P.E.R.C. NO. 2004-64

STATE OF NEW JERSEY
BEFORE THE PUBLIC EMPLOYMENT RELATIONS COMMISSION

In the Matter of

RUTGERS, THE STATE UNIVERSITY,

Respondent,

-and-

Docket No. SN-2003-56

RUTGERS COUNCIL OF AAUP CHAPTERS,

Petitioner.

SYNOPSIS

The Public Employment Relations Commission decides the negotiability of portions of a revised patent policy. The Council of AAUP Chapters seeks a determination that portions of the revised policy adopted and implemented by Rutgers, The State University, are mandatorily negotiable. The Commission finds mandatorily negotiable: Section F(1) pertaining to distribution of royalty income to inventors; Section B pertaining to the timing of the disclosure of inventions; Section B, as it pertains to ownership access to, and review of laboratory notebooks by faculty and Rutgers, consistent with its opinion; Section C pertaining to reversion rights to inventors and notice to inventors; Section F(2) pertaining to questions concerning distribution of licensing income; Section I pertaining to timeliness of decisions; Section H pertaining to dispute resolution mechanisms, as they apply to the mandatorily negotiable sections of the policy; and the amendment and effective date provisions to the extent they apply to mandatorily negotiable sections of the policy. The Commission finds not mandatorily negotiable: Section F(1) pertaining to distribution of royalty income to departments and research units and Sections F(1) and G pertaining to no fee licenses and equity partnerships; and Section B, pertaining to review of outside consulting agreements concerning intellectual property.

This synopsis is not part of the Commission decision. It has been prepared for the convenience of the reader. It has been neither reviewed nor approved by the Commission.

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Appearances:

For the Respondent, Carpenter, Bennett & Morrissey, attorneys (John J. Peirano, of counsel; John J. Peirano and Vimal K. Shah, on the brief; John J. Peirano, on the sur-reply brief)

For the Petitioner, Reinhardt & Schachter, P.C. (Paul Schachter, on the briefs)

DECISION

On April 4, 2003, Rutgers Council of AAUP Chapters petitioned for a scope of negotiations determination. The AAUP seeks a determination that portions of a revised Patent Policy adopted and implemented by Rutgers, The State University, are mandatorily negotiable.

The parties have filed briefs and extensive exhibits. The AAUP has submitted the certification of Jerry Scheinbeim, a professor and member of the graduate faculty. Rutgers has submitted the certifications of William T. Adams, Director of the

Office of Corporate Liaison and Technology Transfer ("OCLTT") and Professor David Pramer.[1/] These facts appear.

The AAUP represents teaching and graduate assistants and faculty members who hold specified titles and work at least 50% of a full-time academic assignment. The collective negotiations agreement between the University and the AAUP is effective from July 1, 1999 through June 30, 2003.

Rutgers has had a patent policy since 1962. It was amended in 1974, 1986 and most recently in 1996. Academic research has evolved during this period, in part because of the 1980 passage of the Patent & Trademark Act Amendments of 1980, otherwise known as the Bayh-Dole Act, 35 U.S.C. §200 *et seq*., which provides federal funding for academic research. The policy and objectives of Bayh-Dole are as follows:

> It is the policy and objective of the Congress to use the patent system to promote the utilization of inventions arising from federally supported research or development; to encourage maximum participation of small business firms in federally supported research and development efforts; to promote collaboration between commercial concerns and nonprofit organizations, including universities; to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition and enterprise without unduly encumbering future research and discovery; to

1/ We deny Rutgers' request for oral argument. The case has been thoroughly briefed.

> promote the commercialization and public availability of inventions made in the United States by United States industry and labor; to ensure that the Government obtains sufficient rights in federally supported inventions to meet the needs of the Government and protect the public against nonuse or unreasonable use of inventions; and to minimize the costs of administering policies in this area. [35 U.S.C. §200]

Pursuant to Bayh-Dole, universities may enter into funding agreements with government agencies, which then sponsor research conducted by university faculty. The university acts as the "contractor" under the agreement. If a faculty member develops an invention arising from the funded research, the discovery must be disclosed to the federal funding agency. The university can then elect to take title to the invention; obtain a patent; and license the patents to private companies for further commercialization. See generally, Mary Eberle, Comment: March-In Rights Under the Bayh-Dole Act: Public Access to Federally Funded Research, 3 Marq. Intell. Prop. L. Rev. 155, 156-157 (1999); Pat K. Chew, Faculty-Generated Inventions: Who Owns the Golden Egg, 1992 Wis. L. Rev. 259 n.141 (March/April 1992).

Sixty percent of Rutgers' research is now federally-funded and is subject to the Bayh-Dole Act's provisions concerning, e.g., disclosure of inventions, distribution and use of royalty income, and the university's ability to retain title to inventions or discoveries emanating from federal funding. The Bayh-Dole Act does not pertain to inventions and discoveries resulting from non-federally funded research.

Prior to the passage of Bayh-Dole, universities nationwide received fewer than 250 patents per year, compared to 3100 in 2001. In 2000, Rutgers received $10 million in annual royalty income and had 252 patents under license.

Rutgers created OCLTT to handle its increased licensing and patenting activity. OCLTT's stated mission is to identify, protect and license marketable inventions and intellectual property; make available additional discretionary income for furthering university research; and work closely with faculty and industry to secure corporate funding for faculty research. AAUP's view is that the office is interested in generating profit for the university at the expense of inventors.

In 1994, Dr. James Flanagan, the Vice-President of Research, formed a Patent Policy Advisory Committee of 12 faculty members and administrators. The committee's charge was to review and revise the 1986 policy in light of the increased commercialization of university research. In May of 1995, the committee presented proposed amendments to Dr. Flanagan and described the principles underlying the various amendments. Among those principles were the following:

> The public benefits from the prompt transfer of technology from the University to the marketplace.
>
> Inventorship should be encouraged by providing incentives for doing strategic research, and for disclosing research results that are patentable.
>
> The University's rights to ownership and management of Rutgers' inventions should be protected.
>
> All involved parties should share equitably in income from commercialization of Rutgers' inventions.
>
> All inventions resulting from sponsored research funded by grants and contracts with specific terms relating to patents and licenses should be subject in the first instance to the restrictions specified by such terms. Such terms may provide a sponsor with an exclusive option or with first refusal to an exclusive license.
>
> The Office of Corporate Liaison and Technology Transfer's key role in the protection and commercialization of Rutgers' inventions should be recognized and provision made for the Office's needs and growth.
>
> The University should have an unequivocal right to enter into agreements to license University inventions nonexclusively and royalty-free, provided such terms serve the public interest.

The amendments were adopted by the University's Board of Governors in July 1996. AAUP alleges that the 1996 revisions changed several portions of the 1986 policy, including those pertaining to the distribution of royalty income to faculty member inventors. Like the 1986 policy, the 1996 document states that an employee must assign to Rutgers any patent rights resulting from inventions, discoveries, and reductions to practice made during the course of or related to university employment. The policy also specifies that ownership of patents arising from work sponsored by federal agencies shall be subject to the Bayh-Dole Act.

The AAUP sought negotiations over the policy in 1996 and again in April 2003. On August 12, 1996, the AAUP filed an unfair practice charge alleging that Rutgers refused to negotiate in good faith over, among other things, the patent policy. All issues have now been resolved except that pertaining to the policy's negotiability. The parties have agreed to invoke the scope of negotiations process to resolve that question and the unfair practice charge is being held in abeyance pending resolution of this petition. Also on hold pending resolution of this petition is a Superior Court suit filed by the AAUP seeking rescission of both the 1996 patent policy and all assignments of faculty members' patent rights to Rutgers.

