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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

OCT 10 1995

EXECUTIVE SECRETARY

September 22, 1995

To: Board of Directors (Executive Committee--Action)
(Organization and Personnel Committee--Action)

From: General Manager

Subject: Policy on Employee Rights to Inventions and Other Intellectual Property

RECOMMENDATION:

A proposed policy regarding the rights of new and existing employees to inventions and intellectual property developed on District time, or with District funds and materials, was presented to the Board at its August Board meeting. Changes to the proposed policy were recommended by the Board and have been incorporated into this letter. The changes provide that the District's expenses in obtaining patent rights will be reimbursed before making royalty payments to employees or transferring rights back to employees where no commercial use has been made by the District. It is recommended that the Board adopt the policy described in this report regarding the rights of new and existing employees to inventions and intellectual property.

John R. Wodraska
General Manager

Submitted by:

Izetta E. Birch, Director
Human Resources

Concur:

John R. Wodraska
General Managerses\board\patemp2.doc
Attachs.

EXECUTIVE SUMMARY:

The District currently has no formal policy concerning rights to inventions and other intellectual property developed with District funds or by District employees. It was proposed that the District adopt a policy on these matters to enable it to commercially exploit inventions. This policy is in accord with the recommendation of the Blue Ribbon Task Force that the District adopt a policy on intellectual property rights and be more aggressive in controlling the use of technology, equipment, or other know-how that District employees or consultants develop. It is hoped that moneys developed from the exploitation of inventions will offset the loss in funding which is expected from cutbacks for research projects by the federal government and other sources.

A formal policy concerning the rights to inventions and intellectual property developed on District time or with District funds or materials was proposed at the August Board meeting. The Board indicated that it was in agreement with the general concepts of the proposed policy, but changes were requested with regard to certain details. The policy and employee agreement are now in a more formal form and have been revised to provide that employees assign all rights to inventions to the District in return for the right to three (3) percent of the net proceeds paid to the District from the commercial exploitation of an invention. Net proceeds is defined as the amount the District receives from the exploitation of an invention after the District has deducted the costs it has incurred to obtain the patent rights to the invention. Similarly, where an employee exercises an option to regain such rights which the District has not commercially sought to exploit, the employee is required to reimburse the District for any costs the District has incurred to obtain, or to seek to obtain, patent rights. Finally, although by law, the District already owns the copyrights to writings made on District time or with District funds or materials, the policy and agreement reaffirm that all such copyrights belong to the District.

DETAILED REPORT:

The District has had no formal policy concerning rights to inventions developed with the use of District funds, time or materials. Under the applicable law, this means that the patent rights to an invention are usually held by the individuals, either District employees or consultants, who created the invention, with the District holding a shop-right to use the invention, free of charge, for its own purposes.

At the August Board meeting, it was proposed that the District adopt a policy on intellectual property rights. Under this policy, the District will own all patent rights to inventions and be in a position to direct the commercial exploitation of inventions. This policy should also encourage employees to be more aware of the possibilities of commercial development of technical ideas by providing them with a percentage interest in the proceeds from an invention. Attention has focused on adopting such a policy because of two recent events. First, the Final Report of the District's Blue Ribbon Task Force recommended that the District "adopt a more aggressive policy concerning the use of technology, equipment, or other know-how that it develops with its own funds." The Blue Ribbon Task Force pointed out that, under the current situation, the District is unable to stimulate technology development or provide for the exploitation of a technology. Secondly, funding for research from federal, state, and other agencies has become more and more difficult to obtain. Moneys generated from inventions developed with the use of District funds, time or materials can help to fund further District research activities.

In order to help the District develop a policy for intellectual property matters, the District hired the law firm of Sheldon & Mak, a Pasadena firm specializing in intellectual property matters. A review of the District's practices by this law firm revealed that the District, through its employees and consultants, is engaged in many research activities which might lead to valuable intellectual property

rights in the future. Based on recommendations from Sheldon & Mak, the District has already begun inserting provisions in its consulting contracts providing for the appropriate protection of the District with regard to intellectual property rights developed by the consultant while working for the District. It is now proposed to complete this review by the adoption of the component relating to employees.

