

August 5, 2003

MEMORANDUM FOR RONALD POUSSARD
DIRECTOR
DEFENSE ACQUISITION REGULATIONS COUNCIL

FROM:  RODNEY P. LANTIER, DIRECTOR
REGULATORY AND FEDERAL ASSISTANCE PUBLICATIONS
DIVISION (MVA)

SUBJECT:  FAR Case 1999-402, FAR Part 27 Rewrite in Plain Language

Attached are comments received on the subject FAR case published at 68 FR 31790; May 28, 2003. The comment closing date was July 28, 2003.

<u>Response Number</u>	<u>Date Received</u>	<u>Comment Date</u>	<u>Commenter</u>
1999-402-1	05/29/03	05/29/03	Jim Durkis
1999-402-2	07/15/03	07/15/03	Collins Nkono
1999-402-3	07/21/03	07/21/03	COGR
1999-402-4	07/23/03	07/23/03	Boeing
1999-402-5	07/28/03	07/28/03	Microsoft Corporation
1999-402-6	07/28/03	07/28/03	Ron Tschippert
1999-402-7	07/28/03	07/28/03	Bill Eklund
2002-402-8	07/28/03	07/28/03	ABA
1999-402-9	07/29/03	07/29/03	CODSIA
1999-402-10	07/29/03	07/29/03	Peter Gallagher
1999-402-11	08/06/03	07/28/03	The Regents of the University of California/OGC

<u>Response Number</u>	<u>Date Received</u>	<u>Comment Date</u>	<u>Commenter</u>
1999-402-12	10/16/03	10/16/03	Gail Oler (DCAA)

Attachments

1999-402-1



"Durkis, Jim C."
<jdurkis@doeal.gov>

05/29/2003 10:55 AM

To: "farcase.1999-402@gsa.gov" <farcase.1999-402@gsa.gov>
cc:
Subject: FAR case 1999-402

Proposed definition change of "small business concern" should not be adopted. Prior version far simpler and easier to utilize. Proposed definition requires too much subjective interpretation, would require far too much mental calculus, and would be subject to constant challenge.

Jim C. Durkis
Patent Attorney
NNSA Service Center
phone: (505) 845-6185
fax: (505) 845-6913
jdurkis@doeal.gov

1999-402-2



"collins nkono"
<collins950@go.com>

To: collins950@go.com
cc: (bcc: FARCASE 1999-402)
Subject: MTUAL ASSISTANCE

07/15/2003 12:00 PM

ATTN:

Dear friend,

The purpose of this letter is to solicit for your co-operation regarding the investment fund at my disposal. Before delving into details, please permit me to apologize should my request cause you any surprise because of no previous relationship between us.

I am MR. COLLINS NKONO, a cousin to the late LAURANT DESIRE KABILA, the President of the Congo Democratic Republic (CDR) who was assassinated on the 16th January, 2001 in Kinshasha. We were all held in the city of Lubumbashi in the South-eastern province of Katanga. I lived with the Late Kabila in the Hilltop Palace in Kinshasha until his untimely death which resulted to serious confusion in the hilltop.

During the confusion that ensued in the hilltop palace, I was privileged to remove some vital documents indicating 1) trunk box of money deposited in Ghana for safekeeping as a family treasure in a security company, the fund is being used for procurement of arms for helping Laurant Kabila to fight the rebels in the northern province of CDR.

The box contain Ten Million Five Hundred Thousand United State Dollars (US\$10,5m) The money is for the purchase of military hardware and for the up-keep of the foreign soldiers helping Kabila in the civil war.

I have at my disposal all the vital documents relating to the deposit of the trunk box kept in the security company here in Ghana as a family treasure.

The money was the proceed of Diamond sales which the rebels group has been fighting to gain access which resulted in the killing of innocent citizens and destruction of property.

Please, if you can assist me in safeguarding and investing this money in a real estate properties and stocks as my trustee, send your reply to the address below and please also include your full name and address, private telephone number, and fax number for easy communication with you. Your benefit and entitlement will be discussed and agreed upon when you reply.

Please i am very sorry for addressing this letter to my self, i want to make sure that it was sent to you.

Awaiting your reply, as transferring the money out of Africa has become very urgent for safekeeping.

Thanks,

MR. COLLINS NKONO
REPLY TO collynkono950@yahoo.com

GO.com Mail

Get Your Free, Private E-mail at <http://mail.go.com>

1999-402-3



"Anne Taylor"
<ataylor@cogr.edu>

To: farcase.1999-402@gsa.gov
cc:
Subject: FAR Case 1999-402

07/21/2003 03:33 PM

Attached are comments on the above referenced FAR Case. If you have any questions, do not hesitate to call or write.

COGR
(202) 289-6655



FAR Part 27 Rewrite--Comments.

COGR

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COUNCIL ON GOVERNMENTAL RELATIONS

1200 New York Avenue, N.W., Suite 320, Washington, D.C. 20005
(202) 289-6655/(202) 289-6698 (FAX)

402-3
July 21, 2003

General Services Administration, FAR Secretariat (MVA)
1800 F Street NW, Room 4035
ATTN: Laurie Duarte
Washington, D.C. 20405

Dear Ms. Duarte:

The Council on Governmental Relations (COGR) is an association of over 150 research-intensive universities in the United States that works with federal agencies to develop a common understanding of the impact that policies, regulations and practices may have on the research conducted by its membership. COGR has a longstanding interest in the Bayh-Dole Act (P.L. 96-517) and implementing federal regulations (37 CFR 401 et. seq.) and in rights in data under federal research awards. For that reason we have closely reviewed the proposed "plain language" rewrite of FAR Part 27, Patents, Data, and Copyrights announced in the Federal Register on May 28, 2003 (68 FR 31790).

We support the proposed rewrite, and believe it will help achieve the objective of simplifying and making the contents of FAR Part 27 easier to understand. We note that the rewrite contains few substantive policy changes of concern to universities, and that some provisions now simply reference rather than repeat the Department of Commerce Bayh-Dole Act implementing regulations (e.g. 27.304—1(b)). We believe these changes are improvements over the previous version.

We agree with the substitution of "assert" for "establish" with regard to copyrighted works in 27.404—3, and are pleased to note that use of Alternate IV granting contractors permission to assert copyright in any data first produced in the performance of the contract remains the prescription for basic or applied research performed solely by colleges and universities in the 52.227—14 Rights in Data clause. We also were very pleased to note that the FAR provision that implements National Security Decision Directive (NSDD) 189 now is more visible in 27.404—4 (a). This provides that in contracts for basic or applied research with universities or colleges, agencies shall not place any restrictions on the conduct of or reporting on the **results of unclassified basic or applied research (except as provided by statute)**. **Previously this provision was located in 27.404—(g)(2)).** ~~Despite the reaffirmation of NSDD 189 as official government~~

Ms. Duarte
July 21, 2003
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results of unclassified basic or applied research (except as provided by statute). Previously this provision was located in 27.404—(g)(2)). Despite the reaffirmation of NSDD-189 as official government policy by the current administration, some agencies continue to attempt to place restrictions on publication and dissemination of information in research contracts with universities. In our view such restrictions raise both policy issues and issues of proper FAR implementation. We hope that the more prominent placement of this provision in FAR Part 27 will help address the problem.

We appreciate the opportunity to comment.

Sincerely,

Kate Phillips

1999-402-4

July 23, 2003

Ms. Laurie Duarte
FAR Secretariat (MVA)
1800 F Street, NW, Room 4035
Washington, DC 20405.

Subject: Federal Acquisition Regulation, FAR Part 27 Rewrite in Plain Language,
FAR Case 1999-402

Dear Ms. Duarte:

The Boeing Company has completed an internal review of the subject proposed rule (68 FR 31790) that was published in the Federal Register on May 28, 2003. We appreciate the opportunity to provide comments. We offer the following comments for your review and inclusion in any final rule that the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council anticipates publishing in response to this proposed rule.

Much has been said in other forums about the proposed addition of a definition of "commercial computer software." We are in general agreement with those comments.

We have four (4) principal comments regarding the proposed rule that have not been as prominent in the debate.

1. Copyrights -- The proposed rewrite is relatively faithful to the current regulatory framework. However, the policy itself has been of concern to us for some time, and we believe it appropriate that the policy change. We believe that the United States Government should not be "authorizing" the Contractor to establish or to assert copyright in works that the Contractor does not deliver. The Government simply requires adequate license rights in the delivered data so the Government can disseminate the documents to fulfill Government purposes. The policy at 27.404-3, Copyrighted Works, requires the Contractor to obtain the Contracting Officer's permission, "prior to asserting rights in a copyright work containing data first produced in the performance of the contract." No guidance is provided for the Contracting Officer to decide whether to grant permission. Permission should be granted in any situation where the user against who the copyright would be asserted is not using the works to perform Government contracts.
2. Commercial Computer Software -- FAR Part 27.405-3(a)(2), Commercial Computer Software, states that the Contracting Officer should be cautious about accepting the vendor's standard commercial licensing terms, and instructs to use the FAR clause at 52.227-19, Commercial Computer Software License, alone or in conjunction with the commercial computer software license agreement. The 52.227-19 clause is supposed to satisfy "federal law". It does so by simply outlining what the rights of use are without including any provisions for protection of the software (confidentiality), limitations of liability, warranty, maintenance, etc. that are commonplace in commercial license agreement and that do not run afoul of "federal law". The Commercial Item laws, regulations, and guidelines encourage Contracting Officers to accept the standard commercial terms. The FAR rewrite currently discourages that practice, which will likely discourage non-traditional contractors from being involved.
3. Notice Requirement -- The FAR clause at 52.227-19, Commercial Computer Software License, is unclear as to when a notice is required. The requirement comes at the end of subparagraph (b)(3). If it applies to all commercial computer software, we believe that the notice requirement should be labeled as subparagraph (c).



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4. "Specifically Used" -- The existing FAR clause at 52.227-16, Addition Data Requirements, is a deferred ordering clause. The Government can order all data first produced under the contract or data "specifically used". It has been unclear in earlier versions of the clause just what the phrase "specifically used" has meant. It was easy, however, to get this phrase deleted from the clause, because the policy authorized the Contracting Officer to delete it whenever the data was unnecessary to meet the Government needs, which occurred frequently because this data was not even specified for delivery. The policy has been revised to take out the authorization to delete "specifically used".

The issue is important because it places at risk of deferred ordering the design and analysis tools of the Contractor, at least when the contract instructs the Contractor to use particular ones for contract performance. We would like the policy to retain the authorization for deleting this phrase.

Subparagraph (d) of the proposed clause does not provide a solution. It allows the Contractor to list specific items that will not be subject to deferred ordering, but completing that list prior to contract award is difficult on many R&D contracts where you do not know what actually will be used. While the Government may counter that the Government could not then identify these items at the outset for their specific use in the performance of the contract, we would still be more comfortable if the authorization to delete the phrase were carried forward into the new regulatory framework.

Thank you for the opportunity to provide our comments. If there are any questions, or we can be of further assistance, please contact Mr. Mark Olague at (253) 773-2173 or Mr. Warren Reece at (312) 544-2862.

Sincerely,



Pamela A. McInerney
Director of Contract Policy



1999-402-5

Via Electronic E-Mail - farcase.1999-402@gsa.gov

July 28, 2003

General Services Administration
FAR Secretariat (MVA)
1800 F Street
Room 4035
Attn: Ms. Laurie Duarte
Washington, DC 20405

Re: Proposed Rule: FAR Part 27 Rewrite in Plain Language (48 CFR part 27),
68 Fed. Reg. 31790 (November 21, 2001), FAR Case 1999-402

Dear Ms. Duarte:

Microsoft Corporation respectfully submits the following comments for the above-referenced proposed Federal Acquisition Regulation ("FAR") Part 27 rewrite.

Microsoft, through its active community of resellers and distributors, licenses and sells to the Federal Government ("Government") a substantial amount of software and software related services that meet the definition of "commercial items" as defined by the Federal Streamlining Act of 1994 ("FASA") and its implementing definitional regulations at FAR 2.101. The software and related services are, as required by regulation, sold pursuant to the requirements of FAR Part 12, "Acquisition of Commercial Items." Microsoft is concerned that the proposed changes to the FAR are inconsistent with FASA and will substantially impair and impose unnecessary burdens and ambiguity on commercial item manufacturers and contractors when licensing software or selling software services to the Government.

Of primary concern is the fact that the proposed rule, without apparent justification, treats commercial computer software differently than all other commercial items sold or leased to the Government by establishing a separate definition that is unnecessary and, in fact, inconsistent with and departs from the statutory definition for commercial items enacted by Congress in FASA.

FASA (and the almost identical regulatory definition) defines a "commercial item" as any of the following:

(A) Any item, other than real property, that is of a type customarily used by the general public or by nongovernmental entities for purposes other than governmental purposes, and that -

(i) has been sold, leased, or licensed to the general public; or

(ii) has been offered for sale, lease, or license to the general public.

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(B) Any item that evolved from an item described in subparagraph (A) through advances in technology or performance and that is not yet available in the commercial marketplace, but will be available in the commercial marketplace in time to satisfy the delivery requirements under a Federal Government solicitation.

(C) Any item that, but for -

(i) modifications of a type customarily available in the commercial marketplace, or

(ii) minor modifications made to meet Federal Government requirements, would satisfy the criteria in subparagraph (A) or (B).

(D) Any combination of items meeting the requirements of subparagraph (A), (B), (C), or (E) that are of a type customarily combined and sold in combination to the general public.

(E) Installation services, maintenance services, repair services, training services, and other services if -

(i) the services are procured for support of an item referred to in subparagraph (A), (B), (C), or (D), regardless of whether such services are provided by the same source or at the same time as the item; and

(ii) the source of the services provides similar services contemporaneously to the general public under terms and conditions similar to those offered to the Federal Government.

(F) Services offered and sold competitively, in substantial quantities, in the commercial marketplace based on established catalog or market prices for specific tasks performed and under standard commercial terms and conditions.

(G) Any item, combination of items, or service referred to in subparagraphs (A) through (F) notwithstanding the fact that the item, combination of items, or service is transferred between or among separate divisions, subsidiaries, or affiliates of a contractor.

(H) A nondevelopmental item, if the procuring agency determines, in accordance with conditions set forth in the Federal Acquisition Regulation, that the item was developed exclusively at private expense and has been sold in substantial quantities, on a competitive basis, to multiple State and local governments.

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41 U.S.C. 403 (12)(A)((2003); see also FAR 2.101. FASA does not distinguish nor does it provide a basis for treating any particular class or type of commercial items differently from any other class or type, nor does it authorize the treatment of software differently from any other commercial item.

In a departure from both the statute and the nearly identical FAR language, the proposed regulations create the following new definition of “commercial computer software”:

“Commercial computer software” means any computer program, computer data base, or documentation that has been sold, leased, or licensed to the general public.

68 Fed. Reg. 31792. This proposed definition, in contrast with the definition of a “commercial item” as provided for in FASA and the FAR, is a significant departure that drastically reduces the scope of software to be treated as commercial, with the result being that software may meet the statutory definition of a “commercial item” but not meet the FAR Part 27 definition of “commercial computer software.” For example, the proposed definition completely eliminates the statutory definition related to “of a type” items that are commercial in nature, but may not have been sold or licensed in the exact version required by Government customers. The proposed definition also eliminates the newest versions of software that have not yet been “sold or licensed” but would be available in time for delivery to the government thereby assuring that the Government does not have the latest versions. It also eliminates any software that requires even the slightest modification to meet a peculiar Government need--the very type of modifications that are required of many software users but are very specific to a particular user.

As a result, the proposed regulations create, without apparent justification, a marked distinction between software that is a commercial item and software that would be “commercial computer software” thereby increasing the confusion, cost, and risk associated with licensing such software to the Government. Such ambiguity serves neither software manufacturers nor their Government customers.

In addition, the continued use of FAR 52.227-19 is also inconsistent and ambiguous with the requirements of FASA and FAR Part 12. Section 12.212 of the FAR clearly states that “[c]ommercial computer software or commercial computer software documentation shall be acquired under licenses customarily provided to the public to the extent such licenses are consistent with Federal law and otherwise satisfy the Government’s needs.” As a result, there is no need for FAR 52.227-19, because agencies already have the ability to negotiate additional rights for software licenses whenever the need arises. The reference to the use of FAR 52.227-19 only serves to perpetuate confusion and ambiguity.

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Based on the above comments, we recommend that the proposed regulations be amended by eliminating not only the definition for “commercial computer software,” but also all references to FAR 52.227-19.

We appreciate the opportunity to submit these comments.

Respectfully Submitted,

Kathryn A. Mihalich
Business & Operations Manager
Microsoft Corporation, Government Vertical

1999-402-6



"Ron Tschippert"
<tschip@pghmail.com
>

To: farcase.1999-402@gsa.gov
cc:
Subject: Comments on Proposed Rule

07/28/2003 12:44 PM

Ms. Duarte -

As indicated in the Federal Register of May 28, 2003, attached for your consideration is a Microsoft Word document with comments on the Proposed Rule pertaining to the FAR Part 27 Rewrite in Plain Language. Please let me know if you have any questions regarding the suggested changes.

Sincerely,

Ron Tschippert



703 648-9160 Comments on FAR Part 27 Rewrite.

1999-402-6

Comments on Proposed Rule

FAR Part 27 Rewrite in Plain Language

[FAR Case 1999-402]

1. In 27.201-2(g), change “indemnity” to “indemnify”.
2. In 27.401, for consistency, the definition of *form, fit, and function data* for computer software should refer to the plural form of the words “algorithm” and “process”.
3. In 27.404, capitalize the word “software”.
4. Revise the following amendment to 52.227-1:

As prescribed in 27.201-2(a)(1), insert the following clause with any appropriate alternates:

5. Amend the title and paragraphs (a) and (b) of 52.227-1 as follows:

Authorization and Consent (~~July 1995~~Date)

(a) The Government authorizes and consents to all use and manufacture, in performing this contract or any subcontract at any tier, of any invention described in and covered by a United States patent—

(1) ~~e~~Embodied in the structure or composition of any article the delivery of which is accepted by the Government under this contract; or

(2) ~~u~~Used in machinery, tools, or methods whose use necessarily results from compliance by the Contractor or a subcontractor with (i) specifications or written provisions forming a part of this contract or (ii) specific written instructions given by the Contracting Officer directing the manner of performance.

The entire liability to the Government for infringement of a United States patent ~~of the United States~~ shall be determined solely by the provisions of the indemnity clause, if any, included in this contract or any subcontract hereunder (including any lower-tier subcontract), and the Government assumes liability for all other infringement to the extent of the authorization and consent hereinabove granted.

(b) The Contractor ~~agrees to~~shall include, and require inclusion of, this clause, suitably modified to identify the parties, in all subcontracts at any tier for supplies or services (including construction, architect-engineer services, and materials, supplies, models, samples, and design or testing services expected to exceed the simplified acquisition threshold); however, omission of this clause from any subcontract, including those at or below the simplified acquisition threshold, ~~does~~ not affect this authorization and consent.

