

PATENT COORDINATORS
CONTRACT AND GRANT OFFICERS
VICE CHANCELLORS - RESEARCH/ADMINISTRATION

SUBJECT: American Heart Association (AHA) Patent Policy for University of California

Background

The American Heart Association (AHA) has issued several versions of its patent policy over the years, each of which contains intellectual property language that is not desirable to the University of California. Each policy version includes march-in rights (discussed below) that seriously compromise the University's ability to transfer the results of AHA-funded research. In addition, each requires the University to determine AHA's royalty sharing proportions before there is a reasonable determination that the invention has a potential to actually generate income. While the wording of these provisions has varied slightly from version to version of the AHA policy, the obligations embedded in each such provision have remained the same.

The OTT recently completed negotiations with AHA that resulted in a standing exception to eliminate the march-in rights provision and to clarify the royalty sharing provision, as discussed below. The standing exception would apply to all versions of the AHA policy. It was approved by David Wm. Livingston on August 26, 1998 (see Enclosure 1.)

March-In Rights

The current AHA policy (10/21/94) language states:

"The institution shall agree that if it, or its designee or licensee, has not taken effective steps within three years, or whatever is a reasonable longer time in the circumstances, after issuance of a patent or other clear determination of commercial value in an invention which is being administered by the institution to bring the invention to practical or commercial application through licensing or otherwise on terms that are reasonable in the circumstances and cannot show reasonable cause why it should retain title to and all rights in the administration of the invention for a further period of time, then the AHA shall have the right to require (i) assignment of said patent or intellectual property right to AHA; (ii) cancellation of any outstanding exclusive licenses; (iii) the granting of licenses under said patent or intellectual property right on a non-exclusive, royalty-free basis or on

other terms that are reasonable in the circumstances; or (iv) other reasonable disposition of the invention rights."

OTT's experience in licensing technologies is that companies must invest significant resources to develop a commercial product. A commercial entity wants a guarantee that its license will not be inappropriately terminated or reduced to a nonexclusive license. In addition, potential licensees are reluctant to accept a licensing agreement whereby AHA can second-guess both the licensee's and University's judgment on diligent commercial development and terminate the license (see Enclosure 2 for further discussion of this issue.)

AHA appreciates the University's concerns regarding this issue and has agreed to a standing exception that deletes this provision from the AHA patent policy for the University.

Royalty Sharing

The current AHA policy (10/21/94) language states:

"Notwithstanding any other provision of this policy, the AHA shall participate in the income derived from the invention. The AHA's participation shall be determined within one year, or a reasonably prompt time, after the reporting of the invention to the AHA by mutual agreement between the institution and the AHA. The amount of the AHA's participation shall be guided by the principle that the AHA's sharing of income shall be proportionate to the AHA's proportion of support for the work or research giving rise to the invention. The AHA waives receipt of income until the royalty income (net of any direct out-of-pocket patenting cost) from the invention exceeds \$500,000."

A small percentage of invention disclosures made to the University results in licensing arrangements that could generate income. Thus, under the current terms of the AHA provision, effort is spent in determining the proportionate amounts of all funding sources supporting AHA-related inventions in an effort to negotiate a royalty-sharing agreement between AHA and UC that, in the majority of cases, is unnecessary. We proposed to AHA that its policy be revised for University to reflect that a royalty sharing agreement be negotiated only after a license is executed for an AHA-funded invention.

AHA appreciates the University's concerns regarding this issue and has agreed to amend the provision as a standing exception to AHA policy for the University, as follows:

"Notwithstanding any other provision of this policy, the AHA shall participate in the income derived from the invention. The AHA's participation shall be determined by mutual agreement between the institution and the AHA after a license has been executed for the AHA-funded invention or technology. The amount of the AHA's participation shall be guided by the principle

that the AHA's sharing of income shall be proportionate to the AHA's proportion of support for the work or research giving rise to the invention. The AHA waives receipt of income until the royalty income (net of any direct out-of-pocket patenting cost) from the invention exceeds \$500,000."

Informed Participation

It is recommended that the Contract and Grant Office notify the principal investigator of the AHA royalty-sharing arrangements and the potential impact on future inventor royalty distributions from any invention made under the award. The principal investigator should be notified that he/she is responsible for informing all other participants under the project of the royalty-sharing arrangements. Enclosure 3 is a sample memo that may be used for this purpose. Some campuses may choose to modify this memo to require the principal investigator to acknowledge the notice by his/her signature. It is at the discretion of the local Contract and Grant Office, however, how, or if, to provide such notice/acknowledgement.

Accepting AHA Awards

The standing exception will apply to "all American Heart Association research awards - whether from the AHA National Center or the Western States Affiliate (which now also includes the former Greater Los Angeles Affiliate) - awarded to the University of California until September 1, 2000 and thereafter throughout the expiration of any such research awards granted before September 1, 2000, including any extensions or continuations." Thus, the exception will cover all inventions arising under all past and current AHA awards, as well as any future awards executed before September 1, 2000 (to include any extensions and continuations to these awards.)

Contract and Grant Officers should include the following sentence in acceptance letters for AHA-funded awards:

"This award is subject to the standing exception to AHA patent policies approved by David Wm. Livingston, Executive Vice President, Corporate Secretary & Counsel dated August 26, 1998."

Cancellation of AHA Guidance in the Patent Clause Compendium

This memo supercedes guidance related to the American Heart Association as outlined in Section III of the Patent Clause Compendium for the American Heart Association, California Affiliate and Chapters (7/87); American Heart Association, National (3/87); and American Heart Association, San Francisco Chapter (3/87).

September 2, 1998

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If you have any questions concerning AHA patent policies or the management of inventions involving AHA support, please call M. Jeremy Trybulski.

Refer questions to: M. Jeremy Trybulski
(510) 587-6061
jeremy.trybulski@ucop.edu

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Acanfora", with a long horizontal line extending to the right.

Joe Acanfora
Associate Director

Enclosures: 1. August 26, 1998 letter from Livingston (AHA) to Trybulski
2. August 6, 1998 letter from Trybulski to Artz (AHA)
3. Sample notification to AHA award principal investigators

cc: OTT Associate Directors and Managers