The AAUP maintains that numerous aspects of the 1996 patent policy are mandatorily negotiable, including sections that allegedly reduce both the amount of patent royalty income received by inventors and the revenues allocated to the inventor's department; provisions that allow Rutgers to unilaterally enter into royalty-free agreements with outside entities; and sections addressing ownership of laboratory notebooks and reversion of patent rights to the inventor should Rutgers decide not to patent a particular invention or discovery. While AAUP notes that this is a case of first impression, it maintains that the foregoing issues are mandatorily negotiable under long-settled Commission principles. It states that patents are granted by the federal government pursuant to federal law, which provides both that patents are owned by their inventors and that inventors have the power to assign their rights by agreements that are interpreted under state law. It recognizes that the Bayh-Dole Act sets negotiations parameters on some issues but stresses that the New Jersey Institute of Technology (NJIT) recently negotiated with AAUP concerning amendments to the NJIT patent policy.

Rutgers counters that its patent policy is designed to further the governmental objective of maintaining a world-class research university and is not negotiable as a matter of law. Citing Jersey City and POBA and PSOA, 154 N.J. 555 (1998), it also asserts that the policy must by examined as a whole because the AAUP's section-by-section analysis overlooks the interrelated nature of the policy's provisions. It argues that negotiation over all or some of the policy would impair the university's "chain" of research, patents, licensing, commercialization, and research funding. However, it also contends that even if analyzed section-by-section, most of the policy's provisions are preempted by Bayh-Dole and other patent laws or constitute non-negotiable governmental policy determinations.

Our jurisdiction is narrow. Ridgefield Park Ed. Ass'n v. Ridgefield Park Bd. of Ed., 78 N.J. 144, 154 (1978), states:

> The Commission is addressing the abstract issue: is the subject matter in dispute within the scope of collective negotiations. Whether that subject is within the arbitration clause of the agreement, whether the facts are as alleged by the grievant, whether the contract provides a defense for the employer's alleged action, or even whether there is a valid arbitration clause in the agreement or any other question which might be raised is not to be determined by the Commission in a scope proceeding. Those are questions appropriate for determination by an arbitrator and/or the courts. [Id. at 154]

Thus, we do not consider the wisdom of the employer's patent policy. In re Byram Tp. Bd. of Ed., 152 N.J. Super. 12, 30 (App. Div. 1977); see also Rutgers v. Rutgers Council of AAUP Chapters, 256 N.J. Super. 104, 124 (App. Div. 1992), aff'd o.b. 131 N.J. 118 (1993).

Local 195, IFPTE v. State, 88 N.J. 393 (1982), sets the standards for determining whether a subject is mandatorily negotiable. It states:

> [A] subject is negotiable between public employers and employees when (1) the item intimately and directly affects the work and welfare of public employees; (2) the subject has not been fully or partially preempted by statute or regulation; and (3) a negotiated agreement would not significantly interfere with the determination of governmental policy. To decide whether a negotiated agreement would significantly interfere with the determination of governmental policy, it is necessary to balance the interests of the public employees and the public employer. When the dominant concern is the government's managerial prerogative to determine policy, a subject may not be included in collective negotiations even though it may intimately affect employees' working conditions. [Id. at 404-405]

In evaluating whether a statute or regulation is preemptive, we consider whether it speaks in the imperative and expressly, specifically and comprehensively sets an employment condition. Bethlehem Tp. Ed. Ass'n v. Bethlehem Tp. Bd. of Ed., 91 N.J. 38, 44 (1982); State v. State Supervisory Employees Ass'n, 78 N.J. 54, 80-82 (1978). In assessing claims that negotiations over a particular subject would significantly interfere with a governmental policy decision, we are mindful that most decisions made by a public employer have some managerial function, but that ending the inquiry at that point would all but eliminate a majority representative's statutory authority to negotiate with respect to terms and conditions of employment. Conversely, permitting negotiations whenever a term and condition is implicated would undermine managerial prerogatives. Woodstown-Pilesgrove Reg. School Dist. Bd. of Ed. v. Woodstown-Pilesgrove Reg. Ed. Ass'n, 81 N.J. 582, 589 (1980).

Before analyzing the patent policy, we review pertinent statutes and decisions concerning patent law; employee inventions; and university and inventor rights and responsibilities under Bayh-Dole. We then distill from these sources some overall conclusions that shape our consideration of the parties' positions. As part of our initial discussion, we also consider Rutgers' contention that the policy should be examined as whole rather than section-by-section.

Patents are issued by the federal government and federal law defines what inventions are patentable. 35 U.S.C. §101 et seq. The policy underlying the patent system is that, in exchange for disclosing an invention that he or she could have kept confidential, an inventor has the right to exclude others from selling or using it for the term of the patent. 35 U.S.C. §154; Kewanee Oil Corp. v. Bicron Corp., 416 U.S. 470, 480 (1974). Federal law provides that patent applications, patents, and any interests therein have the attributes of personal property and may be transferred only by written assignment. 35 U.S.C. §261.

Except for federally-funded research, federal statutes do not address the respective rights of employers and employees, other than federal employees, with respect to employee inventions. However, there is a longstanding body of federal and state common law on the subject. In the seminal case of United States v. Dubilier Condenser Corp., 289 U.S. 178, 187 (1933), the United States Supreme Court held that "[t]he respective rights and obligations of employer and employee, touching an invention conceived by the latter, spring from the contract of employment." 289 U.S. at 187. While Dubilier involved federal employees, the Court did not distinguish between them and other employees and most states, including New Jersey, have adopted Dubilier's basic rules of ownership. See Ingersoll-Rand Co. v. Ciavatta, 110 N.J. 609, 622 (1988); 8-22 Chisum on Patents §22.03 (2003). Federal courts continue to follow those rules as well. Banks v. Unisys Corp., 228 F.3d 1357, 1359 (Fed. Cir. 2000).

An employer will own the rights to a patentable invention of an employee if the employee was either initially hired or later directed to solve a specific problem or to exercise his or her "inventive faculties" in an area. This will be so even though there is no express contract mentioning the conveyance of patent rights. Chisum §22.03[2]; see also Dubilier, 289 U.S. at 188; Ingersoll, 110 N.J. at 622; Standard Parts Co. v. Peck, 264 U.S. 52 (1924) (individual hired to develop a process and machinery for the production of the front spring used by Ford Motor Company was obligated to assign the patent for the resulting invention to the employer).

Where an individual is employed in a specific field to perform research or devise and investigate improvements that may result in inventions, the common law regards an invention as the property of the inventor who conceived, developed, and perfected it. Dubilier. Thus, the employer will not own the patent rights to the invention absent an express contract. Banks. Dubilier's rationale was that while an individual might be hired to perform research into "the laws of nature," an invention springs not from those laws but from the inventor's creativity. 289 U.S. at 188.

At the same time, under the "shop-right rule," an employer will often have an irrevocable but non-exclusive right to use an invention conceived of during working hours with the use of the employer's materials and equipment. Ingersoll, 110 N.J. at 623. A shop right may arise by express agreement or by implication if the employee uses the employer's resources. It does not exist where the parties have excluded it by express agreement or where there is an express or implied agreement that the employer will compensate the employee for use of the employee's suggestion or invention. Kopin v. Orange Products, Inc., 297 N.J. Super. 353, 371-372 (App. Div. 1997), certif. denied, 109 N.J. 409 (1997).

Employers typically require employees to contractually assign to the employer inventions made or conceived during the course of employment. Ingersoll, 110 N.J. at 624. While several states have enacted legislation limiting employers' rights to compel assignment of patent rights, New Jersey is not among them. In New Jersey, assignment agreements will be enforced if reasonable. Ingersoll-Rand, 110 N.J. at 634, citing Misani v. Ortho Pharmaceutical Corp., 83 N.J. Super. 1 (App. Div. 1964), rev'd on other grounds, 44 N.J. 552, appeal dismissed and cert. den., 382 U.S. 203 (1965).