6. Revise the following amendments to 52.227-1:

Alternate I (~~Apr 1984~~Date). As prescribed in 27.201-2(a)(2), substitute the following paragraph (a) for paragraph (a) of the basic clause:

Alternate II (~~Apr 1984~~Date). As prescribed in 27.201-2(a)(3), substitute the following paragraph (a) for paragraph (a) of the basic clause:

7. Amend the title and paragraph (b) of 52.227-2 as follows:

1999-402-6

Notice and Assistance Regarding Patent and Copyright Infringement (Aug-1996Date)

(b) In the event of any claim or suit against the Government on account of any alleged patent or copyright infringement arising out of the performance of this contract or out of the use of any supplies furnished or work or services performed under this contract, the Contractor shall furnish to the Government, when requested by the Contracting Officer, all evidence and information in the Contractor's possession of the Contractor pertaining to such claim or suit or claim. ~~Such~~The evidence and information shall be furnished at the expense of the Government except where the Contractor has agreed to indemnify the Government.

8. Revise the following amendments to 52.227-3:

As prescribed in 27.201-2(c)(1), insert the following clause with any appropriate alternates:

Alternate I (Apr-1984Date). As prescribed in 27.201-2(c)(2), add the following paragraph (c) to the basic clause:

Alternate II (Apr-1984Date). As prescribed in 27.201-2(c)(2), add the following paragraph (c) to the basic clause:

Alternate III (July-1995Date). As prescribed in 27.201-2(c)(3), add the following paragraph to the basic clause:

9. Amend 52.227-4 as follows:

Patent Indemnity—Construction Contracts (Apr-1984Date)

Except as otherwise provided, the Contractor ~~agrees to~~shall indemnify the Government and its officers, agents, and employees against liability, including costs and expenses, for infringement ~~upon~~of any United States patent (except a patent issued upon an application that is now or may hereafter be withheld from issue pursuant to a Secrecy Order under 35 U.S.C. 181) arising out of performing this contract or out of the use or disposal by or for the account of the Government of supplies furnished or work performed under this contract.

10. Revise the following amendment to 52.227-6:

Alternate I (Apr-1984Date). As prescribed in 27.202-5(a)(2), substitute the following for the introductory portion of paragraph (a) of the basic provision:

11. Amend the title and paragraph (e) of 52.227-10 as follows:

Filing of Patent Applications—Classified Subject Matter (Apr-1984Date)

(e) The Contractor ~~agrees to~~shall include, and require the inclusion of, this clause in all subcontracts at any tier that cover or are likely to cover classified subject matter.

12. Revise the following amendments to 52.227-11:

As prescribed in 27.303(b)(1), insert the following clause with any appropriate alternates:

(a) Definitions. As used in this clause—

Invention means any invention or discovery that is or may be patentable or otherwise protectable under title 35 of the United States Code, or any novel variety of plant that is or may be ~~protected~~protectable under the Plant Variety Protection Act (7 U.S.C. 2321, et seq.).

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

402-6

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 sState nonprofit organization statute.

Subject invention means any invention of the eContractor made in the performance of work under this contract; provided, that in the case of a variety of plant, the date of determination defined in 7 U.S.C. 2401(d); must also occur during the period of contract performance.

(b) *Contractor's Rights-(1) Ownership.*

(b)(2) *License.* (i) The Contractor shall retain a nonexclusive paid-up license throughout the world in each subject invention to which the Government obtains title, ~~except if~~unless the Contractor fails to disclose the invention within the times specified in paragraph (c) of this clause.

(c)(1) The Contractor shall disclose in writing each subject invention to the eContracting officer within 2 months after the inventor discloses it in writing to Contractor personnel responsible for patent matters. * * * In addition, after disclosure to the ~~agency~~Contracting Officer, the Contractor shall promptly notify the agencyContracting Officer of the acceptance of any manuscript describing the subject invention for publication and any on sale or public use.

(d)(1)(i) If the Contractor fails to disclose or elect ownership to the subject invention within the times specified in paragraph (c) of this clause, or elects not to retain ownership; provided, that the agency may request title only within 60 days after learning of the Contractor's failure of the Contractor to disclose or elect within the specified times.

(f)(3) In the case of subcontracts, at any tier, the agency, the subcontractor, and the Contractor agree that the mutual obligations of the parties created by this clause constitute a contract between the subcontractor and the 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 (i) of this clause.

(g) *Reporting on utilization of subject inventions.* * * * As required by 35 U.S.C. 202(c)(5), the agency will not disclose that information to persons outside the Government without the Contractor's permission of the Contractor.

(h) *Preference for United States industry.* Notwithstanding any other provision of this clause, neither the Contractor nor any assignee shall grant to any person the exclusive right to use or sell any subject invention in the United States unless ~~sueh~~the 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 an agreement may be waived by the 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)(1) Not assign rights to a subject invention in the United States without the approval of the agency, except where an assignment is made to an organization ~~which~~that has as one of its primary functions the management of inventions, provided that the assignee shall be subject to the same provisions as the Contractor;

Alternate I (Date). * * * The license ~~shall~~will include the right of the Government to sublicense foreign governments, their nationals, and international organizations pursuant to the following treaties or international agreements: _____ *

Alternate II (Date). * * * The agency reserves the right to unilaterally amend this contract to identify specific treaties or international agreements entered into by the Government before or after the effective date of the contract and effectuate those license or other rights that 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.

13. Revise the following amendments to 52.227-13:

As prescribed in 27.303(b)(1), insert the following clause with any appropriate alternates:

(a) * * * *Invention* means any invention or discovery ~~which that~~ is or may be patentable or otherwise protectable under title 35 of the United States Code, or any novel variety of plant that is or may be protectable under the Plant Variety Protection Act (7 U.S.C. 2321, et seq.).

(c)(1)(i) The Federal Government will have a nonexclusive, nontransferable, irrevocable, paid-up license to practice, or have practiced for or on its behalf, ~~of the United States~~ the subject invention throughout the world.

(c)(1)(ii) The agency has the right, to require licensing pursuant to 35 U.S.C. 203 and 210(c) and in accordance with the procedures set forth in 37 CFR 401.6; and any supplemental regulations of the agency in effect on the date of contract award. ~~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. If the Contractor, assignee, or exclusive licensee refuses the request, the agency has the right to grant the license itself if the agency determines that this action is necessary—~~

~~(A) 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 the field of use;~~

~~(B) To alleviate health or safety needs which are not reasonably satisfied by the Contractor, assignee, or their licensees;~~

~~(C) To meet requirements for public use specified by Federal regulations and these requirements are not reasonably satisfied by the Contractor, assignee, or licensee; or~~

~~(D) Because the agreement required by paragraph (i) — Preference for United States industry — of this clause has neither been obtained nor waived or because a licensee of the exclusive right to use or sell any subject invention in the United States is in breach of this agreement.~~

(c)(1)(iii) * * * These 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.

(d)(1)(iii) These 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.

(e)(1) * * * These procedures shall include the maintenance of laboratory notebooks for equivalent records and other records as are reasonably necessary to document the conception and/or the first actual reduction to practice of subject inventions, and records that show that the procedures for identifying and disclosing ~~the~~ subject inventions are followed.

(e)(2) The Contractor shall disclose in writing each subject invention to the Contracting Officer within 2 months after the inventor discloses it in writing to Contractor personnel responsible for patent matters or, if earlier, within 6 months after the Contractor becomes aware that a subject invention has been made, but in any event before any on sale (*i.e.*, sale or offer for sale), public use,

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or publication of the subject invention known to the Contractor. * * * The disclosure shall also identify any publication, on sale, or public use of the subject invention and whether a manuscript describing the subject 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~~ Contracting Officer, the Contractor shall promptly notify the Contracting Officer of the acceptance of any manuscript describing the subject invention for publication ~~or of~~ and any on sale or public use ~~planned by the Contractor~~.

(h)(1) The Contractor shall include this clause, (suitably modified to identify the parties,) in all subcontracts, regardless of tier, for experimental, developmental, or research work. The subcontractor ~~shall retain~~ all rights provided for the Contractor in this clause, and the Contractor shall not, as part of the consideration for awarding the subcontract, obtain rights in the subcontractor's subject inventions.

(h)(3) In the case of subcontracts, at any tier, the agency, the subcontractor, and the Contractor agree that the mutual obligations of the parties created by this clause constitute a contract between the subcontractor and the agency with respect to those matters covered by this clause.

(i) *Preference for United States industry.* Unless provided otherwise, ~~neither the Contractor that receives title to any subject invention and nor any assignee of any such Contractor shall grant~~ to any person the exclusive right to use or sell any subject invention in the United States unless ~~such~~ the 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 may be waived by the 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.

Alternate II (Date). * * * The agency reserves the right to unilaterally amend this contract to identify specific treaties or international agreements entered into by the Government before or after the effective date of this contract, and effectuate those license or other rights ~~which~~ that are necessary for the Government to meet its obligations to foreign governments, their nationals, and international organizations under treaties or international agreements with respect to subject inventions made after the date of the amendment.

14. For clarification, add the following definition to 52.227-14 (*see, e.g., DFARS 252.227-7013*):

Computer software documentation means owner's manuals, user's manuals, installation instructions, operating instructions, and other similar items, regardless of storage medium, that explain the capabilities of the computer software or provide instructions for using the software.

15. Revise the following amendments to 52.227-14:

Form, fit, and function data means data relating to items, components, or processes that are sufficient to enable physical and functional interchangeability, and data identifying source, size, configuration, mating and attachment characteristics, functional characteristics, and performance requirements. For computer software, it means data identifying source, functional characteristics, and performance requirements but specifically excludes the source code, algorithms, processes, formulas, and flow charts of the software.

Restricted computer software means computer software developed at private expense and that is a trade secret, is commercial or financial and is confidential or privileged, or is copyrighted computer software, including minor modifications of ~~such~~ the computer software.

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(b)(2)(iii) Substantiate use of, add, or correct limited rights, restricted rights, or copyright notices and to take other appropriate action, in accordance with paragraphs (e) and (f) of this clause; and

(b)(2)(iv) Protect from unauthorized disclosure and use those data ~~which~~that are limited rights data or restricted computer software to the extent provided in paragraph (g) of this clause.

(c)(1) (iii) For data other than computer software, the Contractor grants to the Government, and others acting on its behalf, a paid-up, nonexclusive, irrevocable, worldwide license in such copyrighted data to reproduce, prepare derivative works, distribute copies to the public, and perform publicly and display publicly, by or on behalf of the Government. For computer software, the Contractor grants to the Government, and others acting ~~in~~on its behalf, a paid-up, nonexclusive, irrevocable, worldwide license in such copyrighted computer software to reproduce, prepare derivative works, and perform publicly and display publicly (but not to distribute copies to the public) by or on behalf of the Government.

Alternate I (Date). As prescribed in 27.409(b)(2), substitute the following definition for ~~L~~imited ~~R~~ights ~~D~~ata in paragraph (a) of the basic clause:

Limited rights data means data, (other than computer software,) developed at private expense that embody trade secrets or are commercial or financial and confidential or privileged.

Alternate II (Date) * * * **Limited Rights Notice (Date)**

(a) * * * [Agencies may list additional purposes as set forth in 27.404-2(c)(1) or if none, so state.]

(b) This ~~N~~notice shall be marked on any reproduction of these data, in whole or in part.

Alternate III (Date). * * * **Restricted Rights Notice (Date)**

(a) * * * It may not be used, reproduced, or disclosed by the Government except as provided in paragraph (b) of this ~~N~~notice or as otherwise expressly stated in the contract.

(ii) Where it is impractical to include the Restricted Rights Notice on restricted computer software, the following short-form ~~N~~notice may be used ~~in lieu thereof~~instead:

Alternate IV (Date). * * * (c)(1) * * * For computer software, the Contractor grants to the Government, and others acting on its behalf, a paid-up, nonexclusive, irrevocable, worldwide license for all such computer software to reproduce, prepare derivative works, and perform publicly and display publicly (but not to distribute copies to the public), by or on behalf of the Government.

Alternate IV (Date). * * * (j) ~~The Contractor agrees, e~~Except as may be otherwise specified in this contract for specific data items listed as not subject to this paragraph, ~~that~~the Contracting Officer may, up to three years after acceptance of all deliverables under this contract, inspect at the Contractor's facility any data withheld pursuant to paragraph (g)(1) of this clause, for purposes of verifying the Contractor's assertion pertaining to the limited rights or restricted rights status of the data or for evaluating work performance.

16. Revise the following amendment to 52.227-16:

(b) ~~The Rights in Data—General clause or other equivalent included in this contract is applicable to all data ordered under this Additional Data Requirements clause. Nothing contained in this clause shall require the Contractor to deliver any data the withholding of which is authorized by the Rights~~

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in Data-General or other equivalent clause of this contract, or data ~~which~~that are specifically identified in this contract as not subject to this clause.

17. Revise the following amendments to 52.227-17:

(c)(2) *Data not first produced in the performance of this contract.* The Contractor shall not, without prior written permission of the Contracting Officer, incorporate in data delivered under this contract any data not first produced in the performance of this contract and ~~which~~that contain the copyright notice of 17 U.S.C. 401 or 402, unless the Contractor identifies such data and grants to the Government, or acquires on its behalf, a license of the same scope as set forth in paragraph (c)(1) of this clause.

(e) * * * The provisions of this paragraph do not apply unless the Government provides notice to the Contractor as soon as practicable of any claim or suit, affords the Contractor an opportunity under applicable laws, rules, or regulations to participate in the defense of the claim or suit, and obtains the Contractor's consent to the settlement of any ~~suit or claim~~ or suit other than as required by final decree of a court of competent jurisdiction; ~~nor~~and do these provisions ~~not~~ apply to material furnished to the Contractor by the Government and incorporated in data to which this clause applies.

18. Amend 52.227-18 as follows:

(b) * * * The provisions of this paragraph do not apply unless the Government provides notice to the Contractor as soon as practicable of any claim or suit, affords the Contractor an opportunity under applicable laws, rules, or regulations to participate in the defense ~~thereof of the claim or suit~~, and obtains the Contractor's consent to the settlement of any ~~suit or claim~~ or suit other than as required by final decree of a court of competent jurisdiction; and do not apply to material furnished to the Contractor by the Government and incorporated in data to which this clause applies.

19. Revise the following amendments to 52.227-19:

(a) Notwithstanding any contrary provisions contained in the Contractor's standard commercial license or lease agreement, the ~~e~~Contractor agrees that the Government will have the rights that are set forth in paragraph (e**b**) of this clause to use, duplicate, or disclose any commercial computer software delivered under this contract.

(b)(1) The commercial computer software delivered under this contract may not be used, ~~reproduced~~, or disclosed by the Government ~~except as provided in paragraph (e**b**)(2) of this clause or~~ as expressly stated otherwise in this contract.

(c) The Contractor shall affix a notice substantially as follows to any commercial computer software delivered under this contract:

Notice—Notwithstanding any other lease or license agreement that may pertain to, or accompany the delivery of, this computer software, the rights of the Government regarding its use, reproduction, and disclosure are as set forth in Government Contract No. _____.

20. For clarification, add the following definitions to 52.227-20 (*see, e.g., DFARS 252.227-7013*):

Computer software documentation means owner's manuals, user's manuals, installation instructions, operating instructions, and other similar items, regardless of storage medium, that explain the capabilities of the computer software or provide instructions for using the software.

Computer data base means a collection of data in a form capable of, and for the purpose of, being stored in, processed, and operated on by a computer. The term does not include computer software.

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21. Revise the following amendments to 52.227-20:

Data means recorded information, regardless of form or the media on which it may be recorded. The term includes technical data and computer software. The term does not include information incidental to contract administration, such as financial, administrative, cost or pricing, or management information.

Form, fit, and function data means data relating to items, components, or processes that are sufficient to enable physical and functional interchangeability, ~~as well as~~ data identifying source, size, configuration, mating and attachment characteristics, functional characteristics, and performance requirements. ~~except that for~~ computer software, it means data identifying source, functional characteristics, and performance requirements but specifically excludes the source code, algorithms, processes, formulas, and flow charts of the software.

Limited rights data means data, (other than computer software,) developed at private expense that embody trade secrets or are commercial or financial and confidential or privileged.

Restricted computer software means computer software developed at private expense and that is a trade secret, is commercial or financial and is confidential or privileged, or is published copyrighted computer software, including minor modifications of ~~such~~ the computer software.

SBIR data means data first produced by a Contractor that is a small business ~~firm~~ concern in performance of a small business innovation research contract issued under the authority of 15 U.S.C. 638 (Pub. L. 97-219, Small Business Innovation Development Act of 1982), which data are not generally known, and which data without obligation as to its confidentiality have not been made available to others by the Contractor or are not already available to the Government.

Unlimited rights means the rights of the Government to use, disclose, reproduce, prepare derivative works, distribute copies to the public, and perform publicly and display publicly, in any manner and for any purpose ~~whatsoever~~, and to have or permit others to do so.

22. Amend 52.227-20 as follows:

(i) Used or copied for use with the ~~computer or computer(s)~~ for which it was acquired, including use at any Government installation to which such ~~computer or computers~~ may be transferred;

(b) *Allocation of rights.* (1) ~~Except as provided in paragraph (c) of this clause regarding copyright,~~ the Government shall have unlimited rights in-

(2) The Contractor shall have the right to-

(i) Assert copyright in data first produced in the performance of this contract to the extent provided in paragraph (c)(1) of this clause;

(ii) Protect SBIR rights in SBIR data delivered under this contract in the manner and to the extent provided in paragraph (d) of this clause;

~~(ii) Withhold from delivery those data which are limited rights data or restricted computer software to the extent provided in paragraph (g) of this clause;~~

(iii) Substantiate use of, add, or correct SBIR rights or copyrights notices and to take other appropriate action, in accordance with paragraph (e) of this clause; and

(iv) Withhold from delivery those data that are limited rights data or restricted computer software to the extent provided in paragraph (f) of this clause. ~~Establish claim to copyright subsisting in data~~

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first produced in the performance of this contract to the extent provided in paragraph (e)(1) of this clause.

(c) *Copyright*

(1) *Data first produced in the performance of this contract.* Except as otherwise specifically provided in this contract, the Contractor may ~~establish claim to assert~~ assert copyright subsisting in any data first produced in the performance of this contract. ~~If claim to~~ When asserting ~~copyright is made,~~ the Contractor shall affix the applicable copyright notice of 17 U.S.C. 401 or 402, and acknowledgment of Government sponsorship (including contract number), to the data when such data are delivered to the Government, as well as when the data are published or deposited for registration as a published work in the U.S. Copyright Office. For data other than computer software, the Contractor grants to the Government, and others acting on its behalf, a paid-up, nonexclusive, irrevocable, worldwide license for all such data to reproduce, prepare derivative works, distribute copies to the public, and perform publicly and display publicly, by or on behalf of the Government, ~~for all such data.~~ For computer software, the Contractor grants to the Government, and others acting on its behalf, a paid-up, nonexclusive, irrevocable, worldwide license for all such computer software to reproduce, prepare derivative works, and perform publicly and display publicly (but not to distribute copies to the public), by or on behalf of the Government.

