

# GUIDELINES FOR RELEASING PATENT RIGHTS TO INVENTORS

February 8, 2013

## Introduction

The purpose of licensing University intellectual property rights and materials is to encourage the practical application of the results of University research for the broad public benefit, meet University obligations to sponsors of University research, build research relationships with industry partners to enhance the research and educational experience of researchers and students, stimulate commercial uptake and investment, stimulate economic development, and ensure an appropriate return of taxpayer investments in University research. The authorized licensing office (ALO) thoroughly and carefully evaluates each invention disclosure to determine the most effective way to fulfill these objectives. The ALOs take many factors into consideration, including nature of the invention, commercial potential, and patentability in their efforts to ensure effective management of the invention to create public benefit from the University's publicly funded programs.

Each year University of California ALOs receive approximately 1500 invention disclosures. While a significant percentage of these disclosures are patented, the rest are not patented, largely due to an assessment that there are no near term commercial applications or that patenting is not necessary to encourage utilization or development. In addition, many inventions will be abandoned after a patent application is filed primarily due to the lack of industry interest in licensing the technology. In most cases, inventors concur with the ALO's patenting decisions. However, occasionally inventors will disagree with a decision not to file or maintain a patent application or patent and seek the right to continue patent protection and independently commercialize the invention. An ALO can meet inventors' commercial aspirations in a number of ways without resorting to a release of rights. However, at the discretion of the ALO, the university may choose to release rights to inventors. These guidelines are intended to assist ALOs with evaluating and granting a release of patent rights to inventors under the provisions of the University of California Patent Policy should other options turn out to be unworkable.

## Background

The University Patent Policy allows for the release of patent rights to inventors, stating:

In the absence of overriding obligations to outside sponsors of research, the University may release patent rights to the inventor in those circumstances when: (1) the University elects not to file a patent application and the inventor is prepared to do so, or (2) the equity of the situation clearly indicates such release should be given, provided in either case that no further research or development to develop that invention will be conducted involving University support or facilities, and provided further that a shop right is granted to the University.

In allowing for the release of rights to inventors, the policy expressly prohibits further research or development of the invention using University support or University facilities. Continued development of the invention at the University creates a conflict of interest in two primary ways: i) the use of University support or facilities to improve or otherwise add value to a released invention constitutes use of the University's public resources for personal gain, a violation of University of California Academic Personnel Manual 020 (previously Regulation 4) and The Regents' Standing Order 103.1(b), cited below, and (ii) the use of students and/or researchers to improve or otherwise add value to a released invention could constitute or be perceived as a misuse of students and/or researchers for personal gain.

#### Standing Order 103.1 Service Obligations

(b) No one in the service of the University shall devote to private purposes any portion of time due to the University nor shall any outside employment interfere with the performance of University duties. Arrangements for private employment by Officers, faculty members, or other employees shall be subject to such regulations as the President may establish.

The University's management of conflict of interest is subject to the discretion of the California Fair Political Practices Commission, a public agency devoted to conflicts of interest. Real or perceived misuse of the University's research facilities, financial resources, or human resources to benefit private interests can jeopardize the teaching and research exemptions state agencies have granted to the University in recognition of academic freedom. The University's exemptions are only discretionary, not provided for under statute, and can be taken away by the Legislature and other government agencies in light of perceived abuse, limiting the University's freedom to conduct its affairs to benefit the institution. To manage any real or perceived conflict of interest, the University must prohibit the development of a released invention using University support or facilities. Since it is not possible to continue development of an invention at the University without using University resources, such activities would have to be moved off-site to a suitable environment.

The ability to release patent rights gives ALO's an additional tool for managing inventions, but does not change the ALO's licensing objectives as described above, and is not intended as a means to circumvent the licensing process. Federal dollars fund the majority of the University's research, with the expectation that the University's research will create new knowledge and ultimately benefit the public. As such, patent rights should be released only when the release does not create a conflict of interest, when the release serves the University's public benefit mission, and after careful evaluation of the below factors.

#### **Evaluating a Request for Releasing Patent Rights**

After a thorough evaluation the ALO has the discretion but not the obligation to grant a request to release patent rights to inventors. These guidelines describe considerations

that are commonly evaluated for each request. As the decision to release patent rights is complex, each of the considerations discussed below may or may not be relevant in every situation. ALOs may need to consider additional factors not identified in this guidance, but that are relevant to the specific situation.

