

PRINCETON UNIVERSITY

PRINCETON, NEW JERSEY

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RAYMOND J. WOODROW
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April 15, 1968

Mr. Charles B. Brown
Special Assistant for Patent Policy
Office of the Secretary
Department of Health, Education, and Welfare
Washington, D. C. 20201

Dear Mr. Brown:

In reply to your letter of March 12, 1968 regarding a new form of Institutional Patent Agreement, and based on the meeting of the NACUBO Subcommittee on Patents and Copyrights with your Ad Hoc Committee on University Patent Policy on March 15 as well as further detailed discussions at the NACUBO Committee on Governmental Relations on April 4 and 5, we should like to comment as follows:

1. We feel that HEW is to be commended for its willingness to expand the number of such agreements beyond those entered into with some seventeen institutions back in the early 1950's. Based on the much greater number of institutions that have asked for and received approval of their patent policies by the Department of Defense and thus have the right to retain title to inventions, we believe that this move will not only benefit a large segment of the university community but also the public interest as well.

2. Notwithstanding the above, we believe that the proposed new agreement is much less favorable and more restrictive than the institutional agreement we already have. In fact, if a number of changes are not made in the new agreement, we believe it will defeat many of the objectives it presumably seeks to achieve. In the remainder of this letter we will endeavor to treat the more substantive issues.

3. In the first Whereas clause and in Article XV, there is a clear-cut and automatic distinction drawn between grants and contracts, with the former being accorded much more favorable treatment. We do not believe such a distinction is valid or has any basis in logic or equity. As stated in effect in the BOB report dated March 1968 entitled The Administration of Government Supported Research at Universities, as well as in several Congressional Committee reports, there is no

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real distinction anymore between these two types of instruments. Furthermore, to quote from the paper recently submitted by the Committee on Governmental Relations to the Department of Interior on Patents and Inventions under the Water Resources Research Act: "The Department usually contracts with a university for the support of a particular research program. The Government is not contracting for an invention. It is impossible to contract with an organization or to employ an individual to make a specific invention, or in fact, to know whether any inventions will be made. As the Supreme Court has ruled, an invention to be patentable must involve a "flash of genius", a conception over and above that which would be expected of one skilled in the art. Most inventions are in fact unanticipated by-products of the research effort."

Finally, if Article XV is appropriately amended as indicated below, there will be a mechanism for deviations from the Institutional Patent Agreement in both contracts and grants where appropriate.

4. In Article IV(a) as modified by Article VII, all inventions must be assigned either to the Grantee or to a nonprofit patent management organization. As evidenced by the enclosed copy of the Princeton University Patent Policy (which has only relatively minor changes from that in effect when our existing Institutional Patent Agreement was entered into), we do not require assignment but permit the inventor to retain title in two different sorts of situations:

(a) Where he elects to apply for a patent on his own initiative (although the Patent Policy recommends against such a procedure).

(b) Where the University decides, either on its own or on advice from Research Corporation or Battelle Development Corporation with whom we have agreements, to return an invention to an inventor which had been referred to the University for handling. In most cases this happens where the invention appears to be unpatentable, too narrowly patentable, or of little or no commercial value; except in rare instances, such inventions are abandoned through publication or otherwise. In one notable case where the inventor had faith in his invention, he proceeded to patent and found potential licensees but discovered that the cost and time required were too great, so he ultimately assigned the invention to Research Corporation which had earlier declined acceptance, and there are now several active licensees.

In both of the above situations, you will note from our patent policy that, although the equities are different, the University retains control over assignment or license or agreement to assign or license (see C6 of Patent Policy).

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As you will also note from our patent policy -- "It is not the University's policy to take title to an invention or patent." While this does not forbid our taking title, we adopted this policy many years ago for two basic reasons:

(a) We did not believe we should or could afford to employ a staff with expertise in all the fields in which inventions might arise, to handle patent evaluation and commercialization.

(b) We did not believe that the University should get involved in patent litigation (which is most frequent in the case of valuable patents) both for its own sake as well as the possible alienation of corporate donors to the institution.

As can be noted in the case of agreements entered into with drug firms for the testing of compounds, these are tripartite agreements involving the firm, the University, and the principal investigator. In such cases we felt it made no sense to involve either Research Corporation or Battelle, and very little more to have title vested in the University.

We therefore do not believe that the assignment provisions are necessary or desirable so long as the institution's patent policy provides adequate safeguards. This would require changes in IV(a), VI, and VII as well as changes in Exhibit "A".