(2) *Data not first produced in the performance of this contract.* The Contractor shall not, without the prior written permission of the Contracting Officer, incorporate in data delivered under this contract any data ~~that are not first produced in the performance of this contract and that contain the copyright notice of 17 U.S.C. 401 or 402,~~ unless the Contractor —

(i) ~~identifies such~~ the data; and

(ii) ~~grants to the Government, or acquires on its behalf, a license of the same scope as set forth in paragraph (c)(1) of this clause.~~

(3) *Removal of copyright notices.* The Government ~~agrees will~~ will not to remove any authorized copyright notices placed on data pursuant to this paragraph (c), and ~~to will~~ will include such notices on all reproductions of the data.

(d) *Rights to SBIR data.*

(1) The Contractor is authorized to affix the following "SBIR Rights Notice" to SBIR data delivered under this contract and the Government will ~~thereafter~~ will treat the data, subject to the provisions of paragraphs (e) and (f) of this clause, in accordance with ~~such~~ the Nnotice:

SBIR Rights Notice (Mar 1994 Date)

These SBIR data are furnished with SBIR rights under Contract No. _____ (and subcontract _____, if appropriate). For a period of 4 years after acceptance of all items to be delivered under this contract, the Government ~~agrees to will~~ will use these SBIR data for Government purposes only, and they shall not be disclosed outside the Government (including disclosure for procurement purposes) during such period without permission of the Contractor, except that, subject to the foregoing use and disclosure prohibitions, ~~such~~ these SBIR data may be disclosed for use by support Contractors. After the ~~aforsaid~~ 4-year period the Government has a ~~royalty free~~ paid-up license to use, and to authorize others to use on its behalf, these SBIR data for Government purposes, but is relieved of all disclosure prohibitions and assumes no liability for unauthorized use of these SBIR data by third parties. This Nnotice shall be affixed to any reproductions of these SBIR data, in whole or in part.

(e) *Omitted or incorrect markings.* (1) Data delivered to the Government without any notice authorized by paragraph (d) of this clause, and without a copyright notice, shall be deemed to have

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been furnished with unlimited rights, and ~~the Government assumes no liability~~ is not liable for the disclosure, use, or reproduction of such data.

~~(2) However, to the extent the~~ If the unmarked data have ~~has~~ not been disclosed without restriction outside the Government, the Contractor may request, within ~~six~~ 6 months (or a longer time approved by the Contracting Officer for good cause shown) after delivery of ~~such~~ the data, permission to have authorized notices placed on qualifying the data at the Contractor's expense, ~~and~~ The Contracting Officer may agree to do so if the Contractor—

* * *

(iv) Acknowledges that the Government has no liability ~~with respect to~~ for the disclosure or use of any ~~such~~ data made prior to the addition of the notice or resulting from the omission of the notice.

~~(23) If data has been marked with an incorrect notice,~~ The Contracting Officer may also—

(i) Permit correction; of the notice at the Contractor's expense, ~~of incorrect notices~~ if the Contractor identifies the data ~~on which correction of the notice is to be made~~ and demonstrates that the correct notice is authorized, or

~~(f) Protection of limited rights data and restricted computer software. When data other than that listed in subdivisions~~ The Contractor may withhold from delivery qualifying limited rights data or restricted computer software that are not identified in paragraphs (b)(1)(i), (ii), and (iii) of this clause are specified to be delivered under this contract and such data qualify as either limited rights data or restricted computer software, the Contractor, if the Contractor desires to continue protection of such data, shall withhold such data and not furnish them to the Government under this contract. As a condition to this withholding, the Contractor shall—

(i) Identify the data being withheld; and

(ii) Furnish form, fit, and function data in lieu thereof ~~instead.~~

~~(g) Subcontracting. The Contractor has the responsibility to~~ shall obtain from its subcontractors all data and rights therein necessary to fulfill the Contractor's obligations to the Government under this contract. If a subcontractor refuses to accept terms affording the Government ~~such~~ those rights, the Contractor shall promptly ~~bring such refusal to the attention of~~ notify the Contracting Officer of the refusal and not proceed with the subcontract award without ~~further authorization in writing from~~ the Contracting Officer.

~~(h) Relationship to patents or other rights.~~ Nothing contained in this clause shall imply a license to the Government under any patent or be construed as affecting the scope of any license or other right otherwise granted to the Government.

1999-402-7



"Bill Eklund"
<bill.eklund@ucop.edu
>

To: farcase.1999-402@gsa.gov
cc:
Subject: FAR Part 27 Rewrite

07/28/2003 02:45 PM

Ms. Duarte - Please accept our comments below. A separate hard copy is being mailed today.
Bill Eklund

TO: General Services Administration
FAR Secretariat (MVA)
ATTN: Laurie Duarte
1800 F Street, NW, Room 4035
Washington DC 20405

Subject: FAR Part 27 Rewrite in Plain Language -- FAR Case 1999-402

Dear Ms. Duarte:

We offer the following comment on the proposed rewrite of Part 27 of the FAR:

Our only significant comment by this communication is with regard to the provision on the release, publication and use of data, as set forth in the clause entitled Rights in Data - General, at 52.227-14(d)(1).

Our general concern is primarily that of a major public research university - namely, that federal R&D contractors be allowed to publish and otherwise disseminate the results of fundamental and applied research, and indeed the results of research generally, to the maximum extent allowed by the law.

The cited provision is not new. It states that a contractor shall have the right to "use, release to others, reproduce, distribute, or publish any data first produced or specifically used by the Contractor in the performance of this contract, except ... As prohibited by Federal export control or national security laws or regulations."

We believe this provision is confusing and to some extent unnecessary, particularly with respect to its reference to the federal export control laws and regulations, for two reasons.

First, with but very rare exceptions not relevant here, the federal export administration regulations set forth at 15 CFR 374 do not, in and of themselves, prohibit a person from publishing technical information that is covered by the Export Administration Regulations (EAR), so long as the information is not classified or otherwise covered by other federal law or regulation.

At the same time, those regulations do under some circumstances prohibit a person from engaging in an unlicensed "deemed export" by transmitting export controlled information to a foreign national, unless the information is already in the public domain.

Thus, in absence of any specific federal contract requirement, the law governing the publication of export controlled technical information is quite different from the law governing its release or export to foreign nationals.

Unfortunately this distinction is blurred and largely lost by the language in the cited clause, which simply states, essentially, that data may be released or published except as prohibited by Federal export control laws

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or regulations.

We believe the cited regulation, as currently written, has an unnecessary chilling effect on both the federal agencies and their contractors, insofar as it is commonly read to suggest either that publication of export controlled information is somehow restricted by the federal export control regulations, or that the federal agencies must restrict such publication as a result of such regulations. Neither result is in fact required by the export control regulations.

Secondly, we note that there are various other categories of information for which there are statutory or regulatory restrictions placed on federal contractors with regard to their release or publication of such information. Examples are Privacy Act information, certain proprietary information, and a host of other categories of protected information. Yet those categories are not similarly referenced in the cited clause, as are the export control regulations. Singling out the export control regulations in this manner creates implications that are not warranted.

Consequently we recommend that the prescriptions of Part 27, as well as the Rights in Data clause itself, be clarified to state that it is the responsibility of the contracting federal agency to identify and justify any discretionary restrictions that it chooses to impose on the publication or release of data first generated in the performance of a federal contract; and that such restrictions should be supported by appropriate agency authority deriving from federal law or regulation.

We believe such a clarification would end uncertainty that currently exists, on the part of the agencies as well as their contractors, as to the proper interpretation and implementation of the current language of the clause on Rights in Data - General.

Respectfully submitted,

William A. Eklund, University Counsel
University of California
1111 Franklin St., 8th Floor
Oakland CA 94607

Phones: 510-987-9767 (o) 510-987-9757 (f) 510-290-2654 (c)

1999-402-8



AMERICAN BAR ASSOCIATION

Section of Public Contract Law
Writer's Address and Telephone



18th & F Streets, N.W.
Washington, D.C. 20405
Phone: (202) 501-4668
Fax: (202) 219-1455

July 28, 2003

General Services Administration
FAR Secretariat (MVA)
1800 F Street
Room 4035
Attn: Ms. Laurie Duarte
Washington, DC 20405

Re: Proposed Rule: FAR Part 27 Rewrite in Plain Language
(48 C.F.R. Part 27), 68 Fed. Reg. 31790 (May 28, 2003)

Dear Ms. Duarte:

On behalf of the Section of Public Contract Law of the American Bar Association ("the Section"), I am submitting comments on the above-referenced matter.¹ The Section consists of attorneys and associated professionals in private practice, industry, and Government service. The Section's governing Council and substantive committees contain members representing these three segments to ensure that all points of view are considered. In this manner, the Section seeks to improve the process of public contracting for needed supplies, services, and public works.

The Section is authorized to submit comments on acquisition regulations under special authority granted by the American Bar Association's Board of Governors. The views expressed herein have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and, therefore, should not be construed as representing the policy of the American Bar Association.

¹ The Honorable Mary Ellen Coster Williams, Chair of the ABA Section of Public Contract Law, has recused herself on this matter, did not participate in the Section's consideration of these comments, and abstained from voting to approve and send this letter. Similarly, Council Member Daniel I. Gordon recused himself on this matter and did not participate in either the preparation or approval of these comments.

2002-2003

CHAIR

Mary Ellen Coster Williams
18th & F Sts, NW, Rm 7023
Washington, DC 20405-0001
(202) 501-4668

CHAIR-ELECT

Hubert J. Bell, Jr.
Harris Tower, Ste 2600
233 Peachtree St, NE
Atlanta, GA 30303-1530
(404) 582-8027

VICE-CHAIR

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Ste 1100 East Tower
1301 K St, NW
Washington, DC 20005-3373
(202) 414-9210

SECRETARY

Robert L. Schaefer
12333 W Olympic Blvd
Los Angeles, CA 90064-1021
(310) 893-1607

BUDGET AND FINANCE OFFICER

Patricia A. Meagher
311 California St, 10th Flr
San Francisco, CA 94104-2695
(415) 956-2828

SECTION DELEGATE

Marshall J. Duke, Jr.
1601 Elm St, Ste 3000
Dallas, TX 75201-4761
(214) 999-4733

IMMEDIATE AND PREVIOUS PAST CHAIRS

Norman R. Thorpe
Mail Code 482-C23-D24
300 Renaissance Ctr
Detroit, MI 48265-3000
(313) 665-4721

Gregory A. Smith
1200 19th St, NW, 7th Flr
Washington, DC 20036-2430
(202) 861-6416

COUNCIL MEMBERS

Alexander J. Brittn
1900 K St, NW
Washington, DC 20006-1108

Robert A. Burton
725 17th St, NW, Rm 9013
Washington, DC 20503

Mark D. Colley
2099 Pennsylvania Ave, NW, Ste 100
Washington, DC 20006-6800

John Alton Currier
1601 Research Blvd
Rockville, MD 20850-3173

Helaine G. Elderkin
3170 Fairview Park Dr, M/C 203A
Falls Church, VA 22042-4516

Daniel I. Gordon
441 G St, NW
Washington, DC 20548-0001

Karen J. Kinlin
112 Luke Ave, Ste 343
Bolling AFB, DC 20332-8000

Mark E. Langevin
1840 Century Park E, 15th Flr
Los Angeles, CA 90067

John J. Pavlick, Jr.
1201 New York Ave, NW, Ste 1000
Washington, DC 20005-3197

Jonathan D. Shaffer
8000 Towers Crescent Dr, Ste 900
Vienna, VA 22182-2736

Jerry A. Walz
2033 Chadds Ford Dr
Reston, VA 20191-4013

Donna Lee Yeasner
1900 K St, NW, Ste 100
Washington, DC 20006-1108

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SECTION DIRECTOR

Marilyn Neforas
750 N Lake Shore Dr
Chicago, IL 60611
(312) 988-5596
Fax: (312) 988-5688

H02-8

A. The Proposed Rule

The proposed rule constitutes a proposed rewrite of Part 27 of the FAR, relating to Patents, Data, and Copyrights, as well as the associated clauses in Part 52. The purpose of the rewrite was (a) "to make the various policies and procedures that implement [the] statutes and executive orders [pertaining to patents, data and copyrights] more succinct and understandable to the reader"; (b) to clarify existing policies and procedures "to eliminate confusion among responsible parties and make clearer the distinction between the rights and obligations of the contractor and the Government"; and (c) to make "some substantive changes . . . to reflect changes to the various laws covering the subject matter of Part 27." 68 Fed. Reg. 31790. The proposed rule also makes certain substantive changes to Part 27 and related regulations.

The most significant change proposed is a modification to the scope and treatment of commercial computer software. This change dramatically narrows the definition of commercial computer software, which pursuant to FAR 12.212 must be purchased pursuant to a contractor's standard commercial license. The net result of this change would be that software that would otherwise be commercial under the current rules would not be considered commercial under the proposed rule and therefore subject to the onerous requirements of the FAR Part 27 data rights regime. In a time when the Federal Government is seeking out new entrants to the government marketplace for requirements such as homeland security, this change will discourage prospective contractors from entering the government marketplace and at the same time increase the overall cost of goods and services to the Government.

Below are the Section's comments on the recommended changes as well as other proposed changes not included in the proposed rule.

1. Definition of Commercial Computer Software

The proposed rule would change FAR 2.101 to add a new definition of "commercial computer software":

"Commercial computer software" means any computer program, computer data base, or documentation that has been sold, leased, or licensed to the general public.

68 Fed. Reg. 31792. This is a substantive change, which significantly restricts the scope of FAR 12.212, Computer Software, which has been in place since 1995. FAR 12.212 states in the pertinent part that:

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Commercial computer software or commercial computer software documentation shall be acquired under licenses customarily provided to the public to the extent such licenses are consistent with Federal law and otherwise satisfy the Government's needs.

FAR 12.212(a). Thus if a product qualifies as a commercial product, the contractor may use its own commercial license in lieu of the FAR data rights regime. Previously there was no separate definition for "commercial computer software." Commercial computer software was defined the same way as any other commercial item, using the very broad definition for commercial items in FAR 2.101. This is consistent with the origin of FAR 12.212, which was promulgated as a part of the commercial item rule changes resulting from the Federal Acquisition Streamlining Act ("FASA"), Pub. L. No. 103-355, 108 Stat. 3243 (1994). 60 Fed. Reg. 48206. In fact, the subpart under which Section 12.212 falls is entitled "Special Requirements for the Acquisition of Commercial Items."

Under the proposed rule, to be deemed commercial computer software, the software or data base would have to be "sold, leased, or licensed to the general public" to qualify. Nevertheless, under the current commercial item definition, a commercial item is:

- (1) Any item, other than real property, that is of a type customarily used by the general public or by non-governmental entities for purposes other than governmental purposes, and--
 - (i) Has been sold, leased, or licensed to the general public; or
 - (ii) Has been offered for sale, lease, or license to the general public;
- (2) Any item that evolved from an item described in paragraph (1) of this definition through advances in technology or performance and that is not yet available in the commercial marketplace, but will be available in the commercial marketplace in time to satisfy the delivery requirements under a Government solicitation;
- (3) Any item that would satisfy a criterion expressed in paragraphs (1) or (2) of this definition, but for--

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(i) Modifications of a type customarily available in the commercial marketplace; or

(ii) Minor modifications of a type not customarily available in the commercial marketplace made to meet Federal Government requirements. Minor modifications means modifications that do not significantly alter the nongovernmental function or essential physical characteristics of an item or component, or change the purpose of a process. Factors to be considered in determining whether a modification is minor include the value and size of the modification and the comparative value and size of the final product. Dollar values and percentages may be used as guideposts, but are not conclusive evidence that a modification is minor;

(4) Any combination of items meeting the requirements of paragraphs (1), (2), (3), or (5) of this definition that are of a type customarily combined and sold in combination to the general public;

...

(7) Any item, combination of items, or service referred to in paragraphs (1) through (6) of this definition, notwithstanding the fact that the item, combination of items, or service is transferred between or among separate divisions, subsidiaries, or affiliates of a contractor; or

(8) A nondevelopmental item, if the procuring agency determines the item was developed exclusively at private expense and sold in substantial quantities, on a competitive basis, to multiple State and local governments.

FAR 2.101.

This definition is consistent with the statutory definition of commercial items imposed by FASA. Pub. L. 103-355, 108 Stat. 3243, 3384, § 8001(a)(1). In fact, there was discussion in the legislative history regarding a more limited definition for commercial items and that option was expressly rejected. H.R. Rep. 103-712 at 228-29.

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Furthermore, FASA contains no exception or limitation of the definition of commercial items for software. Because that commercial item definition is statutorily imposed, the FAR Council has no discretion – it may not use a more limited definition of commercial items for software alone. Moreover, in the proposed rule, the FAR Council has not articulated any rational basis for such a deviation from the existing approach.

From a policy perspective, it makes no sense to narrow the definition of “commercial computer software” as the proposed rule proffers. The commercial item changes under FASA were an attempt to make government procurement of commercial items as similar as possible to private sector commercial item procurement. Thus, when the Government is procuring in the commercial marketplace, it should be treated to the maximum extent practicable, as another commercial customer. *See, e.g.*, § 8002 (restricting the use of FAR contract clause for commercial item acquisitions); § 8104 (requiring agencies to specify their requirements in terms of function and performance specifications to maximize the acquisition of commercial items). This change had the dual benefit of encouraging more commercial vendors to participate in the government marketplace while increasing the percentage of commercial items acquired by the Government under commercial terms and conditions, thereby decreasing the cost to the Government. The proposed changes would turn the clock back and impose the unique and arcane FAR data rights regime on commercial software vendors for commercial items that just happen to be software.

This change also would increase the overall cost to the Government. As history has shown, unique government requirements for goods and services bring about increased costs. Commercial software companies would naturally charge a premium to the Government (or withdraw from the market altogether) if the Government imposes government-unique terms and conditions on transactions that were formerly just another commercial transaction.

We recommend that the proposed definition of commercial computer software (FAR 2.101) be eliminated, or in the alternative it be redefined as:

Computer software that is a commercial item, as that term is defined in FAR 12.212.

2. FAR Part 27 Treatment of Commercial Computer Software

The proposed rule seeks to change FAR 27.405-3 and clause 52.227-19, which currently deal with previously developed, restricted computer software. It now

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proposes to impose the government-unique, restricted software requirements on commercial computer software, notwithstanding the guidance of FAR 12.212 to the contrary.

The current version of the FAR includes a class of software defined as "Restricted Computer Software," which it defines as:

computer software developed at private expense and that is a trade secret; is commercial or financial and confidential or privileged; or is published copyrighted computer software, including minor modifications of such computer software.

