

## SELECTED AREAS OF COST

### Chapter 52 – Patent Costs

#### Authoritative Sources

[FAR 31.205-30](#) Patent costs

[FAR Part 27](#) Patents, Data, and Copyrights

[DFARS Part 227](#) Patents, Data and Copyrights

[37 CFR Chapter IV, Part 401](#) Patents, Trademarks, and Copyrights

A patent for an invention is the Government's grant to an inventor of the right to exclude others from making, using, or selling the invention for a specified time period. Activities involved in obtaining a patent include:

- Searching through prior patents to determine whether someone has patented the invention, or something similar to it;
- Preparation of an application for the patent to the Patent and Trademark Office of the Department of Commerce; and
- Prosecution (follow-up) of the patent application until granted or rejected.

#### General Audit Guidelines

This chapter provides the general audit guidelines for (i) determining the allowability of patent costs under the applicable cost principles, (ii) reviewing patent costs under FAR Part 27 and DFARS Part 227, and (iii) unique requirements applicable to nonprofit organizations.

FAR Subpart 27.3 and DFARS Subpart 227.3 establish DoD's policy with respect to patents. Contracting officers implement the policy by inserting one of the clauses set forth in FAR 27.303 and/or DFARS 227.303 into research and development contracts.

FAR Subpart 27.3 primarily implements the Bayh-Dole Act, Title 35 U.S.C., Chapter 18. Enacted in 1980, the Bayh-Dole Act established a government-wide policy that gave [contractors](#) the opportunity to retain ownership of federally funded inventions.

This chapter addresses the following topics:

52-1 Allowability of Patent Costs

52-2 Patent Rights – Ownership by the Contractor and the Allowability of Associated Patent Costs

52-3 Special Requirements for Nonprofit Organizations

## 52-1 Allowability of Patent Costs

Audit teams should consider the general allowability requirements for patent costs using FAR 31.205-30, Patent Costs, as well as specific restrictions on patent infringement litigation contained in FAR 31.205-47, Cost Related to Legal and Other Proceedings.

### **AUDIT GUIDELINES:**

FAR 31.205-30 governs allowability of patent costs and identifies allowable costs in two areas: costs incurred as requirements of a Government contract and general counseling services.

a. Requirements of a Government Contract FAR 31.205-30(a) identifies costs that are allowable to the extent that they are incurred as requirements of a Government contract:

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

(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.

b. General Counseling Services FAR 31.205-30(b) provides that general counseling services relating to patent matters, such as advice on patent laws, regulations, clauses, and employee agreements, are allowable (but see FAR 31.205-33).

c. Patent Infringement Litigation FAR 31.205-47, Costs Related to Legal and Other Proceedings, also addresses the allowability of patent costs. Specifically, FAR 31.205-47(f)(6) states that the cost of patent infringement litigation is unallowable unless otherwise provided in the contract.

## 52-2 Patent Rights – Ownership by the Contractor and the Allowability of Associated Patent Costs

The Government's patent policy provides contractors the opportunity to retain ownership of each "[subject invention](#)." Specific FAR and DFARS clauses establish these rights, as well as the contractor's obligations.

### **AUDIT GUIDELINES:**

FAR 27.303 requires a patent rights clause in all solicitations and contracts for experimental, developmental, or research work.

- If the contractor is a small business concern or nonprofit organization, FAR directs the use of the clause at FAR 52.227-11, Patent Rights – Ownership by the Contractor.
- For all other contractors, if the solicitation or contract is for DoD, DOE, or NASA, FAR directs the use of a patents rights clause in accordance with agency procedures. For DoD effort, DFARS 227.303 directs the use of the clause at DFARS 252.227-7038, Patent Rights – Ownership by the Contractor (Large Business).

FAR 52.227-11, Patent Rights – Ownership by the Contractor

FAR 52.227-11(c), *Contractor's obligations*, provides the following:

- (1) The contractor shall disclose in writing each subject invention to the contracting officer.
- (2) The contractor shall elect in writing whether or not to retain ownership of any subject invention by notifying the contracting officer.
- (3) The Contractor shall file a patent application on an elected subject invention.

FAR 52.227-11(d)(2), *Government rights – License*, provides the following:

*If the Contractor retains ownership of any subject invention, the Government shall have a nonexclusive, nontransferable, irrevocable, paid-up license to practice, or have practiced for or on its behalf, the subject invention throughout the world.*

The requirements of FAR 52.227-11(c) place a contractual obligation on the contractor to perform the effort described in FAR 31.205-30(a)(1), (a)(2), and (a)(3). The requirements of FAR 52.227-11(d)(2) provide the circumstances required under FAR 31.205-30(a)(3), that is, license conveyed to the Government. As a result, related costs incurred by the contractor are allowable.

DFARS 252.227-7038, Patent Rights – Ownership by the Contractor (Large Business)

The DFARS coverage for a contractor that is not a small business concern or nonprofit organization is the same as the FAR. DFARS 252.227-7038(c) imposes the same obligations on the contractor (disclosure, election, filing) as FAR 52.227-11(c) and DFAR 252.227-7038(d)(2) preserves the Government's rights like FAR 52.227-11(d)(2).

### **52-3 Special Requirements for Nonprofit Organizations**

37 CFR Chapter IV, Part 401 provides policies, procedures, and guidelines on inventions made by small business firms and nonprofit organizations, including universities under funding agreements with Federal agencies. Related to nonprofit

organizations, this regulation provides special requirements on the use of royalties and/or income. Specifically, under 37 CFR Chapter IV, Part 401.14(k), nonprofit organizations will use any royalties and/or income, after payment of expenses (including payments to inventors) incidental to the administration of subject inventions, to support scientific research or education.

## Callout

**Contractors** – Initially, Bayh-Dole only applied to small business firms and nonprofit organizations. In 1983, President Reagan issued a memo and later an Executive Order making it apply to entities of all of sizes. Congress later amended to make only sections apply. ([Return](#))

**Subject Invention** - As defined in the clauses, a "subject invention" is any invention of the contractor made in the performance of a Government contract. ([Return](#))