5. We believe that the provisions of IV(b) are much too stringent and that many contractors under HEW grants would refuse such provisions. In fact, in many cases, the contractor would be a commercial organization and would qualify for retention of title under Section 1(b) of the President's Memorandum and Statement of Government Patent Policy. We recommend therefore, as a minimum, that there be a provision for alternative arrangements which do not require too much time and justification for approval and consummation.

6. Article V(c) requires that invention disclosures (which must be furnished promptly after conception or first actual reduction to practice according to V(a)) must be accompanied by a statement whether or not a patent application will be filed. This seems to us unrealistic unless "promptly" can be interpreted to include the time necessary to evaluate an invention and decide both whether it is patentable and whether it is worth patenting. Some clarification or revised wording seems in order. The ASPR Patent Rights License Clause (9-107.5(b)) requires disclosure within six months after conception or first actual reduction to practice.

7. With reference to Article VI(b) and (c) and Exhibit "A", we believe it would be preferable not to have an ironclad form of license

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to the U.S. Government incorporated in the agreement, for reasons as set forth in paragraph 4 above and to provide some leeway for other types of special circumstances. In fact, paragraph 2 of Exhibit "A" is actually in conflict with Article VI(d) and other provisions of the Institutional Patent Agreement, since it refers to assignment whereas the latter refer to licenses. Perhaps the best solution would be to expand VI(b) sufficiently to incorporate the necessary provisions of Exhibit "A" and eliminate the latter.

While we object in principle to defining "governmental purposes" as including not only the U. S. Government but also any agency thereof, state, or domestic municipal government (from Exhibit "A") since this will inhibit licensing, we cannot object too seriously since this is similar to the license provisions in the Department of Defense patent article.

What we do object to most strenuously is the last sentence of Article VI(e) which reads "Such license shall also provide that all sales to the U. S. Government shall be royalty free." This provision goes far beyond the requirements of VI(b) and Exhibit "A". If the intention is to include all U. S. agencies and state and domestic municipal governments, it is even worse. "Make and use and sell" included in Exhibit "A" do not mean "purchase." Much more important, practically any licensee would be horrified at the problems of tracing down every sale, which will generally go through distributors, sales agencies, local outlets, etc., with markups at each level, to insure that the final sales price does not include any royalty.

8. Article VI(d) specifies that an exclusive license may only run for a period of three years from the date of the first commercial sale or eight years from the date of the exclusive license. We believe that the three year period is in most cases too short, if any exclusive license is necessary for development of an invention. Princeton's policy with regard to inventions in industrial contracts and grants, which we also apply to licensing, provides where necessary for a period of six years from first commercial sale (see enclosure). We would recommend that the three year period be increased to at least five years.

9. Article VI(f) specifies the maximum amounts which may be paid to any inventor. We believe this is far too rigid and does not recognize the differences among institutions nor, in any one institution, the differences between inventions and the way they may be handled. In the usual situation at Princeton, where an invention is assigned to Research Corporation or Battelle, the limits would be acceptable. However, our patent policy also provides for different alternatives. In the event the inventor patents on his own initiative, or if the University and the inventor agree to handle the invention in a different way, the inventor's equity may be well above the fifteen percent (15%)

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final limit specified in VI(f). In the special case mentioned in paragraph 4 above where the inventor patented because Research Corporation originally declined, both Research Corporation and the University agreed when the ultimate assignment was made that a royalty greater than fifteen percent was justified.

We would recommend that there be no specific percentages specified in VI(f) but that there be a provision to the effect that the inventor's share of royalties be reasonable under the circumstances involved. Since each institution's patent policy will obviously be subject to review and approval before an Institutional Patent Agreement is entered into, each institution's situation can be taken into consideration at that time.

10. We recommend that Article VI(g) specifically state the applicable provisions of the Institutional Patent Agreement which must be incorporated in all licenses, and we understand you are agreeable to such a change. Insofar as the final sentence is concerned, we presume that copies of license agreements furnished to the Department would be treated as proprietary information; if not, many licensees would object.

11. We can see no reason why an institution must prove it does not have facilities for the administration of inventions before it may assign rights to a nonprofit management organization as called for in the first sentence of VII. There are many other circumstances, as evidenced by the above discussion which can legitimately lead to such a decision. We understand you are agreeable to an appropriate change.