FAR 27.401. That class of software afforded the Government minimum FAR-type rights when clause 52.227-19 is used in the contract. Those minimum FAR rights are the rights generally available under a commercial software license.

Under the proposed rule, the term commercial computer software is substituted for "restricted computer software" in FAR 27.405-3 and 52.227-19 without any explanation. 27.405-3 also provides:

FAR Subpart 12.212 sets forth the guidance for the acquisition of commercial computer software and states that commercial computer software or commercial computer software documentation shall be acquired under licenses customarily provided to the public to the extent the license is consistent with Federal law and otherwise satisfies the Government's needs. The clause at 52.227-19 may be used *when there is any confusion as to whether the Government's needs are satisfied or whether a customary commercial license is consistent with Federal law* (emphasis added).

The net effect of this revised language is that Contracting Officers, who historically have sought to provide the most "protection" for the Government, will want to add this clause more often than not. This change will have the effect of reversing the current policy of encouraging the use of commercial terms and conditions for the acquisition of commercial items, and instead encourages the use of a standard government licensing clause that is inconsistent with commercial practice and, as a practical matter, makes no sense.

First, the clause provides cookie cutter use restrictions that may not make sense in the context of commercial software. For example the clause restricts use to "the

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computer or computers for which [the software] was acquired,” for use “in or with a backup computer,” for archive copies, and for use on “a replacement computer.” These are antiquated concepts. At a minimum, it presupposes a specific architecture, a primary computer or computers with a backup computer, which might not be relevant in today’s computer environment with multiple processors and extensive networking.

Moreover, it is inconsistent with most commercial software licenses, which are usually not acquired for use on a particular computer or computers but targeted for a generic class of computers, such as a particular version of a PC or for use with another piece of software, such as an operating system. Therefore, in commercial practice, software license restrictions are generally based on the number of probable copies that may be made or the number of users. For example, commercial-off-the-shelf software often is purchased commercially on CDs with licenses that do not restrict use to a specific user or computer, but only restrict the number of copies that may be made, namely one. The CD itself serves as the backup.

Second, the revised FAR 52.227-19 clause grants the Government the right to modify, adapt, or combine commercial computer software.

As a threshold matter, the right to modify, adapt, or combine software is generally not included in a standard commercial software license. The Government should not seek to acquire by regulation, rights in commercial computer software that are not generally available to other commercial customers.

Although it can be argued that the software vendor has an opportunity to charge for these additional rights, for the vast majority of procurements, Federal Government licensees have no need to modify, adapt, or combine commercial computer software. As such, it makes no sense for the Government to require vendors to deliver and for the Government to pay for this right in all cases, when it is almost never needed. In the rare circumstance where the Government may want rights to modify, adapt, or combine commercial computer software, it should specifically and expressly negotiate these rights and pay an expressly negotiated and appropriate licensing fee for such additional rights.

From a policy perspective, there is no reason to change the current approach of using a vendor’s standard commercial license, absent some requirement for rights in excess of those generally offered to commercial customers. To the extent a standard government commercial software license is required, that license should track, to the maximum extent practicable, the standard industry practices, absent a compelling reason to the contrary. Here no such rationale has been provided.

We recommend that the current policy in favor of a commercial software vendor's standard commercial license should not be altered. Nevertheless, if the Government wants to create a standard commercial license to acquire commercial software, the clause should be written consistent with industry standard terms and conditions.

3. Restricted Rights

The restricted rights granted pursuant to the FAR are based on old mainframe technology and presume a particular architecture rather than a more conventional licensing scheme. Specifically, these rights are as follows:

Such restricted computer software will not be used or reproduced by the Government, or disclosed outside the Government, except that the computer software may be--

- (i) Used or copied for use in or with the computer or computers for which it was acquired, including use at any Government installation to which such computer or computers may be transferred;
- (ii) Used or copied for use in or with a backup computer if any computer for which it was acquired becomes inoperative;
- (iii) Reproduced for safekeeping (archives) or backup purposes;
- (iv) Modified, adapted, or combined with other computer software, provided that the modified, combined, or adapted portions of any derivative software incorporating restricted computer software are made subject to the same restricted rights;
- (v) Disclosed to and reproduced for use by support service contractors, subject to the same restriction under which the Government acquired the software;
- (vi) Used or copied for use in or transferred to a replacement computer; and
- (vii) Used in accordance with paragraphs (d)(3)(i) through (v) of this subsection, without disclosure

prohibitions, if the computer software is copyrighted computer software.

68 Fed. Reg. 31802.

This list of rights is outdated and inconsistent with the Government's actual needs. It appears that it was developed for software in large mainframe systems, where the software was often tailored to a specific system and user. As a practical matter, this is not how software is used within the Federal Government today.

First, software today is not targeted to a specific computer or computers, as the regulation assumes. Often software is targeted for a type of computer, for example, a PC. In other cases, the software is targeted for use with another piece of software such as an operating system.

Second, most computer systems today have redundant system components but not backup computer systems that one uses when the primary computer system fails. As such, the right to use the software on a backup computer "if any computer for which it was acquired becomes inoperative" is an illusory right. Furthermore, even if there were a backup system, the Government, as a practical matter, would more likely than not simply buy another copy of the software for the backup. Again, this right is inconsistent with the way the Government and industry do business.

Third, most commercial vendors do not provide the right to make archive copies, per se. Often software vendors furnish the software on CDs, and the CD version serves as the archive copy.

Fourth, it is a waste of resources for the Government to purchase in each transaction the right to modify, adapt, or combine commercial or restrictive rights software with other computer software. As noted above, in the majority of cases, the Government does not exercise this right. In most cases, the Government is not acquiring the source code, which is generally necessary to modify, adapt, or combine the software. As such, absent source code, the right that they are acquiring would be of little value. Thus, this right should not be part of the standard clause. If in the odd case, the Government needs this additional right, it should be negotiated on a case-by-case basis.

In sum, for restricted rights software we recommend that the Government's standard restricted software rights include the right, consistent with current commercial practices, to simply use the copy of the software it purchases, and afford the parties the latitude to determine the scope of that use based on the realities of the particular transaction.

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4. Delivery to the Government

Section 27.102(e) provides that contractor must “obtain permission from copyright owners before including copyrighted works, owned by others, in data to be delivered.” The Section recommends that the phrase “to the Government” should be added to the end of this sentence to clarify where the data is to be delivered.

5. Titles

The heading of Subpart 27.2 is “Patent,” yet the heading of subsection 27.201-1 refers to patent and copyright infringement. These two should be reconciled.

6. Timeframe for Responding to Government Challenges to Restrictive Marking

FAR 52.227-14(e) imposes unrealistic response times for responding to challenges of restrictive marking, namely a minimum of 30 days and a maximum of 90 days. Often the requests seek information from older contracts, which were completed years prior to the request. As such, it is rare that an adequate response can be prepared within 30 days. Requests for extensions are almost automatic. Further, in the more difficult cases involving very old data or a great deal of technical data, 90 days is inadequate.

To remedy these problems, the Section recommends that the FAR extend the minimum deadline to 60 days, consistent with 41 U.S.C. § 253d, and leave the maximum deadline to the Contracting Officer’s discretion.

7. Marking of Technical Data

The Section applauds the change to 52.227-14(f) regarding omitted markings. As the clause now reads, a contractor will only be deemed to have granted unlimited rights if the contractor fails to include any restrictive markings. It would be helpful if this change is confirmed in the preamble to the final rule, expressly stating that the contractor’s own restrictive markings will preclude the presumption of unlimited rights.

8. Marking of Technical Data

The current rules for marking data and computer software are quite complex and the ramifications of incorrect or inadvertently omitted marking are severe. A contractor risks losing valuable data rights if documents are inadvertently mismarked. Often the Government will get a windfall from an inadvertent mistake. In this regard, to correct this inequity, the Section recommends:

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1. The elimination of the requirement for the contractor to demonstrate that the omission of the notice was inadvertent. See FAR 52.227-14(f)(2)(ii). Often times, there is no way to determine why something did not happen, in essence, proving the negative. Clearly contractors do not intend to incorrectly mark their data in such a manner that they risk waiving their valuable data rights.
2. The elimination of the 6 month time limit on corrective action. This is at best an arbitrary deadline. If there has not yet been a disclosure and a contractor is willing to acknowledge that the Government has no liability, there is no reason not to allow a contractor to correct a missing or erroneous marking. The Government would not be adversely affected, just denied an inequitable windfall.
3. The elimination of the requirement that automatically grants the Government unlimited rights in technical data delivered to the Government without restrictive markings. Instead, the rules should allow the Government to treat such unmarked data as if it has unlimited rights unless and until a contractor discovers the error and notifies the Government. If the contractor promptly corrects the error before any disclosure outside the Government and agrees that the Government has no liability, then the actual status of the data should be restored.

9. Patent Infringement Indemnification by Contractor

The proposed changes artificially expand contractors' indemnification responsibilities. The proposed rule modifies the patent indemnification guidance in FAR 27.102 as follows:

27.102 General guidance.

(c) Generally, ~~the~~ [contractors providing commercial items must should indemnify the] Government ~~should be indemnified~~ against [liability for the] infringement of U.S. patents ~~resulting from performing contracts when the supplies or services acquired under the contracts normally are or have been sold or offered for sale by any supplier to the public in the commercial open market or are the same as such supplies or services with relatively minor modifications.~~

Thus, in lieu of the "sold or offered for sale" language, the proposed rule includes the defined term "commercial item." The regulation adopts the broad definition of

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commercial item when determining the breadth of contractor indemnification. Curiously, however, the proposed definition of commercial computer software artificially limits the scope of the commercial item definition for software. In turn, the latter reduces the instances in which contractors will be entitled to use their standard commercial license; see section 1 above. At best, this is inconsistent.

10. Patent Infringement Indemnification by Contractor

The general guidance of the proposed rule is inconsistent. Section 27.102(c) states that contractors providing commercial items “should” indemnify the Government, while Section 27.201-1(d) states that the Government “may” obtain such indemnification. The Section recommends the use of “may” in both sections to afford the Contracting Officer the maximum discretion.

11. Patent Infringement Indemnification by Contractor

The proposed rule should clarify the limitations on indemnification. The proposed rule’s patent indemnity regulation provides:

27.201-1 General.

(d) The Government may require a contractor to reimburse it for liability for patent infringement arising out of a contract for commercial items by inserting the clause at FAR 52.227-3, Patent Indemnity.

For consistency, the proposed rule should add the exceptions set forth in 27.201-2(c)(1) of the proposed rule to this subsection. Specifically, the following text should be added to the end of 27.201-1(d):

unless--

- (i) The simplified acquisition procedures of Part 13 are used;
- (ii) Part 12 procedures are used;
- (iii) Both complete performance and delivery are outside the United States; or
- (iv) The Contracting Officer determines after consultation with legal counsel that omission of the clause would be consistent with commercial practice.

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This would minimize the risk that a Contracting Officer will inadvertently miss these exceptions.

12. Definition of "Subject Invention"

Although there has been no substantive change to this definition, the proposed rule may confuse those commercial intellectual property practitioners not well versed in government contracts through the addition of a defined term. Specifically, the definition is modified as follows:

27.301 Definitions

"Subject invention," ~~as used in this subpart,~~ means any invention of the contractor ~~conceived or first actually reduced to practice~~ **made** (emphasis added) in the performance of work under a Government contract; provided, that in the case of a variety of plant, the date of determination 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.

Thus, the proposed rule subtly adopts the definition of "made" from the statute and FAR 27.301, which, not surprisingly, is defined as "the conception or first actual reduction to practice." This two-tiered definition requires a reader to weave through the regulations twice to piece it together. Moreover, it is not apparent from the definition that "made" is a defined term. This is particularly significant because the proposed definition of "made" is different than what individuals with a commercial patent experience would expect. Specifically, the more generally used patent statute grants inventors the exclusive right to obtain a reasonable royalty from anyone who "*makes, uses, offers for sale, or sells*" his or her inventions. 35 U.S.C. 154(d)(1)(A)(i) (emphasis added). As such, not only is it unclear; it also can be misleading. We recommend repeating the language "conceived or first actually reduced to practice" throughout the FAR as is currently done and deleting the definition of "made" from FAR Part 27.

13. Definition of "Subject Invention"

The definition of "subject invention" references 7 U.S.C. 2401(d) for the definition of "date of determination." There is no 7 U.S.C. 2401(d). Congress eliminated that section when it amended the Plant Protection Act in 1994; therefore the statute no longer defines the term "date of determination." Pub.L. No. 103-34a, § 2 108 stat. 3136. Thus the phrase "date of determination," although still cited in the

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Bayh-Dole Act, no longer has any meaning and should be deleted from or defined in the FAR.

14. The Definition of "Data Base" and "Computer Software"

The proposed rule proposes to modify the definition of "computer software" in 27.401 to expressly exclude data bases. Because many computer programs are made up largely of data bases and many more use data bases in their operation, there is no logical basis for making a distinction between computer software and data bases with regard to data.

As such, the Section recommends the modification of the definition of "computer data base" and "computer software" as follows:

"Computer data base" means a collection of data in a form capable of, and for the purpose of, being stored in, processed, and operated on by a computer.

"Computer software;" means-- (1) computer programs that comprise a series of instructions, rules, routines, or statements, regardless of the media in which recorded, that allow or cause a computer to perform a specific operation or series of operations; and (2) recorded information comprising source code listings, design details, algorithms, processes, flow charts, formulas, and related material that would enable the computer program to be produced, created, or compiled. The term includes computer data bases but does not include computer software documentation.

15. The Definition of "Computer Software Documentation"

The proposed rule defines "computer data base" and "computer software" but does not include a definition of "computer software documentation." The Section proposes the addition of the following definition:

"Computer software documentation" means recorded information regarding computer software or computer data bases, regardless of the form or the media on which it may be recorded, that is not computer software or computer data base.

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16. Patent Policy

Section 27.302(a)(3). The Bayh-Dole Act was modified in 2000 to broaden the policy stated in subsection 27.302(a)(3) by adding “without unduly encumbering future research and discovery;. . .” 35 U.S.C. § 200. This phrase is missing from this section and therefore should be added. It should be added to section 27.304-1(c)(2) and the definitions in the patent rights clauses as well.

17. Assignment of Government Co-inventor Rights

Subsection 27.304-1(e) authorizes an agency to assign the rights to an invention of a government employee co-inventor to a contractor. Nonetheless, in the past, some agencies wanted authority in addition to 27.304-1(e) prior to authorizing the assignment government employee-co-inventor rights to a contractor. To address this concern, the following sentence should be added to this subsection: “The assignment of these rights is permitted without advance publication or other requirements of 37 CFR 404.” This is because agencies generally rely on 37 CFR 404 for this additional authority. *See, e.g.*, 67 Fed. Reg. 2656 –2657 (January 18, 2002, Notice of intent to assign an invention, wherein the Environmental Protection Agency states that it is relying on 37 CFR 404 to assign its co-ownership of an invention to a contractor under 35 USC 202(e)).

18. FAR 27.304-1(h)

Subsection 27.304-1(h) merely repeats the requirements of the 52.227-11 Patent Rights clause. It should either be amended to provide some addition guidance not included in the clause or deleted as redundant.

19. Contractor’s Minimum Rights

There is an ambiguity in subsection 27.302(i), which sets forth the minimum rights of a contractor in subject inventions where the Government has title in such inventions. In particular, subsection 27.302(i)(1) includes the following sentence:

The Contracting Officer shall approve any transfer of the contractor's licenses except when the transfer is to the successor of that part of the contractor's business to which the subject invention pertains.

It is not clear whether this sentence directs the Contracting Officer to reject the license transfers when the transfer involves a successor to a part of the contractor’s business or

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that in such a case no approval is needed. The sentence should be clarified to correct this ambiguity.

20. Subcontract

Subsection 27.303 and the various provisions in the contract clauses regarding subcontracts should be expanded to provide more guidance to the prime contractor. For example, because the Bayh-Dole Act applies to both prime contracts and subcontracts, the prime contractor must place the appropriate patent rights clause in its subcontracts. If the patent rights clause of 52.227-13 is used in a prime contract, certain subcontracts should contain the 52.227-11 patent rights clause and not the clause in the prime contract. Nevertheless, paragraph (h)(1) of the patent rights clause of 52.227-13 states that “[T]he Contractor shall include this clause (suitably modified to identify the parties) in all subcontracts, regardless of tier, for experimental, developmental, or research work.” There is no guidance in the FAR or in the patent rights clause on when to use the 52.227-11 clause in subcontracts; it would be helpful to the prime if Subsection 27.304-4, 52.227-13, or both would provide such guidance.

In addition, prime contractors misread the “suitably modified” language and change all references to the “Government” to read “contractor “ and all references to “contractor” to read “subcontractor,” which of course is incorrect. The Section recommends that, instead of the “suitably modified” direction, the regulation should clarify that the clause need not be changed for the subcontract, but the term “contractor” should be read as “subcontractor” if the patent rights clause is used in a subcontract.

21. Confidentiality of Inventions

The modifications eliminate some language from the confidentiality provision that would be helpful to the Contracting Officer in making a disclosure decision. The Section recommends that this deleted language be restored. The proposed rule makes the following changes to 27.302:

27.302 Policy

(j) Confidentiality of inventions. [Publishing]~~The publication of~~ information [concerning] ~~disclosing~~ an invention ~~by any party~~ before ~~the filing of~~ a patent application [is filed on a subject invention] may create a bar to a valid patent. Accordingly, 35 U.S.C. 205 and 37 CFR Part 40 provide that Federal agencies are ~~authorized to withhold from disclosure to the public information disclosing~~ [To avoid this bar, agencies may

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withhold information from the public that discloses] any invention in which the Federal Government owns or may own a right, title, or interest (including a nonexclusive license)[(see 35 U.S.C. 205 and 37 CFR part 401). Agencies may only withhold information concerning inventions] for a reasonable time in order for a patent application to be filed. [Once filed in any patent office, agencies are not required to release copies of any document that is a part of a patent application for those subject inventions.]~~Furthermore, Federal agencies shall not be required to release copies of any document which is part of an application for patent filed with the United States Patent and Trademark Office or with any foreign patent office. The Presidential Memorandum on Government Patent Policy specifies that agencies should protect the confidentiality of invention disclosures and patent applications required in performance or in consequence of awards to the extent permitted by 35 U.S.C. 205 or other applicable laws.~~

The language that was struck at the end is accurate and gives positive direction and supporting authority to the Contracting Officer; it therefore should be retained. Thus, the Section recommends the addition of the following language at the end of the proposed 27.302(j):

Furthermore, Federal agencies shall not be required to release copies of any document that is part of an application for patent filed with the United States Patent and Trademark Office or with any foreign patent or trademark office. The Presidential Memorandum on Government Patent Policy specifies that agencies should protect the confidentiality of invention disclosures and patent applications required in performance or in consequence of awards to the extent permitted by 35 U.S.C. 205 or other applicable laws.