1. The importance of full disclosure

The integrity of the decision to release patent rights depends on full disclosure from all inventors. Under the University Patent Policy and associated Patent Acknowledgment, inventors are required to fully disclose their invention to the ALO. A full disclosure includes providing a detailed description of the invention, its utility, a list of all inventors, a list of funding sources used, any materials obtained from third parties, any interest in forming a start-up company, and any interest expressed by third parties in the invention. An incomplete disclosure undermines an ALO's ability to accurately evaluate an invention, which adversely impacts a release decision and can lead to termination of the release agreement and the transfer of released patent rights back to the University. Academic technology transfer offices have discovered cases where inventors intentionally withheld information to understate the true value of their invention. To ensure inventors fully disclose the invention, and to avoid releasing technology that has not yet been created, the release agreement should take care to release only what has been disclosed, and should include a legally binding statement from all inventors that they have fully disclosed the invention and all known interest expressed by third parties in the invention. The release agreement should also state that improvements continue to be subject to the University's Patent Policy.

If any companies express interest in the invention or if any inventors express interest in forming a start-up company, the ALO should not consider releasing the invention. Licensing directly to the company or inventor start-up allows the University to transfer the technology according to University Licensing Guidelines and better fulfills University licensing objectives that include broad public benefit and taxpayer return.

Inventors are expected to disclose their inventions to their ALO before any publication or other public disclosure which could affect patentability. Such public disclosures can place unreasonable time pressure on the invention evaluation process. If inventors do not provide sufficient time for the evaluation steps required before patent rights can be released, the ALO may be unable to grant the release in a timely fashion.

2. Release cannot be granted if third party obligations exist

Third party obligations may exist as a result of using funding or materials obtained from a third party to conceive and/or reduce the invention to practice. The ALO needs to determine if any third party obligations restrict or prohibit the

release of patent rights and must not release patent rights if any such third party obligations exist.

Because approximately two-thirds of extramural research at University of California is funded by a federal agency, the most common third party interest associated with university research is that of the U.S. government. The government interest is set forth in the Bayh-Dole Act (35 U.S.C. §§ 200-212). According to 35 U.S.C. §§ 202(c)(7)(A), an institution cannot assign its rights in a government-funded invention to inventors without the approval of the funding agency. An explanation of the process for requesting government approval of assignment of rights to inventors can be found at <https://s-edison.info.nih.gov/iEdison/InventorWaiver.jsp>. Because obtaining government approval of assignment of rights to inventors can take several weeks or months, inventors should initiate the process well in advance of any anticipated patent deadlines.

### 3. Consideration of the benefits of public domain

The ALO should consider the benefits of placing the invention in the public domain. Making certain inventions freely available can encourage research and development and maximize the invention's benefit to society. While economic growth often benefits from strong intellectual property rights, a lack of access to fundamental enabling technology may stifle the creation of new inventions and hurt economic growth. Since taxpayer dollars help fund and support the University's research, patent rights should not be released to inventors if it is beneficial to taxpayers and the public to place the invention in the public domain.

### 4. Multiple inventors and rights of co-inventors

In its management of inventions, the University has an equal obligation to all University inventors. It is not possible to release patent rights to one University co-inventor without affecting the rights of other University co-inventors. Whenever multiple inventors exist, all University inventors must agree to the release of patent rights and patents rights must be released collectively to all named University inventors under a release agreement. Once released, the inventors may independently manage their individual interest in the patent rights.

If co-inventors are from different institutions, each institution has an ownership interest in the invention that they may separately release to their inventors. The other institution(s) may decide to retain their patent rights, which may complicate University inventors' management of any released patent rights.

### 5. Impact on inventors' research and funding

Many inventions stem from an ecosystem of interrelated ongoing research projects in a laboratory. New research projects build on results from past research

projects, and leveraging the success of an existing project to launch a new research effort is oftentimes necessary for establishing and maintaining a flourishing research program. The prohibition of further development of a released invention using University support or University facilities may adversely affect a laboratory's research program. A release may compromise existing and future research projects potentially hampering the academic pursuits of the principal investigator, post-doctoral scholars and students. For these reasons, the ALO and the inventors should discuss the portfolio of research in the laboratory and determine the impact on the overall research program if patent rights were released. The ALO should also review the research projects in the laboratory that are funded under any active research grants or contracts. Research grants or contracts supporting further development of the invention may need to be rejected, terminated, revised or returned because a released invention cannot be further developed at the University.