12. We question the timing provisions of Article VIII(e). As we understand the present procedure, an inventor has ninety (90) days to respond to a Patent Office action or otherwise the patent application is considered abandoned. Under the present wording of VIII(e), therefore, the Grantee would have to notify the Grantor on the date a Patent Office action was received that it had decided to abandon, or otherwise go to cost and expense to maintain the status of the application while the Grantor was making its decision (within 90 days after notice of abandonment) to take assignment. Such an arrangement does not seem equitable. We would recommend that, in the first sentence, the Grantee should give notice of abandonment forty-five (45) days in advance, and that in the second sentence the Grantor be given forty-five (45) days to request assignment.

13. With regard to the first sentence of Article X, there are many inventions on which patent applications are filed which are not proper subjects for scientific publication. We recommend therefore, and understand that you agree, that this sentence should read somewhat as follows: "The Grantee will not restrict in any way the

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publication of disclosures of inventions on which patent applications have been filed."

14. With regard to the first part of Article XI, while you may well believe the data requested are necessary, we should point out that it will impose a substantial administrative burden on Grantees and licensees. Any possible alleviation would be appreciated. However, the final carte blanche "such other data and information as the Department may specify" seems to us entirely too broad. We would recommend that this be revised to read "such other data and information as may be mutually agreed to."

15. The "march-in" rights under Article XII(b) contain somewhat different wording than that in the President's Memorandum and Statement of Government Patent Policy. We suggest that the wordings should coincide.

16. With regard to the second sentence of Article XV, we do not believe that any constituent agency of HEW should, at its discretion, provide that the Institutional Patent Agreement shall not apply to any grant or award. This can only lead to confusion, inequities and endless bickering with Grantees. We would recommend that any such decision can only be made with the approval of the Assistant Secretary (Health and Scientific Affairs) based upon appropriate justification. If the recommendation contained in paragraph 3 above is accepted, the same would apply to contracts and the final sentence would be deleted.

I trust that you will take this rather voluminous letter not as criticism but as an attempt to help achieve what I believe is an objective that we both seek, namely, the most effective means of handling in the public interest inventions made in the course of research in colleges and universities sponsored by the Federal Government.

In view of the fact that most of the institutions, to which you have written and who have existing institutional agreements, did not have the opportunity to participate in the several discussions referred to earlier, all of them will receive, and I understand with your concurrence, a copy of this letter. I am also taking the liberty of sending copies to Research Corporation and Battelle Development Corporation since our existing agreements with them will be affected.

Mr. Charles B. Brown

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Your cooperation is sincerely appreciated.

Cordially,

Raymond J. Woodrow

RJW/pf

Enclosures (2)

PRINCETON UNIVERSITY
Princeton, N. J.

PATENT POLICY

A. Basic Objectives

Patents are created by the Constitution and the Laws of the United States to recognize the ownership of inventions by individuals in return for publication of the inventions by issued patents and ultimate dedication to the public after the limited period the law grants patent protection. The basic objectives of Princeton University's policy as to patents include the following:

1. To maintain the University's academic policy of encouraging research and scholarship as such without regard to potential gain from royalties or other such income.

2. To make inventions developed in the course of University research available in the public interest under conditions that will promote their effective development and utilization.

3. To assure that inventions developed in the course of University research will not be used to the detriment of the public interest by the unnecessary exclusion of any qualified user or by any other means.

4. To provide adequate recognition and incentive to inventors through a share in any proceeds from their inventions since, unlike common commercial practices, university charges and salary scale are not based on the expectation of income by the University from inventions.

5. To advance and encourage research within the University with the funds accruing to the University from its equity in those inventions which are developed in the course of research supported by funds or utilizing facilities administered by the University, or other inventions which are handled through the University.

6. To recognize the equity of any outside sponsor of research within the University by making reasonable and equitable provision for the granting of limited patent rights to the sponsor, consistent with the University's basic objectives above outlined.

B. The University Research Board, The Office of Research Administration, and The Research Corporation

The University Research Board, hereinafter referred to as the Board, is responsible for general oversight and administration of the University's patent policy as regards the University, its Faculty, employees, students, and outside sponsors.

The Office of Research Administration is responsible for the processing and management of inventions and patents under general oversight of the Board.

Research Corporation, hereinafter referred to as Research, is a nonprofit foundation which distributes its total net income as grants in aid of research to colleges, universities, and scientific institutions. As stated in its charter, it was established to receive and to acquire inventions and to render the same more available and effective in the useful arts, to provide means for the advancement of scientific investigation by contributing the net earnings of the corporation to scientific and educational institutions, and to receive other monies and property and to apply the same to the objects specified.