22. Confidentiality of Inventions

FAR 27.303 should be amended to clarify that there are limitations on the Contracting Officer's disclosure requirements. FAR 27.303(b)(2)(iii) as proposed, is as follows:

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Provide the filing date, serial number, title, patent number, and issue date for any patent application filed on any subject invention in any country or, upon request, copies of any patent application so identified.

A reference to 27.302(j) (above) should be added so that when the Contracting Officer reads 27.303(b)(2)(iii), he or she is reminded that agencies should protect the contractor's patent applications from disclosure once they are submitted to the Government. So the clause would now read:

Provide the filing date, serial number, title, patent number, and issue date for any patent application filed on any subject invention in any country or, upon request, copies of any patent application so identified, provided however, that these disclosures are subject to the limitations of 27.302(j).

23. Noncommercial Items

Section 27.201-2(c)(2)(ii) uses the undefined term "noncommercial item." The Section suggests the following revised language

The contract also requires delivery of items that are not commercial items as defined in FAR 2.101.

24. Delivery to the Government

The FAR should adopt as a basic principle that the Government's rights in technical data and copyrights will only apply to the data required to be delivered under the contract. This change is consistent with 41 U.S.C. 418a, which states that:

[the U.S.] shall have unlimited rights in technical data developed exclusively with Federal funds *if delivery of such data (A) was required as an element of performance under the contract and (B) is needed to ensure the competitive acquisition of supplies or services that will be required in substantial quantities in the future (emphasis added).*

This would be of great value to contractors because they would only need to be concerned about rights in the data called for delivery in the contract and not all the other data, that may be used or generated during the performance of the contract.

25. Consistency with the DFARS

An effort should be made to make the FAR regulations regarding patents, data, and copyrights as consistent as practicable with the DFARS. This would allow a contractor, to the maximum extent practicable, to have a single policy in dealing with government patent and data rights. For example, for technical data and computer software, the Government acquires unlimited rights if the data or software was developed in the performance of a government contract. By contrast, under the DFARS the Government acquires unlimited rights if the data was developed exclusively at Government expense. The latter rule provides the clearer demarcation, is more consistent with 41 U.S.C. § 418a, and thus should be adopted by the FAR.

26. Consistency with Statutory Authority

We recommend that the FAR Council take a closer look at whether the FAR patent, data, and copyright regulations are properly implementing their underlying statutes, 41 USC § 418a (Rights in technical data) and 41 USC § 253d (Validation). For example, 41 U.S.C. § 418a provides for unlimited rights determination based on whether: (1) the technical data was developed exclusively with federal funds; (2) delivery of the data is required by the contract; and (3) the data rights are needed "to ensure the competitive acquisition of supplies or services that will be required in substantial quantities in the future." *Id.* § 418a(b)(1). It also provides for government purpose rights for mixed funding. *Id.* § 418a(b)(2). By contrast, the proposed FAR rule (as well as the current FAR) provides for unlimited rights in data "first produced in the performance of a [government] contract." FAR 27.404-1.

Similarly, 41 U.S.C. § 253d requires a data rights validation procedure different from that set forth in the FAR. For example, 41 U.S.C. § 253d(b) gives contractors 60 days (and additional time as the Contracting Officer sees fit) to respond to a challenge. The proposed rule (and the current FAR) require a response within 30 days with a limit of 90 days. FAR 27.404-5(a)(2).

The FAR Council should review the consistency of the overall data rights regulation in Part 27 in light of the requirements of underlying statutes.

The Section appreciates the opportunity to provide these comments and is available to provide additional information or assistance as you may require.

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Sincerely,



Hubert J. Bell, Jr.
Chair-Elect, Section of Public Contract Law

cc: Mary Ellen Coster Williams
Patricia H. Wittie
Robert L. Shaeffer
Patricia A. Meagher
Marshall J. Doke, Jr.
Norman R. Thorpe
Gregory A. Smith
Council Members
Co-Chairs and Vice Chairs of the
R&D and Intellectual Property Committee
Richard P. Rector

1999-402-9



"Linda Tran - CODSIA
Admin Officer"
<codsia@csa-dc.org>

07/29/2003 08:16 PM

To: farcase.1999-402@gsa.gov
cc:
Subject: FAR case 1999-402 - Request for consideration of late comments

Laurie Duarte
General Services Administration FAR Secretariat (MVA)
Room 4035
1800 F Street, N.W.
Washington, D.C. 20405

RE: FAR case 1999-402

<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

Dear Ms. Duarte:

The undersigned members of the Council of Defense and Space Industries Associations ("CODSIA") appreciate the opportunity to comment on the GSA notice published in the Federal Register on May 28, 2003 (68 F.R. 31790) requesting comments on the FAR Rewrite in Plain Language.

Formed in 1964 by industry associations with common interests in the defense and space fields, CODSIA is currently composed of six associations representing over 4,000 member companies across the nation.

Our CODSIA members are currently working on completing our comments on the FAR Part 27 Rewrite, which were due on July 28, 2003. However, I would like inquire whether GSA would be able to consider CODSIA comments that are submitted after this deadline. Would GSA still consider comments submitted by this Friday, August 1?

We would certainly appreciate your consideration. I look forward to hearing from you.

Linda Tran
CODSIA Administrative Officer
1000 Wilson Blvd, Suite 1800
Arlington, VA 22209
Phone: (703) 243-2020
Fax: (703) 243-3601
E-mail: codsia@csa-dc.org

1999-402-10



"Peter M. Gallagher"
<PGallagher@DevIS.com>

To: "farcase.1999-402@gsa.gov" <farcase.1999-402@gsa.gov>
cc:
Subject: FW: DevIS Comments on FAR case 1999-402

07/29/2003 08:49 AM

-----Original Message-----

From: Peter M. Gallagher
Sent: Monday, July 28, 2003 7:33 PM
To: 'farcase.199-402@gsa.gov'
Cc: Martin N. Hudson; 'tony stanco'
Subject: DevIS Comments on FAR case 1999-402

Dear Sirs,

I am the President of a small business, Development InfoStructure (devIS), that works primarily with the Federal Government (GSA, Department of Labor, US State Department, USAID, etc.) developing custom eGovernment software.

I have two comments on the proposed regulatory changes that are important and both of which further access to technology in a competitive manner, especially for small business. For instance the use of the software running www.Whitehouse.gov or www.Congress.gov, namely Apache Web Server and Linux, fall under a genre of software often referred to as "open source software." Open source software has become ubiquitous yet often causes problems simply because the license regime can preclude sale of the software itself. It is important, especially for the interests of small businesses, that are better able to compete using open source software, that the FAR clarify the acceptability of such public use licenses and related intellectual property rights issues. The suggestions below are important to clarify the usage of open source software that is in fact going on throughout the government, and given State/Local usage of the GSA IT/70 schedule, desperately need clarification in these revised regulations as follows.

1. Definition of "Commercial Computer Software" is much improved but should be further clarified to make it clear that the usage, the current reality, of open source software is recognized by the US Government. I suggest you complete the definition as follows to preclude further procurement confusion re. open source software:

"Commercial computer software means any computer program, computer data base, or documentation that has been sold, leased, or licensed to the general public, including software released under public licenses that may or may not be associated with a commercial entity."

2. Rights in Data can be unlimited for the US Government while not precluding the equal rights of Small Business to exercise Copyright for the purpose of sharing and releasing inventions/commercial software under public use license. For instance, my firm has done custom software development of the US Government and we desire to exercise our copyright, just as one would for a scientific journal, and release the content under a public use license. The release of the software under a public use license ensures that the intellectual property the US Government paid entirely or partially for is shared widely and permanently via legally recognized mechanisms. It should be my right, not subject to Contractor Office approval, to release work that I have created under a public use license, assuming of course that there are no issues of national defense at stake. The current and proposed regulations make it difficult, neigh impossible, to ensure that a Small

402-10

Business like devIS can pursue full public disclosure.

52.227-14 Rights in Data-General defines that the Government has unlimited rights to "data first produced in performance of this contract" unless otherwise specified. Under Section "C) Copyright" the regulations assert the "express written permission of the Contracting Officer is required to assert copyright." A clause should be added as follows:

"Given the Government goal of ensuring the widest access to data produced for the public the Contracting Officer shall not unreasonably deny Copyright assertion if the data, including computer software, is to be released under public license without restriction."

This added clause would then allow the Contracting Officer to ensure that appropriate clauses re. "acknowledgement of government sponsorship" and national security concerns are vetted while protecting the Small Business contractor that wishes to release a government funded (partial or total) software product. Such a release is in the public interest, in no way diminishes the Government's "Unlimited Rights" and because information/data is shared greatly encourages competition.

Thank you for your consideration.
Regards,

Peter Gallagher, President
dev-IS: Development InfoStructure
"Open Standards, Open Source, Open Minds"
703-525-6485 / PGallagher@devis.com
<http://www.devis.com/>

1999-402-11

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OFFICE OF THE GENERAL COUNSEL



1111 Franklin Street, 8th Floor • Oakland, California 94607-5200 • (510) 987-9800 • FAX (510) 987-9757

James E. Holst
GENERAL COUNSEL

Writer's direct line: (510) 987-9767
E-mail: bill.eklund@ucop.edu

July 28, 2003

Laurie Duarte
General Services Administration
FAR Secretariat (MVA)
1800 F Street, NW, Room 4035
Washington DC 20405

Re: FAR Part 27 Rewrite in Plain Language -- FAR Case 1999-402

Dear Ms. Duarte:

We offer the following comment on the proposed rewrite of Part 27 of the FAR:

Our only significant comment by this communication is with regard to the provision on the release, publication and use of data, as set forth in the clause entitled Rights in Data - General, at 52.227-14(d)(1).

Our general concern is primarily that of a major public research university - namely, that federal R&D contractors be allowed to publish and otherwise disseminate the results of fundamental and applied research, and indeed the results of research generally, to the maximum extent allowed by the law.

The cited provision is not new. It states that a contractor shall have the right to "use, release to others, reproduce, distribute, or publish any data first produced or specifically used by the Contractor in the performance of this contract, except ... As prohibited by Federal export control or national security laws or regulations."

We believe this provision is confusing and to some extent unnecessary, particularly with respect to its reference to the federal export control laws and regulations, for two reasons.

First, with but very rare exceptions not relevant here, the federal export administration regulations set forth at 15 CFR 374 do not, in and of themselves, prohibit a person from publishing technical information that is covered by the Export Administration Regulations

(EAR), so long as the information is not classified or otherwise covered by other federal law or regulation.

08/06/03

1999-402-11

Laurie Duarte
General Services Administration
July 28, 2003
Page 2

At the same time, those regulations do under some circumstances prohibit a person from engaging in an unlicensed "deemed export" by transmitting export controlled information to a foreign national, unless the information is already in the public domain.

Thus, in absence of any specific federal contract requirement, the law governing the publication of export controlled technical information is quite different from the law governing its release or export to foreign nationals.

Unfortunately, this distinction is blurred and largely lost by the language in the cited clause, which simply states, essentially, that data may be released or published except as prohibited by Federal export control laws or regulations.

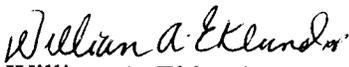
We believe the cited regulation, as currently written, has an unnecessary chilling effect on both the federal agencies and their contractors, insofar as it is commonly read to suggest either that publication of export controlled information is somehow restricted by the federal export control regulations, or that the federal agencies must restrict such publication as a result of such regulations. Neither result is in fact required by the export control regulations.

Secondly, we note that there are various other categories of information for which there are statutory or regulatory restrictions placed on federal contractors with regard to their release or publication of such information. Examples are Privacy Act information, certain proprietary information, and a host of other categories of protected information. Yet, those categories are not similarly referenced in the cited clause, as are the export control regulations. Singling out the export control regulations in this manner creates implications that are not warranted.

Consequently we recommend that the prescriptions of Part 27, as well as the Rights in Data clause itself, be clarified to state that it is the responsibility of the contracting federal agency to identify and justify any discretionary restrictions that it chooses to impose on the publication or release of data first generated in the performance of a federal contract; and that such restrictions should be supported by appropriate agency authority deriving from federal law or regulation.

We believe such a clarification would end uncertainty that currently exists, on the part of the agencies as well as their contractors, as to the proper interpretation and implementation of the current language of the clause on Rights in Data - General.

Respectfully submitted,


William A. Eklund
University Counsel

WAE:dp

Note: There appears to be a typo in the clause at 52.227-19. The reference to a paragraph (c)(2) in that clause should apparently be a reference to "(b)(2)".

1999-402-12



Craig Goral

10/16/2003 03:21 PM

To: LaRhonda M. Erby-Spriggs/MVA/CO/GSA/GOV@GSA
cc: Rodney P. Lantier/MVA/CO/GSA/GOV@GSA
Subject: FAR CASE 1999-402

La Rhonda -

Per discussion with Ralph, please provide this to the Patents committee for consideration as a "late public comment". I provided hard copy to Rod. Attachments are included (below).

On another matter, could you provide me the disposition of claim-of-patent reporting OMB control # 9000-0096. My file shows the notice was published in the FR August 14 (pp. 48602-48603) and the notice states the comment period would close Sept. 15. Since this date has long passed, were there any responses to the publication?

Craig R. Goral, CPCM
Office of Acquisition Policy/ GSA
(202)501-3856

----- Forwarded by Craig Goral/MVP/CO/GSA/GOV on 10/16/2003 03:13 PM -----



"Oler, Gail, Mrs,
DCAA"
<Gail.Oler@dcaa.mil>

10/15/2003 10:46 AM

To: craig.goral@gsa.gov
cc: "Rich, Joyce" <Joyce.Rich@dcma.mil>
Subject: FAR CASE 1999-402

As discussed with you, the FAR rewrite is not clear as to just what patent related costs are allowable or unallowable on government contracts. The contract clause under 52.227-11(j)(3) states, "Use the balance of 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 for the support of scientific research and education "

The problem is that incidental is not defined. CFR 401.15 (a) Deferred determinations is the only regulation that actually states that a patent filing should be at the contractor's own risk and expense if the contractor elects to retain title.

I am forwarding you an article from the CP&A Report, dated January 1997 written by Jeffrey Hildebrant, which basically lists the areas that contractors may not be recovering all the patent-related costs the regulations permit due to uncertainty in the regulations. This article supports the fact that the regulations should be made black & white. The article was presented to us as an attachment in a contractor's rebuttal to questioned patent-related costs.

Also, I have attached website references pertaining to patent related costs from the Council on Government Relations and their interpretation of the Bayh-Dole Act, which is contained in their website.

Let me know if you have any questions.

Gail N. Oler
DCAA Chesapeake Bay Branch Office
Telephone (410) 964-2066 ext. 227
FAX (410) 997-0509

FEATURE ARTICLE

Recovering Patent-Related Costs Under Government Contracts

Jeffrey P. Hildebrant

Defense downsizing has caused the Government to place increased emphasis on procuring innovative "force multiplier" weapons systems and other products that increase the effectiveness of the military but use fewer people. Contractors positioning themselves for this high-technology market devote substantial resources to research and development activities. To protect the profit-making potential of their investment in R&D, many contractors maintain active patent programs to acquire and defend patent rights in the United States and abroad. However, contractors may not be recovering as many of their patent-related costs as the regulations permit due to uncertainty regarding the types of costs that are unallowable under the Federal Acquisition Regulation Part 31 cost principles.

This *Feature Article* examines the FAR cost principles under which contractors may be excluding patent-related costs from billings to the Government unnecessarily. Specifically, the *Article* provides analyses, with legal support, for determining whether a patent-related cost is unallowable for any of the fol-

lowing three reasons: (1) the cost is not "required by the contract" under FAR 31.205-30, "Patent costs;"¹ (2) the cost constitutes a patent infringement litigation cost under FAR 31.205-47, "Costs related to legal and other proceedings,"² or (3) the cost is not allocable to Government contracts.³

"Patent Costs"—FAR 31.205-30

FAR 31.205-30 provides as follows:

(a) The following patent costs are allowable to the extent that they are incurred as requirements of a Government contract (but see 31.205-33 [professional and consultant service costs]):

(1) Costs of preparing invention disclosures, reports, and other documents.

About The Author...

Jeffrey P. Hildebrant is an attorney with the law firm of McKenna & Cuneo specializing in Government contract cost accounting and compliance issues. Mr. Hildebrant received a Bachelor of Science degree in accounting from Fordham University and Master of Business Administration and Juris Doctor degrees from Loyola University—New Orleans, where he graduated with Law Review Honors and was inducted into the national business honors fraternity, Beta Gamma Sigma. Before joining McKenna & Cuneo in 1988, he worked for 10 years in industry in estimating and cost management positions. Mr. Hildebrant is a vice chair of the Accounting, Cost, and Pricing Committee of the American Bar Association Public Contract Law Section and a member of the Contract Finance Subcommittee of the National Security Industrial Association's Procurement Committee. He previously wrote for CP&A Report on the allowability of foreign selling costs under domestic Government contracts.

(2) Costs for searching the art to the extent necessary to make the invention disclosures.

(3) Other costs in connection with the filing and prosecution of a United States patent application where title or royalty-free license is to be conveyed to the Government [see FAR Pt. 27].

(b) General counseling services relating to patent matters, such as advice on patent laws, regulations, clauses, and employee agreements, are allowable (but see 31.205-33).

(c) Other than those for general counseling services, patent costs not required by the contract are unallowable. (See also 31.205-37 [royalties and other costs for use of patents].)

Although FAR 31.205-30 makes patent costs required to be incurred under a Government contract generally allowable, the cost principle provides no clear guidance for determining what types of costs constitute "patent costs." An analysis of the relevant case law and regulatory history of the cost principle, however, indicate that the only patent-related costs that constitute unallowable "patent costs" are the costs incurred to prepare invention disclosures and to file and prosecute patent applications not required by a Government contract. Costs to investigate potential infringement or to negotiate patent license agreements do not constitute "patent costs" under the cost principle.

The only patent costs of any type described in the cost principle are costs related to invention disclosures, costs to file and prosecute a patent application, and general counseling services relating to patent matters.⁴ The cost principle does not explicitly identify several patent-related activities that contractors routinely conduct, including investigating potential infringement by or against the company and negotiating patent licenses with users of the company's patents or with patent holders of inventions the company wishes to use. None of these activities typically are required by a Government contract. Are the costs of these activities "patent costs" that are unallowable because they are not required by the contract? The analysis below supports the conclusion that the costs of these activities—although related to patents—are not "patent costs" and, therefore, are not unallowable under the cost principle. This conclusion is based on the following three supporting conclusions.

First, a cost not specifically identified as allowable in FAR 31.205-30 (or any other cost principle) is not necessarily unallowable.

Second, FAR 31.205-30 did not change availability policy from its predecessor cost principle, Defense Acquisition Regulation 15-205.26.