The University retains a shop right to the invention, allowing the University and its researchers to conduct *research using* the invention at the University. However, a conflict of interest is created when any inventors conduct research at the University *in which the objective is to further develop the invention* and as a result improve or add value to the invention that is the inventor's personal asset. Hence, inventors may not use University support or facilities to further develop a released invention. Furthermore, future inventions resulting from *research using* the released invention will continue to be subject to the University Patent Policy and owned by the University.

## 6. Portfolio considerations

Because most research projects are related to other research projects in the same laboratory, the resulting inventions may also be related to other inventions created in the same laboratory by the same or different inventors. Past inventions may serve as background intellectual property for future inventions, and some inventions may have little value individually but could have great value when bundled with other inventions. In evaluating a request for release of patent rights, the ALO should review the entire portfolio of related inventions along with, to the extent possible, any anticipated future inventions. In particular, the risk for negatively impacting a patent portfolio increases greatly when the laboratory conducts *research using* a released invention, since all resulting future inventions will be owned by the University even though the background patent rights have been released to the inventors. If the release of an invention negatively impacts the commercialization of related inventions, in most cases the ALO should not grant the release.

In some cases inventors may need access to related or future inventions as a practical matter to effectively develop the original released invention. The ALO should not give inventors favorable treatment because of a prior release, as all inventions must be managed fairly and with public benefit in mind. If, for

example, third parties express interest in related or future inventions, inventors' access to such inventions may be limited if the ALO grants a license to such third parties.

#### 7. Consideration of scope of invention

The University should retain ownership of broad inventions that could serve as the basis for a plethora of future inventions, or consider placing the broad invention in the public domain as discussed above. Broad inventions have the potential to be developed for multiple uses or into applications in multiple fields, many of which may be undiscovered at the time of invention disclosure. By retaining ownership of broad inventions, the University can make the inventions available in a way that allows full development into products and maximizes public benefit. For inventions that are narrow in scope, there is a lower risk that a plethora of future inventions will be affected, and the assessment of such risk is more manageable.

#### 8. Consideration for limited release

An ALO may sometimes decide to abandon a patent or patent application in some territories but maintain the patent or patent application in others. If inventors disagree with an abandonment decision in specific territories, inventors may request a release of patent rights for such territories. It is strongly recommended that the ALO not grant a limited release of patent rights for specific territories because a limited release will complicate patent prosecution and impede licensing of the invention that will bring benefits to taxpayers and the general public. Patent prosecution in multiple territories should be managed by one party to obtain consistent patent protection. Furthermore, licensees strongly prefer negotiating one license for domestic and foreign patent rights over negotiating two licenses for the same invention each covering different territories. Inventors' support of patent costs as discussed below would address their concerns regarding abandonment yet allow the ALO to manage patent prosecution in a consistent manner and streamline the licensing process. If the ALO manages and maintains patents or patent applications in any territory, patent rights must not be released.

### **Granting a Request for Releasing Patent Rights**

If the evaluation of a request for release of patent rights indicates that a release is appropriate, the ALO, at its discretion, may do so under a release agreement. Each release of rights agreement should define the scope, terms, and conditions of the release, and should include provisions addressing some or all of the following:

#### 1. Define the scope of the release

It is important to clearly define the invention that is being released so that it can be distinguished from subsequent related inventions. Inventors need to

understand that the rights being released to them cover only the present invention, as described in writing, and not future or related inventions that may be subsequently conceived as University research continues. An invention is most clearly defined by the claims of the patent or patent application. If a patent or patent application has not been granted or filed, a written invention disclosure is likely to be the best way to define the scope of the released invention. If an invention disclosure is used to determine the scope of released rights, then it should be reviewed to ensure that it includes sufficient detail to serve this purpose. The scope of release should be precisely limited to what is disclosed in an invention disclosure or contained within a patent application and such disclosure or patent application should be attached as part of the release agreement. ALOs should reiterate that future inventions are outside the scope of the release and continue to be subject to the University Patent Policy.

To preserve the University's commitment to broad dissemination and sharing of research tools, the University must retain its ownership of materials and other tangible research property associated with inventions. The scope of the patent rights release should not include tangible research property, but inventors may obtain access to tangible research property associated with a released invention under a separate bailment agreement.