It is not the University's policy to take title to an invention or patent. The University has, however, entered into an agreement with Research whereby if the University recommends the assignment of an invention to Research and it accepts this assignment, Research patents and commercializes the invention without expense to the inventor and agrees to pay a share of the gross income to the inventor. The net income from the invention after the payment of the inventor's share and special expenses in connection with the invention is shared between the University and Research. The University in turn allocates its share of net income received from Research for further research and scholarship, the Board and the President making the allotments. In doing this, preferential consideration will be given to proposals for the use of funds derived from any particular patent by those working in the field of research from which the invention arose.

In the interests of the individual because of the complexities and expenses involved in handling patents, and in the interests of the University because of its equity in inventions as described herein, the University recommends that a Faculty member, employee, or student who makes an invention refer the same to the Office of Research Administration for handling through Research, as above outlined. It reserves the right to consider every invention presented on its merits in order to decide whether it should be presented to Research for its consideration.

C. Relations Between the University and Faculty, Employees, and Students

All Faculty members, employees, and students, in consideration of their membership in the academic family and the approval of this policy by the Trustees and the Faculty of Princeton University, agree to handle inventions and patents resulting therefrom as follows:

1. Any Faculty member, employee, or student may refer any invention to the University or may apply for a patent on his own initiative. If an invention is referred to the University, the inventor will agree to follow its recommendations as to how the invention should be handled and to execute all necessary papers to handle the invention as decided by the University. If an invention is not referred to the University and a patent is applied for on that invention, a copy of the patent application, when filed, shall be furnished to the University. If necessary as a substitute for a copy of the patent application, the University may be furnished with a notification of filing and an explanation of the government security regulations or other conditions which make the furnishing of a copy of the patent application impossible.
2. When an invention is referred to the University, it will review the merits of the invention and will decide whether the invention should be referred to Research or whether other steps should be taken to patent, assign, or license the invention. If it so decides, the University may return the invention to the inventor to handle on his own initiative, relinquishing any equity it may have in the invention, but reserving the right to approve assignment or license as covered by paragraph 6 below.
3. The equity of any faculty member, employee, or student who makes an invention, and the equity of the University, shall be established by the University in conference with the inventor. Unless there are unusual equities, division will be made as hereinafter provided. The University will consider that it has an equity in any invention which is developed in the course of research supported by funds or utilizing facilities administered by the University, or any other invention which is handled through the University. The University will consider it has no equity

in inventions which are patented by the inventor on his own initiative and which are not developed (even though intellectually conceived) in the course of research supported by funds or utilizing facilities administered by the University. The payment of salary, scholarships and fellowships, or similar stipends will not of themselves constitute any basis for an equity by the University in an invention.

4. For any invention which is developed in the course of research supported by funds or utilizing facilities administered by the University, and which is assigned to Research, the inventor will be paid fifteen per cent of the gross income received by Research and the University's equity will be considered to be its share of the net income remaining. For such inventions which are referred to the University, but which the University and the inventor agree to handle in some other manner than through Research, the relative equities of the inventor and the University will be comparable to those which would have been realized had the invention been assigned to Research. For such inventions which are not referred to the University, but are patented by the inventor on his own initiative, the University's equity will be considered to be forty per cent of all monies received from the assignment, license, or use of the patent after expenses incurred by the inventor are deducted.

5. For any invention which is not developed in the course of research supported by funds or utilizing facilities administered by the University, but which the inventor elects to handle through the University and Research, the University's equity will be considered to be ten per cent of the gross income realized by Research, with the inventor receiving 47.5% and Research 42.5% of the net income remaining after deduction of special expenses incurred by Research with the approval of the inventor. However, since the University's agreement with Research only provides for payment of fifteen per cent of gross income by Research to the inventor, any amount in excess of this will be paid to the inventor by the University from the University's normal share.

6. No assignment or license or agreement to assign or license any invention developed in the course of research supported by funds or utilizing facilities administered by the University may be entered into by any Faculty member, employee, or student without the written consent of the University. The University shall have the ultimate right to resolve any conflict of interests arising in this connection with third parties or organizations. The basic objectives cited in Section A of the patent policy will serve as the criteria for approval of assignments, licenses, and agreements to assign or license.

7. When the University and an outside sponsor enter into an agreement for research to be conducted with funds or facilities provided by such sponsor, any individual who utilizes such funds or facilities may be required to enter into an agreement as to inventions arising from such utilization.