Third, under DAR 15-205.26, the only types of costs that constituted unallowable "patent costs" were:

- Costs of invention disclosures (to the Government) not required by a Government contract;
- Costs in connection with filing and prosecuting foreign patent applications; and
- Costs in connection with filing and prosecuting U.S. patent applications, where the contract did not require the conveyance of title or rights to the Government.

Based on these conclusions, the only costs that are unallowable under FAR 31.205-30 are those listed above that were expressly disallowed in DAR 15-205.26. The bases for the legal conclusions drawn above are set forth in the following sections.

Costs Not Identified As "Allowable" Are Not Necessarily Unallowable

Paragraphs (a) and (b) of FAR 31.205-30 cite examples of allowable patent costs. However, this list is not all-inclusive. Other FAR cost principle provisions and case law support the proposition that a patent-related cost does not become unallowable merely because that cost has not been referenced as an allowable cost in a cost principle. For example, FAR 31.204(c) states: "Section 31.205 does not cover every element of cost. Failure to include any item of cost does not imply that it is either allowable or unallowable."

The Armed Services Board of Contract Appeals has twice applied that rule to a predecessor version of FAR 31.205-30 in holding that patent-related costs not identified as "allowable" in the cost principle were not necessarily unallowable.⁵ Therefore, the only costs made unallowable by FAR 31.205-30 are those identified in paragraph (c), i.e., "patent costs not required by the contract" other than those for general counseling services.

FAR 31.205-30 Did Not Alter Prior Allowability Policy Under DAR 15-205.26

The regulatory history of FAR 31.205-30 shows that paragraph (c) of the current version of the regulation was not intended to disallow any different types of costs than were unallowable under the predecessor cost principle, DAR 15-205.26. The present language in FAR 31.205-30(c) was developed by the FAR Project Office (FARPO) when the DAR and the Federal Procurement Regulation were merged in 1984 to create the FAR. DAR 15-205.26 disallowed only the following types of patent-related costs:

(b)...Costs of preparing disclosures, reports and other documents and of searching the art to the extent necessary to make invention disclosures, if not required by the contract, are unallowable. Costs in connection with (i) filing and prosecuting any foreign patent application, or (ii) any United States patent application with respect to which the contract does not require conveying title or a royalty free license to the Government, are unallowable. [Emphasis added.]

During FAR Phase I, the FARPO stated that the revisions made to the cost principles section were to simplify the regulation with no change in the allowability of costs, unless specifically stated.⁶ During Phase II, neither the FARPO nor the DAR Section XV, Part 2 Subcommittee commenting on the FAR draft stated any intent to change the policy regarding the allowability of patent costs. The FAR Phase I draft abbreviated the language in the DAR and the FPR regarding costs for invention disclosures and patent applications not required by the contract to "[o]ther patent costs not required by the contract."⁷ In reviewing this draft, the DAR Subcommittee recommended preserving the list of allowable and unallowable costs in DAR 15-205.26 because the new language improperly implied the existence of patent costs, other than those listed, that were not allowable. The DAR Subcommittee offered the following specific comments on the Phase I draft:⁸

Patent costs are not sufficiently defined. Subparagraph (a) lists three types of patent costs that are allowable. Subparagraph (c) states "Other patent costs not required by the contract are unallowable." The thrust of this language is that there are patent costs other than those listed

which are not allowable. This opens a Pandora's box of possible candidates for activities that might be classified as unallowable patent costs. In the DAR a specific list of allowable and unallowable patent costs is set out. If there are other costs that might be put into the patent cost category, they are subject to general tests of reasonableness and allocability. Thus, the DAR language substantially eliminates conflicts because of its specificity. The FAR language promotes conflicts. Revise the FAR provisions to conform to the DAR and FPR.

The FARPO did not adopt the DAR Subcommittee's recommendation to preserve the specific listing of unallowable patent costs because the FARPO desired to eliminate what it perceived as two redundant listings: one covering patent costs that were allowable if required by the contract and the other that listed two of the same three costs as unallowable if not required by the contract.⁹ In re-drafting the cost principle, the FARPO acknowledged the problem identified by the DAR Subcommittee that the reference to "other patent costs" could be construed erroneously to mean that there are other types of patent costs besides those listed in the DAR provision. To resolve this problem, the FARPO deleted the word "other," agreeing that no other kinds of patent costs existed apart from those listed in DAR 15-205.26(b).¹⁰

The FARPO made one additional revision to paragraph (c) that did not change the meaning of "patent costs," discussed above. The FARPO recognized that the resulting phrase—"patent costs not required by the contract are unallowable"—would conflict with the provision that the costs of general counseling services are allowable even if they are not required by the contract. To avoid this conflict, the FARPO modified paragraph (c) specifically to exclude general counseling costs from the scope of the disallowance.¹¹

The foregoing exchange between the FARPO and the DAR Subcommittee shows that the present FAR cost principle was meant to disallow the same types of costs as its DAR predecessor. Moreover, the FARPO and DAR Subcommittee acknowledged in their comments that no types of patent-related costs were intended to be made unallowable by either the FAR or the DAR other than those specifically listed in the DAR provision.

Unallowable Patent Costs Under DAR 15-205.26

Given that the FAR did not change the policy toward patent cost allowability from the DAR, one can look to the history and terms of the DAR provision to determine what types of patent costs are unallowable under the FAR. The regulatory history of DAR 15-205.26, construed in light of relevant case law, demonstrates that the only types of costs made unallowable by that provision are *invention disclosure and patent application costs*, as identified in paragraph (b), quoted above. There is no indication that other types of costs also were unallowable under that provision. The only reported decision interpreting this provision, *Rocket Research Co.*,¹² does not expand the scope of the express disallowances beyond a reasonable reading of the plain language. In that case, the ASBCA applied the provision to disallow the costs of preparing patent searches, preparing and prosecuting patent applications, and taxes and other charges associated with the application for and renewal of patents. All of these costs were easily identifiable as constituting "[c]osts in connection with...filing and prosecuting...any United States patent application."

Some Government auditors have argued that *Rocket Research* stands for the proposition that DAR 15-205.26(b) disallowed other patent-related costs in addition to invention disclosure and patent application costs, where the patent related to an invention that was not used to perform a Government contract. The stated basis for this position is the ASBCA's finding that the purpose of DAR 15-205.26(b) was to disallow "all patent costs not necessary to a particular contract's performance."¹³ This view of the holding in *Rocket Research* is subject to several challenges.

First, the holding of the case is limited to the patent application and renewal costs that were the subject of the decision. The board was not presented with and did not address costs other than those

described in paragraph (b) of the cost principle. Second, even as to the board's finding regarding the purpose of the regulation, there appears to be no reason to conclude that the board's use of the term "all patent costs" refers to costs beyond those described in paragraph (b). The ASBCA stated its finding as the basis for rejecting the contractor's contention that *indirect* patent costs were exempt from paragraph (b). The board probably referred to "all" patent costs to emphasize that the disallowance applied to both direct and indirect costs.

Third, and perhaps most importantly, the case law at the time the cost principle in *Rocket Research* was formulated held that the cost principle did not disallow all patent-related costs for inventions not used to perform Government contracts. If the Armed Services Procurement Regulation Committee drafting the cost principle had intended to disallow such costs, it is likely the Committee would have done so explicitly in view of the case law that allowed such costs. Instead, the Committee disallowed only invention disclosure and patent application costs.

Until 1968, the ASPR did not disallow any type of patent-related costs. The original 1948 ASPR set forth patent costs as an allowable cost under § 15-204: "Examples of Items of Allowable Costs...(o) Patents, purchased designs, and royalty payments, to the extent expressly provided for elsewhere in the contract or otherwise authorized by the Government." This language remained unchanged until it was modified as part of a complete rewrite of the ASPR cost principles issued as Revision 50, dated November 2, 1959, to the 1955 ASPR. The "Patent Costs" cost principle was renumbered as § 15-205.26 and provided as follows:

Costs of preparing disclosures, reports, and other documents required by the contract and of searching the art to the extent necessary to make such invention disclosures, are allowable. In accordance with the clauses of the contract relating to patents, costs of preparing documents and any other patent costs, in connection with the filing of a patent application where title is conveyed to Government, are allowable. (See 15-205.36.)

The invention disclosures referred to in the cost principle were disclosures by the contractor to the Government, required by ASPR 9-107.2 (now

Until 1968, the ASPR did not disallow any type of patent- related costs.

FAR 52.227-12), of any invention conceived of or first reduced to practice by the contractor in the performance of the contract. Such inventions are defined as "subject inventions."¹⁴ The clause also required the contractor to elect whether to retain title to "subject inventions" and to file U.S. and foreign patent applications within specified time limits before the Government would be permitted to patent the invention.

In response to differing interpretations of this version of the cost principle by the ASBCA, the Defense Contract Audit Agency, and the General Accounting Office,¹⁵ the cost principle was modified by Revision 26 to the 1963 ASPR, effective February 1, 1968. The revision disallowed only the costs of filing and prosecuting foreign patent applications and U.S. patent applications where the contractor retained exclusive title without granting a royalty-free license to the Government. The revision also included a provision specifically allowing general counseling costs. Revision 26 stated as follows:

(a)...Costs of (i) preparing disclosures, reports, and other documents required by the contract and of searching the art to the extent necessary to make such invention disclosures; (ii) preparing documents and any other patent costs, in connection with the filing and prosecution of a United States patent application where title or royalty free license is required by a Government contract to be conveyed to the Government; and (iii) general counseling services relating to patent matters, such as advice on patent laws, regulations, clauses, and employee agreements, are allowable. (But see 15-205.31.)

The cost principle was modified again by Revision 10 to the 1969 ASPR, effective November 30, 1971. Before the regulation was promulgated, the ASBCA had decided in *Boeing Co.*¹⁶ that the 1959 version of the cost principle did not disallow, among other things, costs for research to determine whether products sold to non-Government customers infringed patents, for reviews of vendor proposals for patent issues, and an employee invention incentive award plan.¹⁷ Revision 10 did not address any of the types of costs allowed in *Boeing* but simply clarified that the costs of preparing invention disclosures and filing and prosecuting U.S. patent applications not required by a contract were unallowable

whether or not the contractor voluntarily gave the Government title or granted a royalty-free license.¹⁸ Consequently, the types of costs that were allowed in *Boeing*, other than costs for disclosures and patent applications, remained allowable under Revision 10. Importantly, some of those costs related to inventions that were not used to perform Government contracts.

The *Boeing* case was cited by at least one commenter on the proposed rule for Revision 10¹⁹ and, thus, was undoubtedly known to the ASPR Committee before it promulgated the final rule. The fact that Revision 10 specifically disallowed disclosure and patent application costs not required by Government contracts and did not mention other patent-related costs not required by Government contracts, including those that were allowed in *Boeing*, indicates that the regulatory drafters did not intend to disallow such costs. Revision 10 was the final version of DAR 15-205.26 before it was incorporated into the FAR in 1984.

The regulatory history and case law leading up to the final version of DAR 15-205.26, described above, confirm that the only patent-related costs disallowed by the cost principle were those that were listed specifically in DAR 15-205.26(b). The cost principle did not disallow any other patent-related costs, whether or not the patented invention was used to perform a Government contract. This allowability policy was intentionally preserved in FAR 31.205-30. Therefore, FAR 31.205-30 only disallows invention disclosure and patent application costs not required by a Government contract. It does not disallow other patent-related costs, such as research to determine potential infringement, whether or not the invention to which the patent relates was used to perform a Government contract.

FAR 31.205-30...does not disallow other patent-related costs, such as research to determine potential infringement....

Foreign Patent Costs

The regulatory history of the blanket disallowance of costs incurred in connection with filing and prosecuting foreign patents indicates that the rule probably has outlived its purpose and should be rescinded. As discussed above, foreign patent costs were made unallowable for the first time in 1968. Comments by the subcommittee that developed the rule reflect the drafters' conclusions that foreign patent rights were of little value to the Government and that allowing contractors to recover foreign patent costs would encourage the proliferation of expensive foreign patent applications.²⁰ These conclusions no longer appear to be valid, to the extent they ever were.

Government procurement policy has changed dramatically since 1968, particularly as it regards foreign sales. Foreign patent protection could be essential in implementing the current policy. Congress determined in the Defense Authorization Act for Fiscal Year 1989 that the promotion of U.S. defense industry exports benefits the Government because foreign sales can reduce production costs for the same kinds of products sold to the U.S. Government.²¹ However, the ability of a U.S. company to develop foreign sales may depend, in part, on whether its technology is protected by foreign patents. Without foreign patent protection, foreign competitors would be free to appropriate the technology and obtain foreign patent rights over it for themselves. In the best case, U.S. companies likely would be subjected to increased competition from companies able to reverse engineer the technology. In the worst case, U.S. companies could be barred from using their own technology in foreign markets by competitors holding foreign patents to the technology. U.S. companies can prevent these scenarios from occurring and, thereby, stimulate their foreign sales by obtaining foreign patent rights.

The ASPR Subcommittee's concern that U.S. companies would incur and allocate to Government

contracts an uncontrolled amount of foreign patent costs should have been resolved by the amendment made to the "Selling Costs" cost principle, FAR 31.205-38(c), effective May 15, 1991. The amendment implemented the policy to promote foreign sales articulated in the FY 1989 Defense Authorization Act, discussed above. The FAR amendment allowed only the costs of selling efforts incurred in connection with a "significant effort to promote export sales of products normally sold to the U.S. Government."²² Assuming foreign patent costs constitute "selling costs" under that cost principle,²³ Government contracts would share the cost of only those foreign patents obtained to promote sales that benefit the Government. This is a significant cost control that was not contemplated by the ASPR Subcommittee when foreign patent costs were first disallowed in 1968.²⁴

Contractors' acquisition of foreign patent rights can result in a substantial benefit to the Government. The Government can effectively control the costs of obtaining foreign patents by limiting allowability to the same extent as other foreign selling costs. The FAR cost principles for patent costs and selling costs should be amended to allow certain foreign patent costs, as described above, so that the FAR is consistent with congressional policy to promote U.S. defense industry exports.

Patent Infringement Litigation Costs—FAR 31.205-47(f)(6)

Costs incurred in connection with patent infringement litigation have been unallowable since the earliest Government contract cost principles dating from the 1940s. Despite the longevity of the rule, ambiguity persists regarding two principal issues under the cost principle. First, was the contractor engaged in litigation that constitutes "patent infringement litigation"? Second, were the costs claimed by the contractor incurred "in connection with" the litigation? The analysis below supports the following conclusions regarding these issues.

(a) Only a suit brought by a patent holder under a cause of action for patent infringement constitutes patent infringement litigation. Suits to enforce rights

other than patent rights, such as contract rights under a patent license agreement, do not constitute infringement litigation. Similarly, activities that do not result in any lawsuit by the patent holder do not constitute infringement litigation.

(b) Costs incurred to resolve a patent issue without litigation probably are not incurred "in connection with" the litigation.

"Patent Infringement Litigation" Defined

Neither FAR 31.205-47 nor the cases interpreting that cost principle (or its predecessor, FAR 31.205-33) define the term "patent infringement litigation." One may reasonably conclude that the term refers to litigation brought by a patent holder against another for "infringement" as that term is used under U.S. patent law.²⁵ Based on this definition, litigation not involving a cause of action for infringement, such as an action for breach of contract under a patent license, is not patent infringement litigation. In addition, no litigation in a state court constitutes patent infringement litigation because a suit for patent infringement must be brought in a U.S. district court²⁶ or, where the alleged infringement concerns an invention used under a Government contract, in the U.S. Court of Federal Claims.²⁷

The few reported decisions that have disallowed costs for patent infringement litigation involved the defense of suits described as being for "patent infringement" and not for other issues merely related to patents. The companion cases of *Bell Aerospace Corp. (I & II)*²⁸ involved a suit by a patent holder against the Government at the former Court of Claims for patent infringement. The contractor helped the Government to defend those suits. In *Boeing*,²⁹ the costs at issue were incurred to defend a direct suit against the contractor for patent infringement.

The litigation at issue in a fourth decision, this one by the U.S. Comptroller General, concerned a suit against the contractor alleging unauthorized use of trade secrets, breach of contract, and patent infringement.³⁰ The Comptroller General determined that the allegations concerning trade secrets and breach of contract did not constitute patent infringement litigation. Although the suit also alleged patent infringement, the Comptroller General recom-

mended payment of the contractor's litigation defense costs because the costs were not divisible by issue and the costs to defend against the infringement allegation were expected to be small because the plaintiff's only recourse on that issue was to file suit against the United States.

The results in these cases are consistent with the meaning of the term "patent infringement litigation" under U.S. patent law. Litigation costs were disallowed only when the suit was described as one for "patent infringement." Causes of action for breach of contract and unauthorized use of trade secrets were not considered to constitute patent infringement.

Costs Incurred "In Connection With" Patent Infringement Litigation

Neither the cost principle nor the relevant case law articulates the types of costs that are incurred "in connection with" patent infringement litigation. Before a patent infringement suit is filed, the party filing the suit may spend substantial resources in determining that the infringement exists, attempting to negotiate a settlement with the infringer, analyzing its litigation position, and drafting the complaint. The party served with the suit likewise may incur costs in researching the issues, negotiating with the patent holder, and preparing its defense in anticipation of an infringement suit.

It is not clear that such costs incurred before an infringement suit is filed are incurred "in connection with" the litigation because many instances of suspected or alleged patent infringement may be resolved without litigation. For example, a patent holder may determine after research and discussions with the suspected infringer that no infringement, in fact, occurred. Other matters may be resolved short of litigation through a patent license agreement. Even after an infringement suit commences, the parties may engage in settlement discussions for the purpose of settling rather than litigating the matter.

Case Law

The case law interpreting patent infringement litigation costs provides little guidance on whether particular kinds of costs were incurred "in connec-

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tion with" the litigation. Nevertheless, it appears that costs related to a patent infringement suit incurred after the suit was filed are included within the scope of the rule.³¹ Unfortunately, none of the cases specifically address whether and, if so, at what point costs that are incurred before litigation commences constitute costs incurred "in connection with" the litigation.

Purpose For Cost Incurrence

A suggested approach for determining whether costs are incurred in connection with patent infringement litigation is to base the determination on the purpose for which the costs were incurred. If the primary purpose for incurring the costs was to prosecute or defend against patent infringement litigation, the costs would be incurred "in connection with" the litigation. Conversely, if the primary purpose for incurring the costs was to resolve a patent dispute short of infringement litigation, the costs would not be incurred "in connection with" the litigation and, therefore, would not be unallowable under FAR 31.205-47(f)(6).

The analogy between claim patent infringement litigation costs and claim prosecution costs is appropriate....

