

The Regents of the University of California

SPECIAL COMMITTEE ON INNOVATION TRANSFER AND ENTREPRENEURSHIP

October 28, 2022

The Special Committee on Innovation Transfer and Entrepreneurship met on the above date at the Dr. Vikram and Priya Lakireddy Grand Ballroom, Merced campus and by teleconference meeting conducted in accordance with California Government Code §§ 11133.

Members present: Regents Park, Reilly, and Timmons; Chancellor Muñoz; Ex officio member Leib; Advisory members Green, Kahn, and Ku

In attendance: Regent-designate Ellis; Faculty Representatives Cochran and Steintrager; Staff Advisor Lakireddy; Interim Secretary and Chief of Staff Lyall, Deputy General Counsel Wright, Vice President Maldonado, and Regents Analyst Sheridan

The meeting convened at 10:05 a.m. with Special Committee Chair Park presiding.

1. PUBLIC COMMENT

UC Merced student body president Corbin Farias asked that the Regents hold a Board of Regents meeting on the Merced campus.

Regent Park noted that the Special Committee will be meeting on a different UC campus at each of their meetings this year. She lauded UC Merced for the transformation of its campus, how much it has achieved, and the recognition it has received since its founding in 2005.

She also acknowledged Regent Emeritus Fred Ruiz, who was in the audience, and thanked him and his wife for their recent generous \$15 million gift to endow a scholarship fund for students from the Central Valley who attend UC Merced.

Chancellor Muñoz welcomed committee members to the campus. He stated that more than ten percent of the total faculty have received National Science Foundation career awards and the campus has tripled the amount of research funding received from external sources in the past two years, to almost \$100 million. He cited several measurements indicating progress in innovation and entrepreneurship activities and thanked the Office of the President for funding to support these activities.

2. UPDATE ON PATENT POLICY REVISION

[Background material was provided to the Special Committee in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Vice President Maldonado and Executive Director for Research Policy Analysis and Coordination (RPAC) Deborah Motton provided an update on the recommendation of the Regents Working Group on Innovation Transfer and Entrepreneurship to review and revise

the UC patent policy. Ms. Motton noted that the patent policy has not been reviewed comprehensively since 1997. Over the next several months, RPAC will meet with stakeholder groups to revise the draft policy, which will be distributed to the University community for systemwide review. She anticipated that the policy would be finalized and adopted by August 2023. The revised policy will comply with the intent of the Regents to provide campuses with greater decision authority and autonomy over local innovation transfer operations, while maintaining the University's reporting and legal obligations relating to intellectual property. In addition, the draft will empower chancellors to authorize exceptions to the policy, and its scope will be expanded to include non-patentable intellectual property (IP) that is commercially valuable and could be licensed.

Advisor Ku observed that there is need for clarity relating to the provisions governing faculty who consult for a company and wish to assign IP to that company. Ms. Motton replied that conversations on this subject are taking place.

Advisor Green noted concerns about taking equity from start-ups. He believed that the treatment of equity cannot be divorced from a discussion of the patent policy. Ms. Motton responded that she will consult with UC Legal regarding this issue.

UCSD Associate Vice Chancellor for Innovation and Commercialization Paul Roben objected to expanding the definition of IP to include data, algorithms, creative works, etc. He noted that a core function of the University is to generate knowledge and to disseminate that knowledge through publication for the benefit of all. If the University believes there is commercial value to data and other non-patentable assets, it should protect them through the patent/copyright/trademark process. This element of the proposal is counter to the mission of the University, will be difficult to enforce, and will likely slow down the transfer of legitimate IP to the private sector. Ms. Motton replied that the proposed expanded definition will be discussed with other stakeholders and may change.

Committee Chair Park asked if other universities have a more expansive definition of intellectual property. Ms. Motton responded that her team has benchmarked seven other R1 universities and roughly half of them use an expanded definition.

Committee Chair Park asked how the chancellors' ability to exempt inventions from the patent policy will be captured and shared with other campuses. Ms. Motton responded that campus IP professionals meet at least once per month and the exception process could be included in these meetings.

Regent Timmons asked if the Special Committee has impeded or helped UC Merced in accelerating its efforts to grow its innovation and entrepreneurship enterprise. Chancellor Muñoz responded that the attention directed toward his campus has sparked support from University leadership.

Regent-designate Ellis noted that the smaller campuses will need more infrastructure to effectively exercise their newly conferred authority and responsibility.

3. **PROPOSED ROYALTY AUDIT IDENTIFICATION APPROACH**

[Background material was provided to the Special Committee in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Senior Vice President and Chief Compliance and Audit Officer Bustamante stated that currently, Ethics, Compliance and Audit Services (ECAS) performs royalty audits at campus request. He proposed a data-driven royalty audit identification process to help ensure that the University of California receives the full benefit of its license agreements. The proposal was developed in consultation with other universities, royalty auditors with extensive experience, industry association leadership, and law firms specializing in intellectual property law, and was shared with campus technology transfer offices.

The proposal would implement uniform criteria (“red flags”) for license analysis and audit selection as well as standardized terms in all license agreements and would focus on high-revenue license agreements. ECAS was not able to determine the potential costs of the program, as it will depend on utilization.

Regent Leib asked Chancellor Muñoz if he had any concerns with the proposal. Chancellor Muñoz responded that, given the early-stage status of UC Merced’s technology transfer program, auditing has not been a priority, but he endorsed the idea of a centralized auditing mechanism.

Regent Reilly asked about the factors most likely to trigger an audit and what percentage of recent audits have been found to be problematic. Systemwide Deputy Audit Officer Matthew Hicks responded that the campuses determined what to target, and ECAS does not have data on the results, but he believed a majority of audits had adverse findings.

