S 414

AMERICAN PATENT LAW ASSOCIATION
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June 28, 1979

Mr. Joe Allen, Counsel
United States Senate
Subcommittee on the Constitution
102B Russell Senate Office Building
Washington, D.C. 20510

Dear Joe:

Attached is our rewrite of section 204 of S. 414. The effort is based on the premise that this feature of the bill must be workable. The effect of our changes we believe to be equitable for both parties; the small businesses or universities and the Federal Government.

As you know, APLA believes this feature to be a disincentive to innovation generally. However, this approach will minimize that and will work a true recoupment for those patented inventions which result from Federal R&D money which become truly commercial successes.

Several of our changes should be explained. First and foremost is the proposition that the contractor should be liable to pay back to the Federal Government only that income that is derived from licensing or utilizing that which is specified in the claims of a patent covering a subject invention. Patent protection and exclusivity of use are afforded to the contractor only to the extent of those claims. Everything else is in the public domain and can be used and commercialized by anyone. It would be obviously and manifestly unfair to require that the contractor who is the source of the subject invention pay a portion of his income derived from the invention back to the government while others competing with him are freely using the very same invention with no obligation to pay.

Secondly, we believe the accounting problems involved in tying the net profits, of even a small business with a single line of products, directly to the value of a particular patent are insurmountable. Even in the case of 204(a) where the patent is licensed it could not be determined whether that income or other income or management ability or a multitude of other factors resulted in the "net profit". In the case of section 204(b) it would be almost impossible even to make rough guesstimates in this

regard. In any case, the only approach we believe is feasible is to work from the gross income attributable to the patent which in the case of 204(a) situations would be ascertainable, and in the case of 204(b), with negotiation, is at least possibly ascertainable.

Accepting the premise of working with gross income as opposed to net profits, you then have to raise up the threshold amounts and lower the percentage amounts because you will be working with much higher dollar amounts. In other words, an extremely successful small business will only recover 10% of gross income as net profit. The current net profit figure of $250,000 in subsection (a) necessarily contemplates gross income of $2,500,000. Therefore, in our amendments we have made the adjustments to these figures. Of course, the ultimate cap on the repayment is the total amount of the government R&D money provided to the contractor.

The complication with this is that it would be unwise and a serious disincentive if this pay back to the government is required in a situation where the small business is losing money. Therefore, somewhere either in the legislation or in the legislative history it should be made clear that although gross income is received which is ascertainable to the patented invention, if the small business is losing money overall, the pay back to the government should not be mandatory but should be the subject of negotiations between the contractor and the agency.

We have also addressed the problem of one government contract and the possibility that several patented inventions will result from it. Certainly it is not intended that the government recoup the total amount of the contract or grant for every patented invention resulting therefrom. In other words, such income as it meets the threshold for each patent in commerce should be treated in the aggregate and the government should be made whole on its outlay only once.

In 204(b) we have replaced the time trigger for the repayment term from "commercial exploitation" to "disclosure of the invention". This is a date certain. You might want to run it from when the patent issues. In any case, the date certain when commercial exploitation began would be anybody's guess absent a clear and well thought out definition which would have to comprehend a tremendous variety of products and markets.

Finally, we have added a new subparagraph so that the statute would allow negotiation early on to reach a recoupment settlement.

It would be of benefit to the parties to settle early and avoid the trouble and expense of the inevitable complicated accounting on both sides over the 10 year period.

The other changes I think are self-evident. If you have questions on any of this, Joe, please call. We will continue to do our best to work with you on this matter and are continuing to think about this extremely difficult problem. If we have new and better thoughts down the road, we will continue to forward them to you.

Personal regards.

Sincerely,

Michael W. Blommer

bcc: APLA Executive Committee
Mr. James C. Davis
Mr. Charles S. Haughey
Mr. Niels J. Reimers
Miss Charlotte Gauer

P.S. to Neils Reimers:

Dear Neils:

I would assume that Joe Allen would float the APLA comments on this section to you and others for comment. However, in case he does not you should take a look at our thinking. Believe me, we have no pride of authorship in that we are opposed to the whole thing. You should send your improvements and criticisms along to Joe Allen. I would appreciate getting a copy of any thoughts you might forward however. This battle of the recoupment feature is one which we are getting ready to fight in regards to S. 1215.

Mike Blommer

cc: Mr. Eugene L. Bernard