This approach is borrowed from analogous case law pertaining to whether costs are incurred "in connection with" defending against Government claims or prosecuting claims against the Government under FAR 31.205-47(f).³²

The analogy between patent infringement litigation costs and claim prosecution costs is appropriate for several reasons. First, both types of costs involve investigation and negotiation activities relating to a potential dispute that could lead either to informal resolution of the dispute or to litigation. In the case of patent infringement claims, the contractor and another party investigate infringement issues, enter into negotiations, and then resolve the dispute or proceed to litigation. Similarly, for claim prosecution or defense costs, the contractor and the Government investigate claim issues, enter into negotiations, and

then resolve the dispute or proceed to litigation under the Contract Disputes Act. Second, both types of costs have been covered by the same cost principle and have used the same phrase—"incurred in connection with"—since the earliest days of the cost principle.³³ Thus, it is likely that the phrase was intended to carry the same meaning for both types of costs.

The U.S. Court of Appeals for the Federal Circuit established in *Bill Strong Enterprises, Inc. v. Shannon*³⁴ that the determination of whether costs have been incurred "in connection with" a claim against the Government must be based on evidence of the contractor's underlying purpose for incurring the costs. If the contractor incurred the costs for the purpose of furthering negotiations, then the costs normally should be allowable even if negotiations ultimately fail and the contractor begins prosecuting a claim. Conversely, if the contractor incurred the costs for the purpose of furthering the prosecution of a claim, the costs are unallowable. The ASBCA, on remand from that decision,³⁵ held that the Federal Circuit did not overrule the "purpose" test for cost allowability set forth in its holding in *Bill Strong* by the court's subsequent ruling in *Reflectone, Inc. v. Dalton*³⁶ regarding the requirements of a "claim" under the Contract Disputes Act.

Several board of contract appeals decisions after the Federal Circuit's decision in *Bill Strong* have held that costs associated with a claim after it is submitted to the Government constitute unallowable claim prosecution costs regardless of whether negotiations were taking place.³⁷ In addition, costs incurred to develop a claim before it is submitted have been held presumptively to have been incurred "in connection with" the claim.³⁸ However, where a contractor submitted a routine invoice that it later converted into a claim, the costs incurred before the conversion were held not to have been incurred in connection with the claim.³⁹

Applying *Bill Strong* and its progeny, costs associated with an infringement suit after the suit is filed likely would constitute unallowable patent infringement litigation costs regardless of whether settlement negotiations were taking place. Costs incurred to develop an infringement complaint presump-

tively would be incurred in connection with the infringement litigation. However, costs incurred to resolve the infringement issue short of litigation would not be incurred in connection with infringement litigation even if the contractor later decided to file an infringement suit.

For contractors defending against a patent infringement suit, only costs incurred after the suit is filed would constitute costs incurred in connection with patent infringement litigation. Presumably, costs incurred by party accused of patent infringement before an infringement suit is filed were incurred for the purpose of avoiding litigation through such means as convincing the patent holder that the patent is invalid or that there is no infringement.

In sum, patent infringement litigation under FAR 31.205-47(f)(6) probably refers only to litigation concerning a patent holder's rights under U.S. patent law. A rational approach for determining whether certain costs were incurred in connection with such litigation is to apply the test for claim prosecution costs in *Bill Strong* by basing the determination on the contractor's underlying purpose for incurring the costs.

Allocability Of Patent-Related Costs

Determining that an otherwise reasonable patent-related cost is not unallowable under any relevant cost principle addresses only one of the criteria for reimbursability. To be allowable under Government contracts, the cost also must be *allocable*.⁴⁰ The allocability of patent-related costs may not be clear where the costs relate to inventions that are not used to perform Government contracts. Case law indicates that such costs are allocable as costs necessary to the overall operation of the business if the contractor's business depends upon the types of inventions to which the patent costs relate.

Costs are allocable under the FAR if they are "chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship."⁴¹ In addition, the cost must satisfy one of the following three criteria, i.e., the cost must:⁴²

- (a) [Be] incurred specifically for the contract;
- (b) [Benefit] both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) [Be] necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

For patent-related costs pertaining to inventions not used to perform Government contracts, one must determine whether the costs are chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship *and* whether the costs are necessary for the overall operation of the business.

Three ASBCA decisions, *Boeing*,⁴³ *TRW*,⁴⁴ and *AEL*,⁴⁵ have held that patent-related costs for inventions not used on Government contracts were allocable to Government contracts as indirect costs. (All three cases were decided under the pre-1960 version of the ASPR cost principles which did not expressly disallow any patent costs.) In reaching this conclusion, the board in the *Boeing* and *TRW* cases relied on facts indicating that the contractors' businesses depended on technical advancement and, therefore, required the protection afforded by patents.

In *TRW*, the board explained that the costs of the contractor's program for patents not used in Government contracts nevertheless bore a beneficial or equitable relationship to Government contracts by virtue of the fact the patents were necessary to the business. The patent program benefited Government contracts, according to the ASBCA, because it (1) stimulated inventions, (2) facilitated recruitment and retention of qualified personnel, (3) protected the company from competition, enabling investment in developing new technology, and (4) protected the company from claims of interference or infringement. However, the board held that the contractor's foreign patent costs were not allocable because the contractor had no foreign business that would have required the protection of foreign patents. Thus, the costs were not necessary for the contractor's business.

The concept that Government contracts derive a general benefit from costs that are necessary to the contractor's overall business also has been applied to

other types of costs, such as marketing, legal, development, and bid and proposal costs.⁴⁶ Under the rationale of these decisions, a contractor's patent-related costs for inventions not used to perform Government contracts are allocable if the contractor's business depends upon the continual creation of such inventions and upon their protection by patents. The discussion in *TRW* indicates that allocability is strengthened upon a showing that the patent-related costs help create an environment in which qualified personnel are motivated to join or stay with the company and invent technology of the general type that could lead to inventions for use by the Government. Conversely, allocability may be questionable if the Government does not depend upon innovation by the contractor

and the contractor's patented inventions are unlikely to lead to technology used by the Government.

Conclusion

Patent-related costs represent necessary business expenses for many Government contractors. Unfortunately, the cost principles governing the allowability of these costs are ambiguous and frequently misunderstood or interpreted differently by Government and contractor personnel. It is hoped that the analysis presented in this *Article* provides insight into the intent of the regulations and a starting point for agreement regarding contractors' recovery of patent-related costs.

★ ENDNOTES ★

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| <p>1. FAR 31.205-30(a).</p> <p>2. See FAR 31.205-47(f)(6).</p> <p>3. See FAR 31.201-4.</p> <p>4. FAR 31.205-30(a), (b).</p> <p>5. See <i>Boeing Co.</i>, ASBCA 12731, 69-2 BCA ¶ 7980, reconsideration denied, 70-1 BCA ¶ 8132; <i>American Elec. Labs., Inc.</i>, ASBCA 9879, 65-2 BCA ¶ 5020.</p> <p>6. See FAR Phase I spreadsheet for Pt. 31, p. 1, n.1.</p> <p>7. Note 6, above, p. 49.</p> <p>8. FAR Phase II comments by DAR Section XV, Pt. 2 Subcomm.</p> <p>9. FAR Phase II, FARPO rationale and response to DAR Subcomm. comments on Phase I draft.</p> <p>10. Note 9, above.</p> | <p>11. Note 9, above.</p> <p>12. ASBCA 24972, 81-2 BCA ¶ 15307, pp. 75,796-75,797.</p> <p>13. Note 12, above, p. 75,797.</p> <p>14. See FAR 52.227-12, para. (c).</p> <p>15. See Memorandum for Chairman, ASPR Comm., from J.M. Malloy, Deputy Asst. Secy. of Defense (Procurement) (Mar. 14, 1966) (referencing OSD #238, Univac Div., Sperry Rand Corp., Comp. Gen. Dec. B-157691).</p> <p>16. See <i>Boeing Co.</i>, note 5, above.</p> <p>17. <i>Boeing Co.</i>, note 5, above, p. 37,106.</p> <p>18. See note 12, above, p. 75,796 (discussing purpose of Rev. 10).</p> <p>19. Letter to Chairman, ASPR Comm., from CODSIA (May 10, 1971).</p> |
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20. Memorandum for Chairman, ASPR Comm., from N. P. Adelson, Chairman, Section XV, Pt. 2 Subcomm., "Subject: ASPR Case 66-42 Patent Costs," § IV(5); Tab C (Feb. 2, 1967).
21. P.L. 100-456, § 836(c), 102 Stat. 2022, as amended by P.L. 100-526, § 106(a)(1)(A), 102 Stat. 2625, codified at 10 USC § 2324(f).
22. See FAR 31.205-38(c)(2), FAC 90-4 (56 Fed. Reg. 15142, Apr. 15, 1991). See Regulatory Report, 91-4 CP&A REPORT, pp. 21-22.
23. See FAR 31.205-38(a) (defining "selling" as "encompassing all efforts to market contractor's products or services").
24. See Memorandum from W.C. Rideout to AIA Intellectual Property Comm. (transmitting memorandum from T.W. Winland analyzing relationship between foreign patents and foreign sales policy; foreign patent costs as selling costs under FAR 31.205-38).
25. See 35 USC § 281.
26. See 28 USC § 1338.
27. See 28 USC § 1498.
28. ASBCA 7350 et al., 1963 BCA ¶ 3708 ("Bell I"); ASBCA 9388 et al., 1964 BCA ¶ 4285 ("Bell II").
29. See Boeing Co., note 5, above.
30. Comp. Gen. Dec. B-146071, 1961 CPD ¶ 45, 41 Comp. Gen. 90.
31. See note 30, above (costs incurred to defend contractor after lawsuit brought by patent holder); Boeing Co., note 5, above (costs incurred to investigate infringement alleged in lawsuit brought by patent holder and costs to defend against same); Bell I, Bell II, note 28, above (costs incurred to assist Government after lawsuit brought by patent holder).
32. See FAR 31.205-47(f)(1). See generally Stafford & Pompeo, "Life After Bill Strong," Feature Article, 95-12 CP&A REPORT, pp. 3-16.
33. See, e.g., "Explanation of Principles for Determination of Costs Under Government Contracts," War & Navy Department (Apr. 1942), ¶ 54(p) ("inadmissible costs" include) "Special legal and accounting fees incurred in connection with...patent infringement...and the prosecution of claims of any kind...against the United States"; ASPR 15-205(f) (original 1948 issue and 1955 version) ([unallowable costs include] "Legal, accounting and consulting services and related expenses incurred in connection with...prosecution of patent infringement litigation...and the prosecution of claims against the United States"); ASPR 15-205.31(c) (Rev. 50 to the 1955 version, effective Nov. 2, 1959) ("Costs of legal, accounting, and consulting services, and related costs, incurred in connection with...the prosecution of claims against the Government, are unallowable. Costs of legal, accounting, and consulting services, and related costs, incurred in connection with patent infringement litigation, are unallowable unless otherwise provided for in the contract.").
34. 49 F.3d 1541 (Fed. Cir. 1995), 14 FPD ¶ 18, revd. in part, *Reflectone, Inc. v. Dalton*, 60 F.3d 1572 (Fed. Cir. 1995), 14 FPD ¶ 63 (overruling precedent regarding requirements of "claim" under COA).
35. *Bill Strong Enters., Inc.*, ASBCA 42946 et al., 96-2 BCA ¶ 28428. See Cases & Decisions, 96-8 CP&A REPORT, pp. 20-21.
36. Note 34, above.
37. See *Betancourt & Gonzalez, S.E.*, DOTBCA 2785 et al., 96-1 BCA ¶ 28033; F.E.I., ASBCA 45935, 95-2 BCA ¶ 27613.
38. *Southwest Marine, Inc.*, DOTBCA 1665, 96-1 BCA ¶ 28168.
39. *Pearl Properties*, HUDBCA 95-C118-CA, 96-1 BCA ¶ 28219. See also Cases & Decisions, 96-4 CP&A REPORT, pp. 20-23.
40. See FAR 31.201-2.
41. FAR 31.201-4.
42. Note 41, above.
43. *Boeing Co.*, note 5, above.
44. *TRW Sys. Group of TRW, Inc.*, ASBCA 11499, 68-2 BCA ¶ 7117.
45. *American Elec. Labs., Inc.*, note 5, above.
46. See, e.g., *Daedalus Enters., Inc.*, ASBCA 43602, 93-1 BCA ¶ 25499 (commissions paid on foreign sales); Cases & Decisions, 92-6 CP&A REPORT, pp. 26-28; *Lockheed-Georgia Co., Div. of Lockheed Corp.*, ASBCA 27660, 90-3 BCA ¶ 22957 (marketing costs for commercial and foreign military sales customers); *Data-Design Labs.*, ASBCA 27535, 85-3 BCA ¶ 18400, reconsideration denied (Aug. 7, 1986) (costs in developing electronic ballast for commercial business); *Dynalectron Corp.*, ASBCA 20240, 77-2 BCA ¶ 12835 (costs incurred in unsuccessful attempts to acquire non-Government businesses); *General Dynamics Corp., Elec. Boat Div.*, ASBCA 18503, 75-2 BCA ¶ 11521, affd. on reconsideration, 76-1 BCA ¶ 11743 (bid and proposal costs for commercial business); *Hayes Intl. Corp.*, ASBCA 18447, 75-1 BCA ¶ 1076 (legal fees incurred in defending against employment discrimination suit).

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Council on Government Relations References to Technology Transfer

<http://www.cogr.edu/main.htm>

The Council on Governmental Relations was established in May 1948 when the Central Association of College and University Business Officers formed a committee to represent the five regional associations of college and university business officers.

Today, COGR addresses the unique issues its 150 member universities face as a result of receiving a significant share of the federal funds provided by research contracts and grants. COGR serves these needs by addressing compliance issues associated with the administration of federally sponsored programs for faculty and graduate students. COGR's activities reflect an awareness of the growing interface between federal and private sector funding. A major goal of COGR is the education of federal funding agencies about academic operations and the avoidance of unnecessary regulatory burdens. COGR represents universities collectively, not individually. *The positions it takes reflect a consensus of its membership and are believed to be in the general best interest of the research university community.*

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The Bayh-Dole Act: A Guide to the Law and Implementing Regulations, October 1999
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The federal government, in turn, was assured that universities would file, at university expense, patent applications on inventions they elected to own.

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University of California Site <http://www.ucop.edu/ott/tech.html#5>

University Technology Transfer -- Questions and Answers

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Welcome

Part One

- What is the Bayh-Dole Act?
- How has the Act influenced tech transfer?
- How many research universities have tech transfer offices?
- How does university tech transfer work?
- How is the licensing value determined?
- Exclusive or non-exclusive licenses?
- Start-up companies and tech transfer?
- Licenses through competitive bidding?

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Beyond such general considerations, many universities seek to accomplish several basic goals in development of the package of considerations: *a) the license should fund the patent application either through an up-front fee for reimbursement of costs already incurred by the university or through a requirement to reimbursement of ongoing expenses of the university;* b) the license agreement should include ongoing considerations to the university (a royalty); c) required minimum annual royalties after a specified period of time regardless of actual sales; and d) performance milestones to assure that the university's technology enters the market. The "formula" hopefully assures that the technology is developed to completion and put in the stream of commerce, assures a fair return to the university, and assures that the technology is returned to the university should the licensee not pay the minimums or achieve the specified performance milestones.

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The Bayh-Dole Act

A Guide to
the Law and
Implementing
Regulations

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COUNCIL ON GOVERNMENTAL RELATIONS

This brochure is intended to inform the public about the Patent and Trademark Law Amendment Act of 1980, more commonly known as the Bayh-Dole Act, which is the legal framework for transfer of university generated, federally funded inventions to the commercial market place. The brochure provides information about the Act, as well as about its implementing regulations and compliance requirements.

The Council on Governmental Relations is an organization which includes in its membership 145 research intensive universities. This brochure does not claim to be a manual of university technology transfer and licensing activities. Rather, it illustrates the basis for university-industry collaboration and developments since the passage of the Act.

In preparing this brochure, the COGR Committee on Technology Transfer and Research Ethics drew on the assistance of many universities. Their help is gratefully acknowledged. Special appreciation is due to Terence A. Feuerborn, Office of the President, University of California. Reproduction for purposes of sale or profit is prohibited without written consent of the Council on Governmental relations. Otherwise, reproduction is encouraged.

Council on Governmental Relations
1200 New York Avenue, Suite 320
Washington, D. C. 20005
(202) 289-6655

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H02-12

THE BAYH-DOLE ACT

A GUIDE TO THE LAW AND IMPLEMENTING REGULATIONS

INTRODUCTION

The transfer of new technology from university laboratories to the private sector has a long history and has taken many different forms. The current national emphasis on this activity, however, can be dated to the 1980 enactment of P.L. 96-517, the Patent and Trademark Law Amendments Act, more commonly known as the Bayh-Dole Act, and amendments included in P.L. 98-620, enacted into law in 1984.

This brochure reviews the Bayh-Dole legislation, the implementing regulations that have evolved, and the major issues associated with complying with the law and related regulations. It also highlights the significant benefits of the Bayh-Dole Act that have occurred to date.

BACKGROUND

Technology transfer--the transfer of research results from universities to the commercial marketplace for the public benefit--is closely linked to fundamental research activities in universities. Although a handful of U.S. universities were moving science from the laboratory to industrial commercialization as early as the 1920s, academic technology transfer as a formal concept, is said to have originated in a report entitled "Science - The Endless Frontier" that Vannevar Bush wrote for the President in 1945. At that time, the success of the Manhattan Project had demonstrated the importance of university research to the national defense. Vannevar Bush, however, also recognized the value of university research as a vehicle for enhancing the economy by increasing the flow of knowledge to industry through support of basic science. His report became instrumental in providing a substantial and continuing increase in funding of research by the federal government. It stimulated the formation of the National Institutes of Health (NIH), the National Science Foundation (NSF), and the Office of Naval Research (ONR). Due to the success of these and other agencies, the funding of basic research by the federal government is now considered to vital to the national interest.

In the 1960s and 1970s, there was much study and debate surrounding federal patent policies. A major concern was the lack of success by the federal government in

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promoting the adoption of new technologies by industry. There was no government-wide policy regarding ownership of inventions made by government contractors and grantees under federal funding. Inconsistencies in policies and practices among the various funding agencies resulted in a very limited flow of government-funded inventions to the private sector. In 1980, the federal government held title to approximately 28,000 patents. Fewer than 5% of these were licensed to industry for development of commercial products.¹

This problem was due, in part, to restrictions imposed on the licensing of new technologies and reluctance on the part of the agencies to permit ownership of inventions to vest in universities and other grantees.² The government would not relinquish ownership of federally funded inventions to the inventing organization except in rare cases after petitions had moved through a lengthy and difficult waiver process. Instead, the government retained title and made these inventions available through non-exclusive licenses to anyone who wanted to practice them.

As a result, companies did not have exclusive rights under government patents to manufacture and sell resulting products. Understandably, companies were reluctant to invest in and develop new products if competitors could also acquire licenses and then manufacture and sell the same products. Accordingly, the government remained unsuccessful in attracting private industry to license government-owned patents. Although taxpayers were supporting the federal research enterprise, they were not benefiting from useful products or the economic development that would have occurred with the manufacture and sale of those products.