Within this framework, it appears that, with respect to non-federally funded inventions, patent statutes and case law present no bar to employers and majority representatives negotiating over such items as the terms of assignments, reversion of rights to inventors, or royalty income. The cases we have outlined hold that the extent of an employer's rights to an employee's invention may be, and generally is, determined by agreement between the employer and employee. While Rutgers at some points maintains that it owns faculty members' inventions as a matter of statutory and common law, it has not offered any particularized facts on this point and has not shown that all faculty members are "hired to invent." See Chisum 22.03[2] (burden of proof is on the employer who claims ownership through an employment to invent). The terms of patent rights and other terms that may be arrived at through individual agreements may in theory be collectively negotiated. See generally Lullo v. Int'l Ass'n of Fire Fighters, 55 N.J. 409 (1970). Of course, we will evaluate Rutgers' contentions that negotiations over particular sections of the policy would significantly interfere with particular governmental policy determinations.

The landscape is somewhat different with respect to federally-funded research. Before Bayh-Dole, federally-funded inventions were federally-owned and rarely patented, reflecting the belief that publicly funded research belonged to the public and should be disclosed rather than kept secret until its commercial import was realized. Thus, potential licensees were discouraged from commercializing unprotected technology. See Eberle, at 2; Tamsen Valoir, Government-Funded Inventions: The Bayh-Dole Act and The Hopkins v. CellPro March-in Rights Controversy, 8 Texas Intell. Prop. Journal (Winter 2000).

As noted at the outset, the aim of the Bayh-Dole Act was to encourage the commercialization of federally-funded inventions through the cooperation of nonprofit and commercial institutions. One court has commented that the intended beneficiaries of the Act are those institutions and the government, not research scientists. Platzer v. Sloan-Kettering Inst. for Cancer

Research, 787 F. Supp. 360, 364-365 (S.D.N.Y. 1992), aff'd o.b. 983 F.2d 1086 (Fed. Cir. 1992), cert. den., 507 U.S. 1006 (1993). Thus, after disclosing an invention to the government, the university may elect to retain the "entire right, title and interest" to the invention, subject to the government having a nonexclusive, nontransferable, irrevocable, paid-up license to practice the subject invention on behalf of the United States. 35 U.S.C. §202(c)(1), (2), and (4); 37 C.F.R. 401.14 (b) and (c). Certain other requirements attach to a university's retention of title, including timely filing for a patent; sharing of royalties with the inventor; licensing of inventions to small business firms if feasible; and use of a portion of the royalties for scientific research and education. 35 U.S.C. §202 (c)(7). In addition, the Bayh-Dole Act allows the government to "march-in" and grant licenses to third parties in enumerated circumstances, including where necessary to address health and safety needs or where the licensee has not achieved practical application of the invention within a reasonable amount of time. 35 U.S.C. §203.

If the university does not exercise its right to retain title, the government may elect to do so itself or it may consider and, after consultation with the contractor, may grant the inventor's requests for retention of rights. If retention rights are awarded, the federal government retains, at a minimum, march-in rights and the right to use the invention. 35 U.S.C. §202(d); 37 C.F.R. 401.9. Given this comprehensive federal scheme, the scope of collective negotiations is more restricted for federally-funded inventions than for those that are not so financed. In this vein, the AAUP recognizes that patent rights for federally funded inventions are assigned to the university by operation of federal law. However, as we discuss throughout this opinion, the Bayh-Dole Act does not necessarily preempt all negotiations on all topics that it addresses. In many cases, it simply sets negotiations parameters.

Against this backdrop, we turn first to the employer's suggestion that Jersey City obviates the need for a section-by-section analysis of those parts of the patent policy that the AAUP maintains are mandatorily negotiable.

In Jersey City, the Court found that the record supported the employer's contention that it had transferred police officers from administrative to operational positions primarily to reduce the incidence or fear of crime and not, as we had held, primarily for economic reasons. As a consequence, the Supreme Court held that this reorganization was an inherent governmental policy determination that, under the Local 195 negotiability balancing test, would be impermissibly hampered by negotiations. It rejected our focus on the "unit work" rule rather than the Local

195 test, but also held that the transfers fell within the unit work doctrine's reorganization exception. 154 N.J. at 573, 582. In this context, the Court wrote that we had minimized certain aspects of the record by undertaking a job-by-job analysis of the City's actions when we should have placed those actions within the larger reorganizational context.

The Court's comments were grounded both in its assessment of the record in Jersey City and its consideration of whether the negotiability balancing test or the unit work doctrine should be applied to analyze it. The Court did not announce a rule that we must always view an action or proposal as part of a broader context before assessing its negotiability. Indeed, a key part of Jersey City's analysis was that scope questions should be decided case-by-case. 154 N.J. at 574-575.

The employer's patent policy covers a range of issues - compensation, reversion rights, review of consulting agreements - and we decline to say that the broad goal of maintaining a first-class research institution automatically precludes negotiations on these and other issues, particularly given the substantial and complex body of case law, statutes, and regulations that accord some recognition to employee-inventors' interests. We will analyze each provision on which AAUP seeks negotiations, but will also evaluate Rutgers' arguments that the considerations underlying the policy as a whole render individual provisions not mandatorily negotiable.[2/] Some of those considerations are expressed in the policy's first paragraph, which the AAUP does not seek to negotiate:

> Scope and Applicability. Rutgers, The State University of New Jersey is dedicated to the principle of service in the public interest, to excellence in education at all levels, and to the advancement of knowledge through research and scholarship. Some knowledge can be reduced to practice as useful inventions that directly benefit the public. It is the University's intent to make these inventions available to the public at the earliest possible time, using means appropriate for a publicly supported institution to recognize and reward its inventors and research sponsors as well as serve its own interests. This policy is designed to promote a spirit of inquiry, encourage creative activity, and enhance the University's educational and research mission to benefit the economy of New Jersey and the public Rutgers serves.

Distribution of Royalty Income to Inventors

Section F(1) modified the 1986 policy's formula for distributing royalty income to faculty member/inventors. Under the 1986 policy, inventors received 28% of the gross royalties whereas under the 1996 document, inventors receive 5% of the gross licensing income; then 25% of the net proceeds up to $100,000; and 28% of the net proceeds thereafter. AAUP contends

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2/ At our direction, AAUP submitted a copy of the 1996 patent policy with the sections on which it seeks negotiations underscored. The policy is included in the appendix but we consider the negotiability only of those sections that AAUP addresses in its briefs.

that the new policy reduces payments to unit members except in the unlikely event that there are no expenses to be deducted from gross income.

N.J.S.A. 34:13A-5.3 entitles a majority representative to negotiate on behalf of unit employees over their terms and conditions of employment. Compensation is a fundamental term and condition, see Hunterdon Cty. Freeholder Bd. and CWA, 116 N.J. 322, 338 (1989); Englewood Bd. of Ed. v. Englewood Teachers Ass'n, 64 N.J. 1, 7 (1973), and the AAUP contends that royalty income constitutes compensation received by unit members in exchange for their assigning Rutgers patent rights to their inventions.