At its August meeting, the Board indicated that it was in agreement with the general concepts of the proposed policy, but changes were requested with regard to certain details and the proposed form of agreement to be signed by new employees, current employees in a position to develop an invention, and other current employees wishing to sign the agreement. Under the agreement proposed in August, employees were to assign all rights to inventions to the District in return for a share of the proceeds paid to the District from the commercial exploitation of an invention. The share of the proceeds for the employees was to be set forth in a policy to be adopted by the District. The policy submitted with the August letter proposed that employees receive three percent of the gross revenues paid to the District from the commercial exploitation of the invention. Also, employees had the right to regain the rights to an invention if the District failed to begin commercial exploitation of the invention within a defined five year period. Pursuant to the revised policy and agreement, in return for the assignment of intellectual property rights, the District will pay employees three (3) percent of the net proceeds paid to the District from the commercial exploitation of an invention. Net proceeds is defined as the amount the District receives from the exploitation of an invention after the District has deducted the costs the District has incurred to obtain patent rights. Also, in the event the District fails to begin commercial exploitation of an invention within the five year period, an employee can regain the patent rights to the invention if the employee reimburses the District for any costs the District has incurred to obtain these rights. All releases of rights back to employees are subject to the District's retention of a shop-right in the invention, under which the District is free to use the invention, royalty free, for its own in-house purposes. Finally, although by law, the District already owns the copyrights to writings made on District time or with District funds or materials, the policy and agreement reaffirm that all such copyrights belong to the District. Copies of the proposed District policy and agreement on employee intellectual property rights are attached to this letter as Attachments 1 and 2.

ATTACHMENT 1

POLICY REGARDING INTELLECTUAL PROPERTY RIGHTS AND EMPLOYEES

The District is adopting this policy on intellectual property rights to enable the District to commercially exploit the use of District inventions and other intellectual property developed on District time or with District funds and materials. In return for assigning all patent rights, copyrights and other intellectual property rights to the District, and in recognition of the contribution of employees to the development of the invention, employees shall receive a percentage of any proceeds received by the District from the sale or licensing of the invention, pursuant to the provisions set forth below:

A. All new employees shall sign the Intellectual Property and Secrecy Agreement attached to this policy. Division heads shall also request that existing employees in a position to develop an invention sign this agreement. Other employees may sign this agreement if they wish.

B. For the purposes of this policy, a "District invention" includes all inventions and works conceived by an employee, either alone or with others, during the term of the employee's employment by the District. Exceptions are inventions or works for which no equipment, supplies, facility or trade secret information of the District was used in the conception and/or development thereof and which were developed entirely on the employee's own time, and (a) which do not relate (1) to District business or (2) to the District's actual or demonstrably anticipated research or development, or (b) which do not result from any work performed by employee for the District. An invention includes any written or unwritten idea related to the District's business or developed with District time and/or resources, whether reduced to practice or not and whether or not patentable, copyrightable or otherwise protectable.

C. The following procedure shall be followed for inventions developed by an employee which has signed the Intellectual Property and Secrecy Agreement:

1. The employee shall promptly notify his or her supervisor of the invention on the appropriate invention disclosure form provided by the District, and cooperate with the District in the execution of all documents and in the performance of all reasonable acts deemed necessary or desirable by the District to protect the District's rights to the invention.

2. The District, at its option, may assume responsibility for any costs associated with acquiring a patent for a District invention and for

any commercial exploitation of a District invention. "Commercial exploitation" means deriving revenues from the sale or licensing of the invention to third parties not associated with the District.

3. The District shall pay employees who develop a District invention subject to this policy three (3) percent of the net proceeds paid to the District as a result of the commercial exploitation of the invention. For the purposes of this policy, "net proceeds" is defined as the amount the District receives from the commercial exploitation of an invention after the District has deducted the costs it has incurred to obtain the patent rights to the invention. In the event the invention has been developed by more than one employee subject to this policy, this amount shall be shared equally by these employees.

4. An employee may file a written request that the District release a District invention conceived by the employee back to the employee for commercial exploitation. The District agrees to promptly consider and grant the request unless the District has a bona fide intention to begin commercial exploitation of the invention within 5 years of the date of the request. The District shall only release the District's rights to an invention if the employee agrees to reimburse the District, upon terms agreed to at the time of the release, for all costs that the District has incurred to obtain, or to seek to obtain, patent rights to the invention. If the District fails to begin commercial exploitation of a District invention within five years after an employee's initial request for a release of a District invention, title to the invention shall transfer back to the employee if the employee agrees to reimburse the District, upon terms agreed to at the time of the release, for all costs that the District has incurred to obtain, or to seek to obtain, patent rights to the invention. All releases of District inventions back to employees are subject to District's retention of a "shop right" in the invention, under which the District is free to use the invention, royalty free, for its own in-house purposes.