## 2. Retained license

The release agreement must retain a right for the University of California and other non-profit and educational institutions to make, use, and practice the invention for educational and research purposes. The retained license is necessary to satisfy the fundamental principle ensuring accessibility for research purposes, as stated in the Principles Regarding Rights to Future Research Results in University Agreement with External Parties and the first point of the Association of University Technology Manager's Nine Points to Consider in Licensing University Technology. The retained license helps fulfill the University's commitment to make the results of its research widely available for verification, ongoing research, education, and public good.

## 3. Diligence and reporting

As part of the University's public benefit mission, it may be appropriate to impose modest diligence obligations on inventors for released inventions. Because the University Patent Policy requires that the inventors be willing to file a patent application, a requirement to file a patent could serve as a reasonable diligence obligation. Diligence obligations should serve only to discourage those who are not serious about pursuing their invention. If diligence obligations are appropriate, one element should be an annual progress report from inventors.

To satisfy the requirement that no further development of the invention is conducted involving University support or facilities, it would be prudent for

campuses to require inventors to submit an annual signed certification to this effect. In addition to monitoring compliance with the University of California Patent Policy, the certification serves as a periodic reminder of an important obligation under the release agreement. If any inventors further develop the invention using University support or facilities, the ALO should generally not release patent rights to future inventions to such inventors and if warranted, the matter may be referred to the inventors' academic department for further disciplinary action.

4. University's financial interest in a released invention

Based upon the equities of the situation, it may be reasonable for the University to retain some financial interest in the invention. The ALO could seek to recover any patent expenses incurred in support of the invention and may optionally seek some fair return for the University, provided such payments do not hamper the development of the released invention for public benefit. Unlike other situations where inventors support the cost of patents owned by the University, University funds may not be used for any payments owed for a released invention. Such use of University funds would constitute use of public funds for private benefit.

5. Relinquishing the inventors' share of University income

For inventions owned by the University, the University is the primary recipient of invention income, and shares its income with its inventors. For inventions owned by inventors, inventors are the primary recipient of invention income, and may share this income with the University. If the University retains a financial interest in the invention, the release agreement should include a provision relinquishing the inventors' right to the income received by the University for the released invention and normally apportioned to the inventors under University Patent Policy because the financial return to inventors is already accounted for in the portion of income inventors are retaining. The portion of income inventors provide to the University should be determined with this in mind.

6. Transfer of patent rights from inventors to a third party

Through releasing invention rights, the University is supporting the efforts of inventors to improve the commercial value of the invention. If successful, the invention can attract a commercial partner, bringing benefit to the public in the form of products and bringing personal monetary benefit to the inventors. However, academic technology transfer offices have discovered cases where inventors intentionally or unintentionally undermined what could have been a fruitful licensing process by obtaining title and immediately transferring rights in a released invention to a third party instead of working with their institution's technology transfer professionals to license the invention to such third party in the first place. To ensure the public benefit mission of the University is maintained, to assist inventors after the invention is released, and to discourage potential



abuse of the patent release process, the release agreement could require that inventors notify and meet with the ALO at least sixty days prior to transferring patent rights to any third party. It may also be appropriate to require inventors to obtain ALO approval for transfers of rights occurring within a limited time after the invention is released, such as two years.

#### 7. Termination

After the release of patent rights has been granted, the inventors may discover that they cannot satisfy the terms of the agreement and/or need to develop the invention using University support or facilities. Release agreements could include a termination provision whereby the patent rights released are reassigned back to the University.

#### 8. Liability Protection

Inventors should be required to indemnify, defend and hold the University harmless from any liability that might arise from the development and commercialization of a released invention. The University has a greater risk of liability if the University has a right to receive financial benefit from the release of patent rights.

### **Alternatives to Release of Patent Rights**

The process of releasing patent rights to inventors necessarily requires time, resources, and management by both the University and the inventors. Prior to requesting a release of patent rights, inventors should discuss with their ALO other options that would allow them to pursue their invention. One option is for inventors to enter into an agreement with the University whereby the inventors or their academic departments support patent costs. This option allows inventors to continue development of the invention using University resources and also minimizes the legal burden on inventors in managing patent prosecution.

In many cases, the risks and complexities identified during the evaluation process may prohibit the release of patent rights. Exploring more manageable alternatives to releasing patent rights could result in a faster and equivalent path to realizing public benefit.