We agree that royalty income is a form of compensation. Compare UMDNJ, P.E.R.C. No. 2002-53, 28 NJPER 177 (¶33065 2002) (patient service component, received by some medical faculty in addition to base salary, was a mandatorily negotiable compensation item). Rutgers does not rebut that point or offer any particularized arguments as to why negotiations over royalties would significantly interfere with its research mission. We discern no such interference, particularly given that the 1996 patent policy contemplates incentives and rewards for inventors and Rutgers maintains that the 1996 policy is more generous than the 1986 policy. Stated another way, Rutgers has not shown why the distribution formula it unilaterally adopted is the only one that enables it to fulfill its policy objectives. Compare City of Plainfield, P.E.R.C. No. 2000-74, 26 NJPER 176 (§31071 2000) (employer did not show how existing work schedule solved operational problems to the point that no other schedule was negotiable). The one case we have found that addressed this issue accords with our conclusion. See IMO Professional Staff Congress-City University of New York and City University of New York, 36 NYPER 4676 (§4547 2003) (ALJ decision) (patent royalties and copyright fees are mandatorily negotiable compensation items even though they are paid by third parties; unilaterally adopted policy affects compensation for work which is produced during employment).

Moreover, the Bayh-Dole Act does not preempt negotiations over royalties for federally-funded inventions. The statute requires that a university that takes title to an invention share royalty income with the inventor. However, it does not mandate that this share be set unilaterally or eliminate the university's discretion by mandating that inventors receive a specific percentage. See Platzer, 787 F.Supp. at 368 (no minimum share specified by Bayh-Dole statute, regulations or legislative history; Congressional intent was that "sharing ratio" should be left to the market).

For these reasons, the percentage of royalties to be received by faculty member/inventors is a mandatorily negotiable subject with respect to federally-funded and other research.

Distribution of Royalty Income to Departments and Research Units

The AAUP also seeks to negotiate over the portions of Section F(1) of the 1996 policy concerning distribution of Rutgers' share of royalty income to university departments and research units. It contends that the new distribution formula, which apportions more to OCLTT and less to the inventors' research unit and department, may reduce the access of faculty members to a pool of funds dedicated to research support and thus impair their ability to conduct and publish their research and reduce their income and promotional opportunities. It quotes a 1995 arbitration award involving the application of the 1986 patent policy to a unit member, for the proposition that "research support is the adrenaline in the life blood of academic research." It also stresses that royalty income would not exist but for faculty members' efforts, so that the allocation of these funds is distinct from the allocation of traditional government revenues such as taxes and tuition.

Rutgers counters that the distribution of its share of royalty income is the type of management decision concerning allocation of resources that we have traditionally held to be a managerial prerogative. It also states that there is no support for the AAUP's contention that monies previously allocated to departments and research units were used to support successful inventors in those departments.

While we have already held that the allocation of royalty income between Rutgers and faculty members is mandatorily negotiable, we conclude on balance that the distribution of Rutgers' own negotiated share among various departments and OCLTT is not mandatorily negotiable. First, AAUP does not describe how departmental patent monies were used to support inventors' research and it acknowledges that those funds were not given directly to inventors. Thus, this aspect of the royalty distribution formula did not necessarily directly and intimately affect unit members' terms and conditions of employment and prospective negotiations on the allocation issue would not in and of itself have such an impact. Second, AAUP does not dispute that the patent policy has multiple objectives, including rewarding inventors, encouraging commercialization, and "recognizing and rewarding units and departments for providing an environment that fosters creativity and inventorship." The decision as to how to achieve the latter objective and the decision to create OCLTT to manage licensing activity are decisions about resource allocation and governmental policy. Cf. New Jersey Highway Auth., P.E.R.C. 2002-76, 28 NJPER 261 (¶33100

2002) (employer has authority to manage its overall operations, including institution of E-Z pass system); Hunterdon Central H.S. Bd. of Ed., P.E.R.C. No. 87-83, 13 NJPER 78 (¶18036 1986) and Jersey City Bd. of Ed., P.E.R.C. No. 82-52, 7 NJPER 682 (¶12308 1981) (proposals to require boards to allocate funds for purchase of instructional supplies would significantly interfere with their ability to determine educational policy and assess whether purchases would be educationally beneficial); Rutgers, The State Univ., P.E.R.C. No. 76-13, 2 NJPER 13 (1976) (AAUP proposal to have a role in the budget preparation process with respect to items affecting employment terms and conditions not mandatorily negotiable). Requiring negotiations over how much to direct to OCLTT and how much to departments would significantly interfere with these decisions without having a direct and intimate impact on employment terms and conditions. On balance, this allocation issue is not mandatorily negotiable.

Given our ruling, we need not address Rutgers' contention that the 1995 arbitration award collaterally estops AAUP from litigating this question. Nor do we discuss Rutgers' argument that the Uniform Management of Institutional Funds Act, N.J.S.A. 15:18-15, demonstrates the governmental policy nature of decisions regarding allocation of licensing income.

No Fee Licenses or Equity Partnerships

AAUP seeks to negotiate over that portion of Section F(1) that grants Rutgers the sole right to enter into licensing agreements that "may include terms, such as nonexclusive and royalty-free, which could influence or even obviate licensing income." It contends that no-fee licenses in effect deprive unit members of compensation. It makes the same argument with respect to Section G, giving the university sole discretion to enter into agreements where Rutgers accepts an equity position in a company in lieu of licensing income.

Rutgers counters that it owns all of its researchers' inventions as a matter of statutory and common law and, further, that the inventions become its property once they are assigned. Accordingly, Rutgers asserts that it has a managerial prerogative to "do with its intellectual property as it sees fit." It also maintains that requiring negotiations over the no-fee licensing provision would interfere with its ability to participate in advanced technology centers ("ATCs") whereby, in exchange for industrial partners paying membership fees, the industrial firms receive a nonexclusive, royalty-free license. Rutgers maintains that ATCs are supported by federal and State policy and that they facilitate the development and transfer of research on beneficial projects of limited commercial viability - e.g., subsistence crops in developing countries. Similarly, Rutgers explains that it has accepted equity in a startup company, as opposed to a licensing fee, where the company was a viable candidate to develop technology but did not have the resources of more established businesses.

With respect to non-federally funded research, we concluded in our initial discussion that there was no per se prohibition against a majority representative collectively negotiating over the terms and forms of assignments that unit members execute in favor of Rutgers. We also concluded that Rutgers did not own the rights to faculty members' inventions as a matter of law. We balance the parties' interests within this framework.

On balance, we conclude that once a patent assignment has been made, Rutgers has a prerogative to enter into licensing agreements that may include no-fee licenses and equity partnerships. We appreciate that no-fee licenses deprive employees of royalty income. But the purpose of an assignment of patent rights is to grant the assignee the right to license the invention. Any direct restriction on the employer's ability to set the terms of a license agreement would unduly undermine the purposes of the patent assignment. Our ruling does not preclude AAUP from seeking to negotiate alternative compensation for marketable inventions that the employer chooses to license without fee.

Disclosure of Inventions

Section B of the 1996 patent policy provides, in part:

> This policy shall not be construed so as to infringe upon the rights of all persons connected with the University freely to pursue research and publish the results obtained. <u>However, it is the obligation of the inventor to disclose his/her invention or discovery, including improvements and reductions to practice, to the University in accordance with this policy before disclosure is made of research results by publication or through any other medium</u>.
>
> <u>Hence, any person identified in Section A who conceives or makes or reduces to practice an invention or discovery during the course of, or related to his/her University activities shall promptly, before he/she discloses the same to the public and soon enough to permit timely filing of a patent application in the United States and in foreign countries, disclose the invention, discovery, improvement, or reduction to practice to the Director of the Office Corporate Liaison and Technology Transfer or his/her designee</u>.

AAUP agrees that faculty members may be required to disclose inventions prior to publication, but maintains that the timing of the disclosure is mandatorily negotiable. Rutgers counters that both Bayh-Dole and federal patent law preempt negotiations over this subject.