Committee Chair Park asked Mr. Bustamante to model scenarios for funding such an effort. She also asked whether ECAS would rely on data from the Patent Tracking System (PTS). Mr. Bustamante responded that in the future, it would be ideal to rely on a modernized PTS to search for indicators to inform the targeting process. Committee Chair Park encouraged Mr. Bustamante to work with Vice President Maldonado to inform and ultimately take advantage of the modernized PTS system.

4. **STATUS UPDATE: REALIGNMENT OF LEGAL AND POLICY COMPLIANCE FOR EQUITY AND LICENSING CONTRACTS**

[Background material was provided to the Special Committee in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Deputy General Counsel Darnele Wright stated that on August 3, 2022, General Counsel Robinson shifted control to campuses to determine when legal review is necessary in intellectual property (IP) transactions. Provost Brown issued conforming guidance. On September 30, UC Legal (UCL) made available an online platform that provides campus users with template legal form agreements and other resources. In addition, UCL is recruiting for an attorney to provide campuses with transactional support. In the meantime, it has retained an outside law firm on a retainer basis to support campuses that are

exercising the authority to manage their own IP-related equity.

UCSD Associate Vice Chancellor for Innovation and Commercialization Paul Roben shared that UCSD will closely examine and restructure its business processes relating to the negotiation of contracts. The campus plans to use these new processes for six months to one year before making any decisions regarding how it will exercise the discretion to choose the provision of legal services. However, the campus does plan to retain outside counsel for legal review of equity transactions.

UCSF Vice Chancellor for Business Development, Innovation and Partnerships Barry Selick stated that UCSF will embrace a hybrid model, utilizing a combination of UCL, outside counsel, and campus counsel. For example, it will likely employ outside counsel for transactions involving equity. However, it is likely to use UCL for support on questions relating to tax law or non-profit status, as well as on anything relating to litigation.

UC Merced Vice Chancellor for Research, Innovation and Economic Development Gillian Wilson reported that until the campus technology transfer office is able to increase staff, the Merced campus will continue to rely on the Office of the President (UCOP) for essential services.

Regent Leib asked Mr. Selick and Mr. Roben if the hybrid model will deliver quick responses and better results. They agreed that local control will speed up processing transactions. Regent Leib emphasized the importance of allocating funding to campuses with emerging innovation and entrepreneurship programs.

Regent-designate Ellis asked Mr. Robinson how the staffing of his office compares with similar institutions. Mr. Robinson responded that his office lags behind peer institutions and cited a common benchmark (the number of lawyers per billion dollars in revenue) that, if followed, would result in a legal staff of 180 to 190 lawyers; UCL has 135.

Committee Chair Park asked Mr. Selick and Mr. Roben if they forecast IP transactions at their campuses and if this new authority will help meet the anticipated workload. Mr. Roben responded that the legal realignment would help to reduce transaction times, which frees staff to take on more workload. Mr. Selick said that UCSF's forecasting focuses on revenue and equity deals.

5. **SPEAKER SERIES: UC MERCED PROFESSOR REZA EHSANI –
AGRICULTURE TECHNOLOGY INNOVATION: CHALLENGES AND
OPPORTUNITIES**

[Background material was provided to the Special Committee in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Professor Ehsani shared his experience and observations on the challenges and opportunities in developing innovative technologies in agriculture. For instance, harvest automation can reduce growers' costs and information-based crop management using sensors, robots, data management, and analysis tools can provide tremendous value. However, innovation agriculture is risky, as it can take a long time to develop and even

longer to license. Because farms focus on specialty crops, their needs are varied. Therefore, it is difficult to invent a technology that is scalable and profitable. Other challenges include the fact that academic inventors lack knowledge of agricultural markets and underestimate the complexity of the agricultural environment. In addition, due to growing and harvesting cycles, there are narrow windows of time to field test new technologies, and it is difficult to keep such technology confidential. Finally, there are institutional barriers such as finding a company to pay for the patent process, and the sense that patents are not as valued in the tenure and promotion process as other forms of scholarly activity.

Professor Ehsani emphasized that creating a culture of innovation in which faculty inventors receive help with marketing, raising funds, and developing a business model is key. At the Merced campus, in particular, it would be helpful to have dedicated staff for developing industry relations and seed grant funding.

Regent Leib suggested leveraging the President's Innovation Council to serve as a mentoring resource for academic inventors who need help with the business aspects of commercialization.

Regent Timmons recommended that academic inventors be paired with business and marketing students.

6. **HOW THE UNIVERSITY OF CALIFORNIA CAN HELP CREATE A THRIVING STARTUP ECOSYSTEM IN THE CENTRAL VALLEY**

[Background material was provided to the Special Committee in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

UC Merced alumni Chris Medina and Daniel Emilio Sabzehzar, founders of Tesseract Ventures, said their company supports early-stage startups in translating scientific breakthroughs into scalable products by helping them raise over \$200 million in venture capital funding and by providing coaching and business development services.

They suggested several ways in which the Merced campus could build the infrastructure for converting cutting-edge research into start-ups.

Staff Advisor Lakireddy asked if Mr. Medina and Mr. Sabzehzar were aware that UCM has a small business development center. Mr. Sabzehzar responded that the pace at which startups must operate is misaligned with the pace in which services are provided by the development center.

Regent Leib pledged to pursue funds from the State to help capitalize the proof-of-concept fund envisioned by the Regents Working Group on Innovation Transfer and Entrepreneurship.

The meeting adjourned at 1:20 p.m.

Attest:

Secretary and Chief of Staff