8. If a dispute should arise between an inventor and the University with respect to the provisions of this Section C, the question shall be referred for decision to a Board of Arbitration composed of one representative nominated by the inventor, one by the University, and a third member selected by the two representatives thus chosen.

D. Relations with Outside Sponsors

It is the intent of the University in accepting grants or contracts from outside sponsors for the purpose of research: that sponsored research projects will operate within the framework of the University staffed mainly by regular members of the University; that the work undertaken will in general be of a research rather than of a developmental nature; that the research will be related to the educational program; that it holds promise of contributing substantially to the general fund of knowledge; that it is of sufficient interest and importance to be undertaken enthusiastically; and that the conditions of the contract or grant covering the project will interfere as little as possible with the regular University procedures and policies. These criteria will be modified only to the extent absolutely necessary in the case of projects of urgent national interest.

When an outside sponsor of research desires a formal agreement covering inventions and patents, the provisions of such agreement will be negotiated with the University in accordance with this patent policy and with particular attention to the objectives cited in Section A hereof.

Approved by Princeton University Faculty May 1, 1961

Approved by the Executive Committee, Board of Trustees, May 12, 1961

PRINCETON UNIVERSITY

Policies With Regard to Publications and Inventions in Industrial Grants and Contracts for Research

Publications

The following policies are applicable to grants and contracts for research from industrial organizations to Princeton University:

1. Princeton or its personnel shall be free to disclose and to publish information on the results of the research performed, except as limited by the following conditions.

2. In the event any information classified from a U.S. Government security standpoint is to be involved in a contract or grant, Princeton asks that the same security provisions be used as apply to direct Government contracts with educational institutions (these contain special safeguards for educational institutions as compared with the security provisions used for Government-industry contracts). In general, Princeton does not accept classified contracts except where it can make an important contribution to the national welfare.

3. Princeton will agree, if requested, not to disclose or publish without the sponsor's approval any information furnished to Princeton by the sponsor, or which reveals the specific application of the results to operations of the sponsor.

4. If requested, a copy of any report or manuscript prepared for publication containing information on the results of the research will be transmitted to the sponsor when first available.

5. Sponsor may not make any reference to Princeton or its personnel in any publication, publicity or advertising without Princeton's approval. Princeton will agree not to make any reference to the sponsor in any publication or public release without sponsor's approval.

6. Inasmuch as publication prior to the filing of a U.S. patent application is a bar to foreign patents, Princeton will agree, if requested, to delay the publication date of any publication which discloses an invention resulting from the research for a period of six months after submission to the sponsor of the material to be published, or until the date a U.S. Patent Application has been filed on the invention, whichever is earlier, unless sponsor approves earlier publication.

Inventions and Patents

Provisions along the following lines will generally be acceptable for research grants and contracts from industrial organizations to Princeton University:

a. Princeton hereby grants and agrees to grant, or cause to be granted, to Sponsor, irrevocable licenses under any and all

patents or inventions resulting from the performance of research under this agreement. It is further agreed that Sponsor shall not be obligated to pay any royalties for use of such patents or inventions until the total amount of royalties which would have been paid equal twice the amount furnished by Sponsor for support of the research. In the event of disagreement as to a reasonable royalty rate to be used for this computation or to apply subsequent to the royalty-free period, it is agreed that the question will be submitted for arbitration under the rules and procedures of the American Arbitration Association.

Where justified by the nature of the work and the kind of inventions which might result, the following type of provision may be added:

b. For a limited period as agreed to by the parties, which shall be no shorter than three, nor longer than six years, from the date of issuance * of any patent (1) which covers an invention for which, by agreement of the parties, an exclusive arrangement is warranted because of the considerable investment necessary to develop or utilize the invention, or (2) which covers an invention for which patent application is made at the expense and election of the Sponsor after Princeton had elected not to file, Princeton will not grant, or permit to be granted, licenses to others under any such patent or invention. If, in the considered judgment of Princeton, the Sponsor should not diligently develop or utilize an invention, or prosecute the patent application, for which an exclusive arrangement is agreed to pursuant to this paragraph, Princeton may, after giving due notice to the Sponsor and sufficient time for the Sponsor to reply, grant or cause or permit to be granted licenses to others.

*. Substitute "date of first marketing of a product covered by any patent" if more appropriate.

Approved by the University Research Board,
November 16, 1960.