With respect to federally-funded research, 35 <u>C.F.R</u>. 401.14((f) mandates that a university require "by written agreement" that its employees "promptly" disclose in writing each invention made under a federal funding contract. Universities are further required to educate employees about the importance of reporting inventions in time to permit the filing of patent applications prior to United States or foreign statutory bars. Ibid. Once an employee discloses an invention to the university, the institution must in turn disclose the invention in writing to the federal agency. A requirement for obtaining a patent for an invention - regardless of whether it emanated from federally-funded research - is that the invention must not have been described in a printed publication more than one year prior to the date of the patent application. 35 U.S.C. §102(b). Some foreign countries prohibit any pre-application publication or public disclosure of an invention. See Patent Law: A Practitioner's Guide, Comparative Patent Law, §24.4 (3d ed. Oct. 2002).

While Bayh-Dole mandates that researchers promptly disclose federally-funded inventions to their universities, it does not define "promptly." Thus, the statute does not expressly and specifically preempt negotiations over the timing of the required disclosure, albeit negotiations must take place with the understanding that disclosure must allow for timely patent applications.

Aside from the preemption issue, Rutgers has not shown that negotiations over what constitutes a "prompt" disclosure would significantly interfere with its patent program, particularly given that the 1996 patent policy does not set a time frame for disclosure. Therefore, the timing of patent disclosures for federally-funded and other research is a mandatorily negotiable subject.

Ownership of Laboratory Notebooks

AAUP seeks to negotiate over that portion of the patent policy stating that Rutgers owns all laboratory notebooks pertaining to research activities. It asserts that the 1986 policy provided for university ownership only where the notebooks included patentable material. It stresses that the publication of journal articles constitutes the sine qua non for reappointment, promotional and tenure decisions for faculty scientists and that, by claiming ownership, the university can thwart their advancement. It also maintains that the policy affects faculty members' ability to use their intellectual property in consulting or publishing ventures, both of which are permitted by the university's conflict of interest policies. In that vein, it cites case law holding that restrictions on the right to earn outside income are mandatorily negotiable. At the same time, AAUP acknowledges the managerial need to have continued access to notebooks for use in patent prosecutions, but maintains that need can be met without compromising faculty members' "legitimate ownership rights."

Rutgers responds that it must own all laboratory notebooks and research documents in order to document an invention or discovery; support patent applications; ascertain who created the invention; and determine which inventions to patent, license, and market. It also contends that many federal grants require that it have such documents available for review. It maintains that ownership of notebooks has always been vested in the university; that the 1996 policy did not take notebooks away from faculty members; and that they have the same unrestricted access that they always had. It asserts that negotiation over ownership of notebooks and research data would be inconsistent with the State's conflict of interest laws and the university's regulations, which prohibit employees from using their Rutgers employment for personal gain. In this vein, it asserts that any negotiations over laboratory notebooks would necessarily be an attempt to procure the documents for the faculty inventors' personal gain.

Rutgers has cited no statutes or regulations pertaining to patents or federally-funded research that expressly and specifically preempt negotiations over notebook ownership. With respect to the negotiability balancing test, the parties agree on two key points and each appears to recognize the other's interests. Rutgers states that faculty members have "unrestricted access" to their notebooks and AAUP acknowledges Rutgers' need for access in connection with patent applications and prosecutions. Beyond the employer's need to have access to notebooks in connection with patent applications and prosecutions, we find that the employees' interest in owning research materials unrelated to patent applications so that they can pursue publication outweighs any demonstrated managerial interest in owning that material. Any negotiated provisions concerning employee notebooks must allow Rutgers to comply with grant requirements governing review of research documents and must also allow it to apply for and protect patents for faculty inventions to which it has been assigned the rights or to which it has taken title.

University and State conflict of interest statutes and regulations do not militate against this conclusion. AAUP seeks to negotiate with respect to laboratory notebooks because of the alleged impact of the policy on employees' ability to publish articles within their field. While Rutgers' conflict of interest policy limits outside employment, the policy exempts "compensation for published or creative works in one's field or honoraria for commissioned papers and occasional lectures." We thus infer, as AAUP argues, that such faculty publications are not intended to be included in the prohibition against faculty using or transferring university-sponsored work products for inappropriate non-academic use and financial gain.

We recognize that the State Conflicts of Interest law, N.J.S.A. 52:13D-23, bars a State employee from using an official position for financial gain. However, each State agency is required to promulgate a code of ethics that conforms to the statute, which must be approved by the Executive Commission on Ethical Standards and the Attorney General. N.J.S.A. 52:13D-23(a) & (b). We will not assume that the statute bars an activity that appears to be permitted by the employer's own code.

Reversion of Rights to Inventors

Section C of the 1996 patent policy provides that if Rutgers elects not to patent or commercialize an invention that has been disclosed to it, it shall notify the inventor, who may request permission to file a patent or have the rights to the invention assigned back to him or her. The policy goes on to state that Rutgers has discretion to grant such requests, after considering the interests of the public, the inventor, the university and any research sponsors, along with such other considerations as it deems appropriate.

With respect to non-federally funded inventions, AAUP maintains that because faculty inventions are not automatically Rutgers' property and must be assigned by express agreement, the terms of an assignment, including reversion rights, are mandatorily negotiable. It recognizes that Bayh-Dole gives the university the option to retain title to federally-funded inventions but contends that the statute does not prevent the university from electing not to do so or from negotiating a clause whereby Rutgers agrees to advocate with the federal government on behalf of faculty members who request rights to their inventions.

Rutgers' position is that it owns the patent rights to inventions by virtue of faculty members' assignments and that it has discretion to determine whether to assign them back.

Our resolution of this issue is shaped by our initial discussion. With respect to non-federally funded research, we reiterate that, in general, the terms of an assignment, including reversion rights, are mandatorily negotiable. In the context of this dispute, Rutgers does not explain how negotiations over reversion rights for inventions that it chooses not to exploit would significantly interfere with its patent program. With respect to federally-funded research, AAUP recognizes that the federal government must approve reassignment of rights to inventors. Rutgers has not shown how AAUP's proposal to negotiate within those parameters would significantly interfere with its patent program. Therefore, we hold that reversion rights for federally-funded and other research are mandatorily negotiable.

Review of Outside Consulting Agreements

AAUP seeks to negotiate over that portion of Section B that addresses review by OCLTT of outside consulting agreements. The section provides:

> <u>University employees shall be mindful of University Regulations involving Professional Activities Outside the University and Outside Employment, as these regulations relate to the obligation of employees to disclose and assign rights to inventions and discoveries to the University. University employees, who as participants in allowable consulting activities are required to enter into agreements concerning intellectual property, may have these agreements reviewed by the Director of the Office of Corporate Liaison and Technology Transfer to be certain such agreements do not inappropriately assign University rights to third parties. However, this review is mandated if an agreement is required of an employee for a consulting activity that is related to specific research conducted at the University or with University facilities or resources by the employee or by others under the employee's direction. In no case will University employees assign to others rights to any invention or discovery which has been conceived or reduced to practice in whole or in part using University facilities or resources.</u>
>
> <u>This prohibition will apply to work performed under all consulting agreements, unless the University is party to an agreement and has specifically agreed to such an assignment.</u>

The parties' positions on this section reflect their overall approach to the patent assignment issue. AAUP states that patent rights do not automatically devolve to Rutgers and that the terms of assignments and policies governing outside employment are mandatorily negotiable. It maintains that it does not seek to negotiate conflict of interest rules but only the mechanism for applying those rules to outside consulting arrangements. It also asserts that requiring individual faculty members to submit consulting agreements for review, without AAUP's participation, constitutes "direct dealing."