In 1980, however, legislators and the administration concluded that the public would benefit from a policy that permitted universities and small businesses to elect ownership of inventions made under federal funding and to become directly involved in the commercialization process. This new policy would also permit exclusive licensing when combined with diligent development and transfer of an invention to the marketplace for the public good. It was understood that stimulation of the U.S. economy would occur through the licensing of new inventions from universities to businesses that would, in turn, manufacture the resulting products in the U.S.

EVOLUTION

With the passage of the Bayh-Dole Act, colleges and universities immediately began to develop and strengthen the internal expertise needed to effectively engage in the patenting and licensing of inventions. In many cases,

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institutions that had not been active in this area began to establish entirely new technology transfer offices, building teams with legal, business, and scientific backgrounds. These activities continue to accelerate nationally as the importance of the Bayh-Dole Act becomes fully appreciated. Evidence of this is reflected in the fact that the membership of the Association of University Technology Managers (AUTM) increased from 691 in 1989 to 2,178 in 1999. In 1979, the year before passage of the Bayh-Dole Act, the Association counted only 113 members.³

University technology transfer offices perform a wide variety of highly specialized functions related to the patenting and licensing of inventions. In addition, these offices also perform a vital function related to the formation of research partnerships with industry, and in negotiating the exchange of research materials and research tools.

In recent years, the wisdom of the new federal policy has become increasingly apparent. Growing numbers of universities have demonstrated that their newly formed technology transfer programs are effective in licensing inventions made with federal support to commercial partners. As a result, many new technologies have been diligently and successfully introduced into public use.

Another significant result of the Bayh-Dole Act is that it provides a strong incentive for university-industry research collaborations. At the national level, industry support for research and development at universities represents less than 7% of the total funding of university-based research. While small compared to the 60% provided by federal agencies, this private investment in the creativity of universities, including professors, students and staff, drives a form of technology transfer that is increasingly important to industry. The investment by industry rests on a secure footing because it is based on the principles and provisions of the Bayh-Dole Act.⁴

SOME PERSPECTIVE

The principles of the Bayh-Dole Act were the result of years of intense and emotional debate, dealing with fundamental concerns. The record shows that the debate included such issues as whether exclusive licenses would lead to monopolies and higher prices; whether taxpayers would get their fair share; whether foreign industry would benefit unduly; and whether ownership of inventions by a contractor is anti-competitive. Safeguards were hammered out in numerous legislative drafts. It is certain that the Act became much stronger because of the thorough debate that took place prior to its passage.

From the beginning, it was obvious that economic interests rather than academic science interests were the

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driving forces for the change in government policy. As early as October 1963, President Kennedy had issued a Presidential Memorandum and Statement of Government Policy. This memorandum marked the beginning of an intense discussion about the effect that government patent policy had on commercial utilization of federally sponsored inventions, on industry participation in federally sponsored R & D programs, and on business competition in the marketplace.⁵ It was not until industry, academe and the government recognized that their individual interests could be reconciled in the pursuit of commercialization that passage of the Bayh-Dole Act became possible and ended years of debate.

Until the Bayh-Dole Act became effective on July 1, 1981, the federal agencies kept tight control over intellectual property rights resulting from funded research, premised largely on traditional expectations rooted in the procurement process. After the passage of the Bayh-Dole Act, codifying and implementing it at the agency level was not an easy process. As the success of the Act became quickly apparent, subsequent legislative initiatives broadened its reach even further. These initiatives and the technical amendments involved are described in the Appendix.

CURRENT REGULATIONS

Regulations implementing federal patent and licensing policy regarding "Rights to Inventions Made by Nonprofit Organizations and Small Business Firms" are codified at 37 CFR Part 401. The Department of Commerce is designated as the federal agency to promote commercialization and to assume responsibility for maintaining these rules.⁶ The following summarizes the significant aspects of these regulations:

- The provisions apply to all inventions conceived or first actually reduced to practice in the performance of a federal grant, contract, or cooperative agreement. This is true even if the federal government is not the sole source of funding for either the conception or the reduction to practice. The provisions do not, however, apply to federal grants that are primarily for the training of students and postdoctoral scientists.
- The university is obligated to have written agreements with its faculty and technical staff requiring disclosure and assignment of inventions.
- The university has an obligation to disclose each new invention to the federal funding agency within two months after the inventor discloses it in writing to the university.
- The decision whether or not to retain title to the invention must be made within two years after disclosing

the invention to the agency. This time may be shortened, if, due to publication of research results or public use, the one-year U.S. statutory patent bar has been set in motion. Under such circumstances, the university must make an election at least sixty days before the end of the statutory period. If the university does not elect to retain title, the agency may take title to the invention.

- Upon election of title, the university must file a patent application within one year, or prior to the end of any statutory period in which valid patent protection can be obtained in the United States. The university must, within ten months of the U.S. filing, notify the agency whether it will file foreign patent applications. If the university does not intend to file foreign applications, the agency may then file on its own behalf in the name of the United States.
- Universities must include within the specification of the patent a notification of government support of the invention and government rights in the invention.
- If the university elects to retain title, the university must provide the government, through a confirmatory license, a non-exclusive, non-transferable, irrevocable, paid-up right to practice or have practiced the invention on behalf of the U.S. throughout the world.
- The university must submit periodic reports regarding the utilization of the invention as requested by the funding agency, but no more often than annually.
- Any company holding an exclusive license to a patent that involves sales of a product in the United States must substantially manufacture the product in the U.S. Waivers of this rule may be granted by the federal agency upon a showing that reasonable but unsuccessful efforts had been made to find a company that would manufacture the product in the U.S., or that manufacture in the U.S. would not be economically feasible.
- In their marketing of an invention, universities must give preference to small business firms (fewer than 500 employees), provided such firms have the resources and capability for bringing the invention to practical application. However, if a large company has also provided research support that led to the invention, that company may be awarded the license.
- Universities may not assign their ownership of inventions to third parties, except to patent management organizations.
- Universities must share with the inventor(s) a portion of any revenue received from licensing the invention. Any remaining revenue, after expenses, must be used to support scientific research or education.

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- Agencies may decide, for compelling reasons, that title should be vested in the federal government. Such decisions must be consistent with provisions within the Bayh-Dole Act and made in writing before entering into a funding agreement with a university. The agency must also file a Determination of Exceptional Circumstances (DEC) with the Department of Commerce. The NIH, for instance, has issued several DEC's for programs where NIH determined it was necessary to protect rights in intellectual property obtained from third parties.⁷
- Under certain circumstances, the government can require the university to grant a license to a third party, or the government may take title and grant licenses itself (these are called "march-in rights"). This might occur if the invention was not brought to practical use within a reasonable time, if health or safety issues arise, if public use of the invention was in jeopardy, or if other legal requirements were not satisfied.⁸

Procedural details, other rights and obligations not cited above, and further information regarding these matters, can be found in 37 CFR Part 401 and 35 USC 200-212.

RELATED NIH POLICIES

On November 8, 1994 the NIH published a notice in the Federal Register (59 FR 55673) entitled: "Developing Sponsored Research Agreements: Considerations for Recipients of NIH Research Grants and Contracts." This document is intended to ensure compliance with the requirements of the Bayh-Dole Act by providing NIH awardees with guidance in developing sponsored research agreements with commercial entities when that research may be partially funded by NIH or other federal agencies.

The NIH also issued two policy statements in the NIH Guide (Volume 25, Number 16, May 17, 1996; and Volume 25, Number 29, August 30, 1996) that establish procedures for managing certain patentable inventions. These rules apply to situations in which a university wishes to elect title to biological materials, which may be patentable, but does not want to file a patent application because the cost is not justified or because the patentability of the materials appears to be weak.

In May 1999, the NIH published a proposed set of guidelines for grantees on the subject of obtaining and disseminating biomedical research resources.⁹ This guidance is intended to help avoid or minimize problems that sometimes result from the dissemination and use of proprietary research tools that involve the competing inter-

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ests of intellectual property owners and research users. NIH issued this guidance because, as a public sponsor of biomedical research, it has a dual interest in accelerating scientific discovery through the use of research tools and facilitating product development.

COMPLIANCE WITH BAYH-DOLE ACT REGULATIONS

When a university elects title to an invention, it assumes responsibility for taking certain actions to properly manage the invention and provide certain reports to the government regarding the invention as outlined in the section on Current Regulations above. Compliance with these obligations is critical to the success of, and ongoing federal support for, the Bayh-Dole Act. As public and Congressional interest in technology transfer increases, and as the volume of activity continues to grow, government reviews of the practices of institutions involved in the process of commercialization of inventions will be conducted more frequently. Accordingly, there will be an increasingly greater need for attention to the details involved in meeting federal reporting obligations and other requirements imposed by 37 CFR Part 401.

Each federal agency is responsible for maintaining and monitoring its own repository of information on inventions developed under its funding. In October 1995, the NIH established the "Interagency Edison" system, an electronic reporting system whereby universities can enter data directly into a national database to satisfy their reporting obligations to those federal agencies participating in the system.

Federal agencies have the authority to periodically audit grantees and contractors for compliance with the Bayh-Dole Act. The General Accounting Office (GAO) in turn may also conduct studies to assess how effectively federal agencies are overseeing grantees and contractors in the management of government-funded inventions. 35 U.S.C. Section 202(b)(3) requires the Comptroller General to review the implementation of the Bayh-Dole Act at least once every five years and report its findings to the Judiciary Committees of the House and Senate. In 1991, the GAO focused its review on the licensing of federally owned inventions (GAO/RCED-91-80 issued April 3, 1991). In 1992, the GAO reviewed federal agency mechanisms for controlling inappropriate access to federally funded research results (GAO/RCED-92-104 issued May, 1992). More recently, the GAO reviewed the implementation of the Bayh-Dole Act by research universities (GAO/RCED-98-

126 issued May 7, 1998). In 1999, GAO issued a report on the number and characteristics of inventions licensed by six federal agencies (GAO/RCED-99-173, issued June 1999) and a report on compliance with reporting requirements for federally sponsored inventions (GAO/RCED-99-242, issued August 12, 1999). The GAO reports can be obtained from the Government Printing Office. See Web Resources below.

In order to assist grantees in their efforts to maintain compliance with the Act, some federal agencies have periodically issued guidance to the grantee community. An example is a question and answer document regarding invention reporting, printed in the NIH Guide to Grants and Contracts in 1995. (NIH Guide, Vol.24, No.33, September 22, 1995).

RESULTS OF THE BAYH-DOLE ACT

University patenting and licensing efforts under the Bayh-Dole Act have fostered the commercialization of many new technological advances that impact the lives of millions of people across the nation. A recent national survey conducted by AUTM¹⁰ reports that 70% of the active licenses of responding institutions are in the life sciences--yielding products and processes that diagnose disease, reduce pain and suffering, and save lives. Most of the inventions involved were the result of federal funding. While it would be impossible to list all such inventions, a few examples of technologies and products originating from federally funded university discoveries include:

- Artificial lung surfactant for use with newborn infants, University of California
- Cisplatin and carboplatin cancer therapeutics, Michigan State University
- Citracal® calcium supplement, University of Texas Southwestern Medical Center
- Haemophilus B conjugate vaccine, University of Rochester
- Metal Alkoxide Process for taxol production, Florida State University
- Neupogen® used in conjunction with chemotherapy, Memorial Sloan Kettering Cancer Institute
- Process for inserting DNA into eucaryotic cells and for producing proteinaceous materials, Columbia University
- Recombinant DNA technology, central to the biotechnology industry, Stanford University and University of California
- TRUSOPT® (dorzolamide) ophthalmic drop used for glaucoma, University of Florida

These examples of successful new technologies demon-

strate that a strong national infrastructure to support technology transfer has been established at academic institutions across the nation since passage of the Bayh-Dole Act. In 1980 there were approximately 25-30 universities actively engaged in the patenting and licensing of inventions. It is estimated that there has been close to a ten-fold increase in institutional involvement since then. The AUTM survey reflects the impact of this growth in activity:

- Academic institutions were granted more than 8,000 U.S. patents between 1993 and 1997 for technologies discovered by their researchers.
- Over 2,200 new companies have been formed since 1980 that were based on the licensing of an invention from an academic institution, including over 330 companies formed in FY 1997 alone.
- Approximately \$30 billion of economic activity each year, supporting 250,000 jobs can be attributed to the commercialization of new technologies from academic institutions.
- There are more than 1000 products currently on the market that are based on university licensed discoveries.
- Technologies licensed from academia have been instrumental in spawning entirely new industries, improving the productivity and competitiveness of companies, and creating new companies and jobs.¹¹

In summary, the Bayh-Dole Act and its subsequent amendments created incentives for the government, universities, and industry to work together in the commercialization of new technologies for the public benefit. The success of this three-way partnership cannot be understated.

CONCLUSIONS

On a nation-wide basis, the results support the conclusion that the Bayh-Dole Act has promoted a substantial increase in technology transfer from universities to industry, and ultimately to the public. Certainty of title to inventions made under federal funding is perhaps the most important incentive for commercialization. Implementation of uniform patenting and licensing procedures, however, combined with the ability of universities to grant exclusive licenses, are also significant ingredients for success. This combination of factors led to a tremendous acceleration in the introduction of new products through university technology transfer activities.

Certainty of title to inventions made under Federal funding has one other significant benefit—it protects the right of scientists to continue to use and to build on a specific line of inquiry. This is fundamentally important to research-intensive institutions because of the complex way in which research is typically funded, with multiple fund-

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ing sources. The retention of title to inventions by the institution is the only way of ensuring that the institution will be able to accept funding from interested research partners in the future. This is a critically important benefit of the Bayh-Dole Act that is not widely understood.

As Vannevar Bush foresaw, enormous benefits to the U.S. economy have occurred because of federal funding of research. These benefits have been significantly enhanced by the adoption of federal policies encouraging technology transfer. Such policies have led to breathtaking advances in the medical, engineering, chemical, computing and software industries, among others. The licensing of new technologies has led to the creation of new companies, thousands of jobs, cutting-edge educational opportunities and the development of entirely new industries. Accordingly, the Bayh-Dole Act continues to be a national success story, representing the foundation of a successful union among government, universities, and industry.

WEB RESOURCES

- <http://www.nih.gov/grants/guide/index.htm> (search for NIH Bayh-Dole-related policies)
- <http://www.access.gpo.gov> (GAO and other federal reports)
- <http://137.187.120.232/> (Interagency Edison project)
- <http://www.autm.net> (AUTM home page)
- <http://www.cogr.edu> (COGR home page)

APPENDIX

Bayh-Dole Act and Related Legislation

The Bayh-Dole Act and subsequent amendments provide the basis for current university technology transfer practices. The federal patent and licensing policy was shaped by four events that occurred between 1980 and 1985.

1. On December 12, 1980, P.L. 96-517, the Bayh-Dole Act was enacted into law. After lengthy and contentious congressional debate, legislation was crafted that created a balance between incentives and controls. Universities applauded the legislation because a uniform federal patent policy was established that clearly stated that universities may elect to retain title to inventions developed under government funding. Industry, particularly the small business community, appreciated an ownership policy that was applied uniformly on a government-wide basis. In addition, industry expected to benefit from the message that universities were encouraged to collaborate with companies to promote

the utilization of inventions arising from federal funding, that preference in licensing be given to small business, and that, to the extent possible, licensed products were to be manufactured in the U.S. The federal government, in turn, was assured that universities would file, at university expense, patent applications on inventions they elected to own. In addition, the government retains rights to enforce diligent commercial development of inventions. It also enjoys royalty-free, non-exclusive licenses to practice federally funded inventions throughout the world for government purposes.

2. On February 10, 1982, the Office of Management and Budget issued OMB Circular A-124 to provide guidance to federal agencies regarding implementation of the Bayh-Dole Act. This Circular established standard patent rights clauses for use in federal funding agreements. It also set up standard reporting requirements for universities electing title to inventions.
3. On February 18, 1983, a Presidential Memorandum on "Government Patent Policy" was issued. This Memorandum was issued to satisfy those that recognized the benefits of the legislation and wanted broader coverage. The Presidential Memorandum directed federal agencies to extend the terms and provisions of the Bayh-Dole Act to all government contractors, with a follow-on amendment to the Federal Acquisition Regulations to assure that all federal R&D agencies would implement the Act and the Memorandum.
4. On November 8, 1984, the original Bayh-Dole statute was amended by P.L. 98-620. New language was added to remove term limitations placed on exclusive licenses under the original Act. In addition, the Department of Commerce was designated as the federal agency responsible for overseeing the implementation of the Bayh-Dole Act and for monitoring the granting of exceptions to the rules.
5. On March 18, 1987 (52 FR 8552), all of the relevant provisions--the Bayh-Dole Act, the amendment, OMB Circular A-124, and the Presidential Memorandum--were finalized and consolidated in a rulemaking published by the Department of Commerce--appearing at 37 CFR Part 401. These regulations, augmented by the NIH guidelines discussed in this brochure, specify the rights and obligations of all parties involved and constitute the operating manual for technology transfer on a national basis.

FOOTNOTES

1. U.S. Government Accounting Office (GAO) Report to Congressional Committees entitled "Technology Transfer, Administration of the Bayh-Dole Act by Research Universities" dated May 7, 1998.
2. The term "university" or "universities" as used in the text applies to all non-profit grantees/contractors.
3. We gratefully acknowledge the courtesy and cooperation of AUTM in providing these statistics. See also AUTM Licensing Survey FY 1991-1995 and subsequent years.
4. In 1997, federal agencies provided an estimated \$14.3 billion or about 60% of total support for research performed at universities. Academic institutions provided \$4.5 billion of their funds. State and local governments and non profit organizations each contributed \$18.1 billion and industry \$1.7 billion. Although the proportion of academic R&D expenditures supplied by industry has been rising fairly steadily, it still only represents a fraction (7%) of total academic R&D support. Science and Engineering Indicators 1998. National Science Board: 4-8 and 4-9.
5. Presidential Memorandum and Statement of Government Patent Policy, issued October 10, 1963. Published in the Federal Register, Vol. 28, No. 200.
6. The Secretary of Commerce delegated this authority under 35 USC 206 to the Assistant Secretary for Productivity, Technology and Innovation.
7. Other circumstances, not clearly elucidated in the regulations, may be invoked by the government. Further detail can be found in 37 CFR Part 401.3; general appeal mechanisms are found in Part 401.4.
8. March-in rights, including appropriate procedures, are described at 37 CFR Part 401.6.
9. Notice for Public Comment, 64 FR 100,28205-28209.
10. AUTM Licensing Survey, Fiscal Year 1997.
11. AUTM press release December 17, 1998.

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Council on Governmental Relations
1200 New York Avenue, Suite 320
Washington, D.C. 20005
(202) 289-6655 (202) 289-6698 Fax