invention or where market conditions are such as to require licensing on an exclusive basis. Any exclusive license issued by Grantee under a U. S. patent or patent application shall be for a limited period of time and such period shall not exceed five [three] years from the date of the first commercial sale in the United States of America of a product or process embodying the invention, or ten [eight] years from the date of the exclusive license, whichever comes first, provided that the licensee shall use all reasonable effort to effect introduction into the commercial market as soon as practicable, consistent with sound and reasonable business practices and judgment. Any extension of the maximum period of exclusivity shall be subject to approval of the Grantor and shall be considered on its merits upon written request and justification. Upon expiration of the period of exclusivity or any extension thereof, licenses shall be granted to all competent and properly qualified applicants at a uniform royalty rate not in excess of the exclusive license royalty rate.

Holding the period of exclusivity to a maximum of 3 years from the date of the first commercial sale in the United States of a product or process embodying the invention, or 8 years from the date of the exclusive license, whichever comes first, would in our experience seriously decrease the possibilities of licensing. In patent licensing exclusivity is granted as an incentive for the licensee to invest his own money and effort in technically developing an invention or discovery to the practical commercial stage and often in also developing a market for the invention. Accordingly, an unrealistic limitation on the period of exclusivity which can be offered can be critical to a potential licensee's decision to proceed with a development effort. Such potential licensee must have some assurance that he will have a sufficient time during which he is substantially free from competition to recoup his investment or he cannot be persuaded to make such investment. As a result of extensive and varied

experience in the licensing of inventions, we find that an exclusive period of 5 years from the date of first commercial sale, or 10 years from the date of the first exclusive license, tend to be the lower limits of interest to a potential licensee where it appears that he must make a substantial contribution to the further development of the invention. Consequently, we feel that the 5 and 10 year limitation may be vital to a viable and practical agreement. This does not mean that any and all exclusive licenses which may be granted under the terms of the institutional agreement would automatically have the 5 and 10 year limitations in them. As has been customary with the Wisconsin Alumni Research Foundation, each licensing situation would be considered on its merits and the period of exclusivity would be established on the basis of the expenditure or potential expenditure which the licensee would have to make to bring the product or process into public use. In some situations, where the 5 and 10 year limitations appear to afford more than the necessary incentive, lesser alternative periods of exclusivity would be given. In other situations, however, an extension of the exclusive period may be necessary because of heavy and unexpected investments which must be made by the licensee during development of the invention.

It is believed that the additional amendments indicated are in the public interest and that in any decision dealing with the extension of the period of exclusivity, such amendment would serve to create a basis for indicating that due regard had been given to the considerations affecting all of the parties in interest. Moreover, these amendments serve to bring this Section into conformity with language from the previous determination referred to above and with the amendment to Section VI. (c) above.

3. VI. (f) If permitted by its patent policies and the terms of the grant or award under which an invention is made, the Grantee may share royalties received with the inventor(s), provided that the Grantee shall not pay the inventor(s) more than (1) fifty percent (50%) of the first \$3,000 gross royalty paid under the patent, (2) twenty-five percent (25%) of the gross royalty income between \$3,000 and \$13,000, and (3) fifteen percent (15%) of the gross royalty in excess of \$13,000. [The balance of the royalty income after payment of expenses incident to the administration of the invention shall be utilized for the support of educational and research pursuits.]

The above deletion is based upon the expectation that, under the institutional agreement, many inventions will have to be evaluated and administered. Accordingly, the restriction in this clause to a single invention in terms of expenses involved does not anticipate expenditures for nonproductive inventions. It is believed that new Section VI. (h) set forth below will be much more equitable to the Grantee or its designee.

4. VI. (h) It is well recognized that all inventions and discoveries which may be assigned to Grantees under the terms and provisions of this agreement will not generate a net income through licensing or otherwise. Accordingly, expenses incurred by the Grantee incident to the administration of all inventions assigned to it under this agreement may be deducted on a cumulative basis from any royalty or other income generated by all such inventions. The payments of the royalty income after deduction of such cumulative expenses shall be utilized for the support of educational and research pursuits.

5. X. Disclosure and Publication

The Grantee shall exert its best effort to publish disclosures of inventions on which patent applications have been filed.

The Grantor shall have the right to publish and make disclosure of any information relating a subject invention, whenever deemed to be in the public interest provided reasonable opportunity is afforded to the Grantee to file a [United States] patent application if the Grantee determines to seek patent protection of the invention.

Deletion of the words "United States" is intended to take into account the one year grace period which exists in the United States before the publi-

cation becomes a statutory bar to the filing of a patent application. Such grace period does not exist in most foreign countries. Thus, one may have an ample opportunity within a year after a publication to file a United States patent application, but may have been barred from any foreign filing because of that publication. With the current trend toward international cooperation and with the availability of foreign markets, every reasonable opportunity should be given to the Grantee to obtain patent coverage on a broad basis.

6. XIV. Termination

This agreement may be terminated by either party for convenience upon [thirty (30)] ninety (90) days written notice. Disposition of rights in, and administration of inventions made under grants or awards entered into during and subject to this agreement will not be affected by a termination.

The above change is suggested because of the real possibility that negotiation of a license under a particular invention may be in progress when the right to terminate is exercised and, as a consequence, a 30 day termination period may also serve to terminate the possibility of completing a bonafide negotiation and attendant agreement. A 90 day termination notice would be much more realistic in such situations and would enable the Grantee institution, or its designee, to complete a negotiation and agreement which may be in progress at the time notice of termination is given and before the termination becomes effective.

March 22, 1968