Rutgers' position is that this section is designed to protect against assignment of Rutgers' intellectual property and that review of consulting agreements is necessary to monitor compliance with conflict of interest rules. It also maintains that outside employment is not a mandatorily negotiable subject.

Our case law recognizes that restrictions on outside employment curtail the earning capacities of employees and are of considerable importance to them. See Montclair Tp., P.E.R.C. No. 90-39, 15 NJPER 629 (¶20264 1989) (finding to be at least permissively negotiable reporting requirements for outside employment for police officers); Somerset Cty., P.E.R.C. No. 84-92, 10 NJPER 130 (¶15066 1984) (prohibition against County psychologists and social workers - but not County psychiatrists - having private practices within the county was mandatorily negotiable). However, court and Commission cases also hold that some restrictions may be so integrally related to the core mission of the agency as not to require negotiations. For example, in State of New Jersey (Office of Employee Relations) v. CWA, 267 N. J. Super. 582 (App. Div. 1993), certif. denied, 135 N.J. 478 (1994), the Court held that the Department of Treasury had a managerial prerogative to adopt a revised code of ethics that prohibited Treasury employees from engaging in outside employment that involved preparing either New Jersey or non-New Jersey tax returns. It reasoned that N.J.S.A. 52:13D-23 gave each agency authority to adopt a code of ethics and that the new code's challenged restrictions simply implemented the statutory bar against employees: (1) having a direct or indirect interest in a business or activity that substantially conflicted with the proper discharge of public duties and (2) undertaking employment that might reasonably be expected to impair the employee's objectivity and independence of judgment in exercising official duties.

In Association of State Colleges Faculties, Inc. v. New Jersey Bd. of Higher Ed., 66 N.J. 72 (1994), the Supreme Court held to be mandatorily negotiable a revised policy that required disclosure of regular off-campus employment to the chief executive officer of the college instead of, as before, only the employee's supervisor. Also found to be mandatorily negotiable were clauses prohibiting employees from working for another public institution without the approval of the chief executive officers of both entities, and a provision barring an employee from earning more at the secondary institution than at his or her primary employment. However, the Court noted that the union did not object to those portions of the policy prohibiting outside employment that constituted a conflict of interest; took place when the employee was expected to be performing assigned duties; or diminished the employee's efficiency in performing primary work obligations. It commented that those provisions "could hardly have been found objectionable."

Within this framework, we hold that the employer has a non-negotiable right to review agreements concerning intellectual property to be certain such agreements do not inappropriately assign University rights to other parties. We note that the parties' respective interests are affected by the fact that the clause is triggered only by consulting activity that is related to university research or use of university facilities. The employer's interest in determining any improper use of public facilities and property is greater than where the outside employment is independent of the primary employment. Cf. Montclair (noting that Orange Tp., P.E.R.C. No. 86-23, 11 NJPER 522 (¶16184 1985) held not mandatorily negotiable a proposal for joint approval of outside employment by the PBA and the Township, in part because police officers engaged in off-duty work were covered by the primary employer's worker's compensation and pension programs).

This section does not involve prohibited "direct dealing" - i.e., an employer setting terms and conditions with individual employees without the consent of the majority representative Compare Troy; Lullo, 55 N.J. at 428-429. Agreements between individual employees and third parties do not establish terms and conditions of employment with Rutgers and thus do not trigger concerns about direct dealing.[3/]

Timelines and Procedures

AAUP seeks to negotiate over what it maintains are mandatorily negotiable procedures and timelines relating to review of outside consulting agreements (Section B, paragraph 4 & 5); notice to inventors of Rutgers' intent concerning whether or not to patent or commercialize an invention (Section C, paragraphs 1 & 2); questions concerning distribution of licensing income (Section F(2)); dispute resolution mechanisms under the policy (Section H); and timeliness of decisions (Section I). AAUP maintains that regardless of the substantive negotiability of these and other policy provisions, procedural issues are mandatorily negotiable.

3/ We also reject the AAUP's "direct dealing" challenge to Section D, stating that ownership of patents funded by non-federal sponsors shall be subject to provisions in agreements between the sponsor and the university. Again, such funding agreements are not contracts between the university and individual employees.

Rutgers does not dispute AAUP's procedural negotiability argument except to state that Section B, pertaining to review of consulting agreements, implicates its right to protect its intellectual property and ensure compliance with conflict of interest regulations.

We have already held that review of consulting agreements concerning intellectual property is not mandatorily negotiable. The employer's policy does not provide a timeline for compliance with the review requirement and the AAUP has not proposed one. Absent specific language or a specific proposal, we make no further negotiability determination on this issue.

With respect to the other allegedly procedural issues on which AAUP seeks to negotiate, we and the Courts have often held that even if a managerial decision is not mandatorily negotiable, the procedures related to making or reviewing that decision generally are. Bethlehem, 91 N.J. at 47; Local 195, 88 N.J. at 410; Rutgers, The State Univ. and Rutgers Council of AAUP Chapters, 256 N.J Super. 104, 118 (App. Div. 1992), aff'd 131 N.J. 118 (1993). However, the line between a substantive and procedural matter is sometimes indistinct, and giving a matter a particular label may not resolve the issue. Ibid.

Within this framework, provisions concerning notice to inventors of decisions as to whether or not to commercialize inventions are mandatorily negotiable, as is the section concerning issuance of timely decisions in "arriving at all decisions under this policy." Notice provisions have often been found to be mandatorily negotiable, even when the subject on which notice is required is not. See, e.g., Old Bridge Tp. Bd. of Ed., 98 N.J. 523, 530-534 (1985) (notice to affected employees of non-renewals); State of New Jersey (Dept. of Law & Public Safety) v. State Troopers NCO Ass'n of N.J., 179 N.J. Super. 80, 94 (App. Div. 1981) (notice of promotional criteria). With respect to Section H, providing that the Vice President for Research has the final authority to enforce the policy, that clause is not mandatorily negotiable with respect to policy sections that are either preempted or which we found Rutgers had a prerogative to adopt. Where we have found policy sections to be mandatorily negotiable, enforcement and review mechanisms are also negotiable. Finally, because we have concluded that the distribution of licensing income to inventors is mandatorily negotiable, we find that AAUP may seek to negotiate provisions that pertain to responses to questions about that distribution.

Alteration of Patent Policy/Effective Date

AAUP notes that each page of the patent policy states that "[a]ll regulations and procedures are subject to amendment" and contends that this provision contravenes N.J.S.A. 34:13A-5.3.

In Borough of Mountainside, P.E.R.C. No. 83-94, 9 NJPER 81 (¶14044 1982), we held to be not mandatorily negotiable a proposal that would have allowed the employer to unilaterally establish new rules or modifications of all existing rules governing working conditions. We reasoned that the provision was inconsistent with N.J.S.A. 34:13A-5.3, which mandates negotiations over such changes. See also North Hudson Reg. Fire & Rescue, P.E.R.C. No. 2000-78, 26 NJPER 184 (¶31075 2000). The language AAUP disputes, however, is not a broad waiver of negotiations rights, but is instead an ambiguous reference to the fact that this policy is subject to amendment. We are not prepared to interpret the language, but note that an employer need not negotiate before changing non-negotiable regulations and procedures, and a union may waive its right to negotiate over specific negotiable terms and conditions of employment. For example, although work schedules are, in general, mandatorily negotiable, a union may agree to allow an employer to change work schedules unilaterally.

Finally, AAUP maintains that the effective date of the policy is mandatorily negotiable. Rutgers does not respond to this point and we hold that the effective date of otherwise mandatorily negotiable provisions is also mandatorily negotiable.

ORDER

The following sections of the policy are mandatorily negotiable:

Section F(1), pertaining to distribution of royalty income to inventors

Section B, paragraphs 1 & 2, pertaining to the timing of the disclosure of inventions

Section B, paragraph 6, as it pertains to ownership, access to, and review of laboratory notebooks by faculty and Rutgers, consistent with this opinion

Section C, pertaining to reversion rights to inventors

Section C, paragraphs 1 & 2, pertaining to notice to inventors; Section F(2); questions concerning distribution of licensing income; and Section I, timeliness of decisions

Section H, pertaining to dispute resolution mechanisms, they apply to the mandatorily negotiable sections of the policy

The amendment and effective date provisions to the extent they apply to mandatorily negotiable sections of the policy.

The following provisions are not mandatorily negotiable:

Section F(1), pertaining to distribution of royalty income to departments and research units

Sections F(1) and G, pertaining to no fee licenses and equity partnerships

Section B, paragraphs 4 & 5, pertaining to review of outside consulting agreements concerning intellectual property.

BY ORDER OF THE COMMISSION

Lawrence Henderson
Chairman

Chairman Henderson, Commissioners Buchanan, DiNardo, and Sandman voted in favor of this decision. None opposed. Commissioner Katz abstained. Commissioner Mastriani was not present.

DATED: March 25, 2004
Trenton, New Jersey
ISSUED: March 26, 2004

Section B, paragraphs 1 & 2, pertaining to the timing of the disclosure of inventions

Section B, paragraph 6, as it pertains to ownership, access to, and review of laboratory notebooks by faculty and Rutgers, consistent with this opinion

Section C, pertaining to reversion rights to inventors

Section C, paragraphs 1 & 2, pertaining to notice to inventors; Section F(2); questions concerning distribution of licensing income; and Section I, timeliness of decisions

Section H, pertaining to dispute resolution mechanisms, they apply to the mandatorily negotiable sections of the policy

The amendment and effective date provisions to the extent they apply to mandatorily negotiable sections of the policy.

The following provisions are not mandatorily negotiable:

Section F(1), pertaining to distribution of royalty income to departments and research units

Sections F(1) and G, pertaining to no fee licenses and equity partnerships

Section B, paragraphs 4 & 5, pertaining to review of outside consulting agreements concerning intellectual property.

BY ORDER OF THE COMMISSION

Lawrence Henderson
Chairman

Chairman Henderson, Commissioners Buchanan, DiNardo, and Sandman voted in favor of this decision. None opposed. Commissioner Katz abstained from consideration. Commissioner Mastriani was not present.

DATED: March 25, 2004
Trenton, New Jersey
ISSUED: March 26, 2004

APPENDIX

6.4.1 PATENT POLICY OF RUTGERS, THE STATE UNIVERSITY OF NEW JERSEY

The Patent Policy of Rutgers, The State University of New Jersey, was adopted by a resolution of the Board of Governors in 1962. It was amended in 1974, 1986 and 1996.

A. Scope and Applicability. Rutgers, The State University of New Jersey is dedicated to the principle of service in the public interest, to excellence in education at all levels, and to the advancement of knowledge through research and scholarship. Some knowledge can be reduced to practice as useful inventions that directly benefit the public. It is the University's intent to make these inventions available to the public at the earliest possible time, using means appropriate for a publicly supported institution to recognize and reward its inventors and research sponsors as well as serve its own interests. This policy is designed to promote a spirit of inquiry, encourage creative activity, and enhance the University's educational and research mission to benefit the economy of New Jersey and the public Rutgers serves.

Effective July 1, 1996, this policy shall apply to all instructional, research and administrative units of the University, and to the following individuals and conditions. The persons identified in (1), (2), and (3) below shall abide by this patent policy as a condition of employment or study.

(1) All university personnel, including but not limited to members of the faculty and staff holding appointments at or employed by the University, persons holding any form of research appointment, visiting professors or visiting scientists with or without salary, undergraduate and graduate students, graduate assistants, teaching assistants, and post-doctoral fellows.

(2) All other persons with inventions that result in whole or in part from use of University facilities or resources.

(3) In the event that any person to whom this policy shall ordinarily apply is subject to an agreement or policy elsewhere under terms which prohibit assignment of patent rights to the University, it shall be the obligation of that person to so inform, through his/her academic superordinates, the Vice President for Research before entering upon a program of study at, entering the employment of, accepting any form of support from, or using the facilities of The University. Upon such notification, the University will enter into a specific, written agreement respecting the rights and obligations of each involved party in regard to patentable discoveries. In the absence of such written agreement, the provisions of this policy shall apply. Upon such notification, the University will enter into a specific, written agreement respecting the rights and obligations of each involved party in regard to patentable discoveries. In the absence of such written agreement, the provisions of this policy shall apply.

(4) University faculty and staff who have reached an agreement with the Office of Corporate Liaison Technology Transfer to pursue inventions not owned by the University, and in which they have full rights. In return for this service, the individual will be required to assign to the University his/her rights to the invention, which then will be administered as all other inventions subject to this policy.

B. <u>Requirement to Disclose and Assign Rights to the University</u>. This policy shall not be construed so as to infringe upon the rights of all persons connected with the University freely to pursue research and publish the results obtained. <u>However, it is the obligation of the inventor to disclose his/her invention or discovery, including improvements and reductions to practice, to the University in accordance with this policy before disclosure is made of research results by publication or through any other medium.</u>

<u>Hence, any person identified in Section A who conceives or makes or reduces to practice an invention or discovery during the course of, or related to his/her University</u>

activities shall promptly, before he/she discloses the same to the public and soon enough to permit timely filing of a patent application in the United States and in foreign countries, disclose the invention, discovery, improvement, or reduction to practice to the Director of the Office Corporate Liaison and Technology Transfer or his/her designee. All persons who are subject to this policy are required to assign their individual rights to inventions, discoveries, improvements, and reductions to practice to the University, including, without limitation, United States and foreign patent rights and the right to claim priority under the terms of any international patent agreement. In the event that such a person's invention, discovery, improvement or reduction to practice arises out of an agreement between the University and another party, then that person will be bound by the terms of that agreement.

University employees shall be mindful of University Regulations involving Professional Activities Outside the University and Outside Employment, as these regulations relate to the obligation of employees to disclose and assign rights to inventions and discoveries to the University. University employees, who as participants in allowable consulting activities are required to enter into agreements concerning intellectual property, may have these agreements reviewed by the Director of the Office of Corporate Liaison and Technology Transfer to be certain such agreements do not inappropriately assign University rights to third parties. However, this review is mandated if an agreement is required of an employee for a consulting activity that is related to specific research conducted at the University or with University facilities or resources by the employee or by others under the employee's direction. In no case will University employees assign to others rights to any invention or discovery which has been conceived or reduced to practice in whole or in part using University facilities or resources.

This prohibition will apply to work performed under all consulting agreements, unless the University is party to an agreement and has specifically agreed to such an assignment.

Laboratory notebooks and all other documents pertaining to research activities are the property of the University. These records are necessary for the University to document an invention or discovery and to support a related patent application.

C. Return or Assignment of Rights. If the University elects not to file a patent application or otherwise protect or commercialize information which has been disclosed to the University on or following the effective date of this, the 1996 amendment of the University Patent Policy, this decision will be communicated promptly to the person who made the disclosure. If such person, or if any other person requests that the University permit him/her to file such a patent application or to have assigned to him/her the University's rights, the University may, at its sole discretion and under conditions it deems appropriate, grant such permission and assign or license to such person or persons some or all of its rights to such information and to inventions deriving therefrom. In exercising its discretion, the University shall take the following items into account: the public interest; the interests of sponsors, including the provisions contained in an agreement with a sponsor executed prior to the initiation of the research activity which led to his discovery; the interests of the inventor and the University; and such other considerations as it deems appropriate. In every case, the University will retain a non-exclusive, royalty-free license to practice the invention for internal University purposes.

If the University elects to contract for outside evaluation, protection, or commercialization of a disclosure, this decision will be communicated promptly to the person who made the disclosure. Moreover, the person who made the disclosure periodically will be briefed by the Director of the Office of Corporate Liaison and Technology Transfer on the strategy and progress of the outside contractor in meeting its obligations under the contract.

D. Reservation of Rights in Sponsored Research. Ownership of patents arising from work sponsored by Federal agencies shall be subject to the provisions of Public Law 96-517, the Bayh-Dole Act as amended, other applicable law, and the provisions of this patent policy. The Bayh-Dole Act clearly sets forth as the objective of Congress the utilization of the patent system to "effectuate the transfer of government-funded inventions to the public," and gives nonprofit institutions a right of first refusal to title in inventions resulting from research performed with the support of Federal contracts and grants.

Ownership of patents arising from work funded by other external sponsors shall be subject to specific provisions contained in research proposals and agreements with those sponsors which have been executed by an appropriately authorized individual in accordance with University regulations.

E. Licensing of Rights to Inventors. Rutgers' faculty, staff, or student inventors may request a license to develop commercially their University-owned inventions where such licensing will enhance the transfer of the technology, is consistent with University obligations to third parties, and does not involve an impermissible conflict of interest.

F. Distribution of Licensing Income.

(1) The University will share with inventors revenue which it receives on patents according to a schedule of distribution designed to recognize the inventor's creativity, the academic unit as an innovative environment, and the administrative leadership necessary for inventions to be commercialized successfully. The University reserves the sole right to enter into licensing agreements concerning income on inventions, discoveries, improvements, reductions to practice and related intellectual property that enhance the mission of the University and serve the people of New Jersey. These agreements may include terms, such as nonexclusive and royalty-free, which could influence or even obviate licensing income. The University also may contract for outside patent management, and any share of income to a patent management organization will be deducted before revenues on patents for distribution are calculated. All monetary consideration received by the University in exchange for licensing rights to use an invention which it owns, shall be subject to the following distribution schedule:

Step	
a. Distribute the first \$5,000 of Gross Income to the inventor.	This distribution is in recognition of individual creativity and inventorship.

b. Then, deduct expenses directly assignable to the specific patent and are not paid by a licensee to arrive at Net Income.	These expenses include patent filing, prosecution and maintenance fees, and marketing and litigation costs incurred in Commercializing and defending the specific invention.

c. Distribute Net Income as indicated below:

	First $100,000	Above $100,000
Inventor*	25%	28%
University/OCLTT	25%	32%
Research Unit**	40%	30%
Department***	10%	5%
Dean/Director	___	5%

*NOTE: The inventor may, at his/her option at the time of annual distribution of these funds, deposit in a University account all or part of the inventor's share to support his/her research in his/her research unit. The inventor's personal share shall survive termination of affiliation with the University and, in the event of death of the inventor, shall pass to his/her estate.

**NOTE: Research unit is defined as Bureau, Center, Institute or Department in which the research that resulted in the licensed invention was conducted and funded.

***NOTE: In some cases the research unit and the department are identical. Thus, the distribution could be 50% to a single unit.

In the absence of a specific agreement to the contrary filed with the Director of the Office of Corporate Liaison and Technology Transfer, the University will distribute licensing income 1) equally among multiple inventors, and 2) equally among all income-producing patents covered by a single license.

Before filing for a patent, the Director of the Office of Corporate Liaison and Technology Transfer will consult with the inventor and with the Chair/Director of all units in which the inventor is budgeted or affiliated to attempt to determine the relative contributions of the different units, and precisely where the research that resulted in the invention was conducted and funded. The Director will then use this information to determine the appropriate research unit and/or department to which to distribute licensing income.

The Director may modify the distribution of licensing income in the event of new information relating to inventorship or other extraordinary circumstances that require a change in distribution to avoid an inequitable result.

The allocations of licensing income to research units and departments are intended to recognize and reward these units and departments for providing an environment that fosters creativity and inventorship. However, in using licensing income, Directors and Chairs are advised to consider the contributions made by individual faculty members to the generation of this income. Allocations of licensing income to research units and departments generally will remain unchanged should the inventor relocate within or outside the University, and in the event of death or retirement of the inventor. Should a research unit or department receiving licensing income be disestablished, its share of licensing income will be assigned to the University.

In the case of a patentable discovery made jointly by Rutgers' personnel and personnel from an external organization or institution or an individual inventor without institutional affiliation, distribution of licensing income will be governed by the terms of any contractual agreement entered into by the University upon the initiation of the activity which led to the patentable discovery. In the absence of such a contractual agreement, the Director of Corporate Liaison and Technology Transfer will negotiate an agreement concerning the distribution of licensing income.

(2) Licensing income received on or after the effective date of this, the 1996 amendment to the University Patent Policy, from disclosures and patents received prior to the effective date of this, the 1996 amendment, will be distributed as set forth in Paragraph F(1) above. However, expenses incurred prior to the effective date of this, the 1996 amendment will not be deducted unless permitted under the previous policy. In cases where some distribution has been made to an inventor under the formula previously in effect, but these disbursements to the inventor are less than

$5,000, the inventor's share of future income will first be increased to $5,000 without deduction for expenses, and income then will be distributed on a net basis as set forth in Paragraph F(1) above. Questions concerning the pattern of distribution of licensing income or requests for an interpretation of any of the above provisions shall be directed to the Vice President for Research, who may consult with the Research Advisory Board, or the Patent Policy Advisory Committee of the Board.

G. Equity Holdings. The University has the right, at its sole discretion and under conditions it deems appropriate, to enter into agreements involving equity. The terms of agreement involving equity and the distribution of income on equity will be negotiated by the Director of the Office of Corporate Liaison and Technology Transfer for review and approval by the Vice President for Research and the Senior Vice President and Treasurer, or their designee.

H. Patent Policy Advisory Committee. The Research Advisory Board will, as and if necessary, establish and appoint a Patent Policy Advisory Committee of the Board. It shall be the responsibility of this Committee to advise the Vice President for Research on the interpretation and enforcement of this policy, amendments to this policy, the resolution of disputes on patent matters including inventorship and ownership, and such other matters as the Vice President for Research may deem appropriate.

The Vice President for Research shall have final and binding authority to interpret and enforce this patent policy, and to resolve any disputes under this policy.

I. Timeliness of Decisions. The University shall make every reasonable effort to act expeditiously under the circumstances in arriving at all decisions under this policy. From the time of disclosure, inventors will work in close collaboration with an assigned patent administrator who will monitor progress of the invention through the University process. Under normal circumstances an inventor can expect an initial response to a disclosure from the administrator within 60 days. Appeals for action on a basis of timeliness may be made as needed by the inventor.

Note 1: Under a policy adopted by the Research Advisory Board in December 1975 and approved by the Office of the President, in the case of industrially-sponsored research the University and the Principal Investigator may agree in advance to assign patent rights to the sponsor in exchange for a "premium" indirect cost rate which is calculated at approximately double the normal indirect cost rate. In such cases the entire monetary difference between the normal and the premium rates is distributed to the research unit and/or department in which the research is conducted and funded and in which the Principal Investigator holds his/her appointment.

Note 2: Under a definition adopted by the Patent Policy Advisory Committee of the Research Advisory Board in June 1996 and approved by the Vice President for Research, Research Unit as used in Section F, Distribution of Licensing Income, will include all duly constituted centers, such as, but not limited to, the outside funding that is distributed in support of research managed by center personnel and performed by teams of researchers who are affiliates of the centers in various departments.