D. Under existing law, copyrights for works of authorship prepared for the District, either alone or with others on District time and/or with District assets are owned by the District. Under this policy employees are asked to acknowledge and confirm the District's ownership of these copyrights to avoid any confusion or misunderstanding on this issue. "Works of authorship" include works fixed in any tangible medium of expression, now known or later developed from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include literary works, musical works, dramatic works, pantomimes and choreographic works, pictorial, graphic and sculptural works, motion pictures and other audiovisual works, sound recordings and architectural works.

ATTACHMENT 2

EMPLOYEE INTELLECTUAL PROPERTY AND SECRECY AGREEMENT

The undersigned individual (hereinafter "Employee") and The Metropolitan Water District of Southern California (hereinafter "District"), a public agency formed pursuant to the laws of the State of California, do hereby contract for themselves, their successors, assigns and personal representatives, and agree as follows:

1. All District inventions shall be and are, to the extent of Employee's participation therein, the sole property of the District. "District inventions," as that term is used in this Agreement, includes all inventions and works conceived by Employee, either alone or with others, during the term of Employee's employment by the District. Exceptions are inventions or works for which no equipment, supplies, facility or trade secret information of the District was used in the conception and/or development thereof and which were developed entirely on Employee's own time, and (a) which do not relate (1) to District business or (2) to the District's actual or demonstrably anticipated research or development, or (b) which do not result from any work performed by Employee for the District. Also excepted are all other inventions which are deemed under applicable law to be not proper subject matter for assignment to the District under this Agreement.

2. Employee hereby assigns and agrees to assign to the District all right, title and interest in and to District inventions. Employee further agrees that he or she will cooperate in the execution of all documents and in the performance of all reasonable acts deemed necessary or desirable by the District to protect its rights as defined herein. All reasonable expenses in connection with the foregoing shall be borne by the District.

3. As used in this Agreement, the word "invention" includes any written or unwritten idea related to the District's business or developed with District time and/or resources, whether reduced to practice or not and whether or not patentable, copyrightable or otherwise protectable. Also, "information" may be written or not, and includes not only reports of all kinds, but also patent applications, copyright applications, drawings, contracts, letters, recordings, photographs, computer programs, computer databases and all copies and abstracts thereof.

4. Should the District, in its sole discretion, attempt to patent and/or commercially exploit inventions assigned to the District by Employee pursuant to this Agreement, the District shall be responsible for the costs associated with obtaining such patent and for such commercial exploitation. The District agrees to pay Employee three (3) percent of the "net proceeds" paid to the District from the commercial exploitation of an invention, unless the invention has been developed by more than one District employee entitled to payment for an invention, in which case said amount shall be shared equally by these employees. For the purpose of this agreement, "net proceeds" is defined as the amount the District receives from the commercial exploitation of an invention after the District has deducted the costs the District has incurred to obtain the patent rights to the invention. The term "commercial exploitation" means deriving revenues from the sale or licensing of the invention to third parties not affiliated with the District.

5. The District further agrees that an Employee can request that the District release the patent rights to a District invention conceived by Employee back to Employee where the District has no bona fide intention to begin commercial exploitation of the invention. The District shall promptly consider and grant such request unless the District has a bona fide intention to begin commercial exploitation of the invention within five years. The District shall only release the District's rights to an invention if Employee agrees to reimburse the District, upon terms agreed to at the time of the release, for all costs that the District has incurred to obtain, or to seek to obtain, patent rights to the invention. If the District fails to begin commercial exploitation of a District invention within five years after Employee's initial request for release of the District's patent rights to an invention, title to the invention shall be transferred back to Employee if Employee agrees to reimburse the District, upon terms agreed to at the time of the release, for all costs that the District has incurred to obtain, or to seek to obtain, patent rights to the invention. All releases of patent rights to District inventions back to Employee are subject to the District's retention of a "shop right" in the invention, under which the District is free to use the invention, royalty free, for its own in-house purposes.

6. All "District Information" (i.e. non-public domain information relating to District business whether developed by the District or received from a third party) is acknowledged to be the sole property of the District, and Employee confirms and grants all right to possession of, and title to, all such District information and all documents and other media containing such District information to the District. Employee agrees not to use or disclose to others, except as authorized by the District or as required by law, any District invention or District information. Employee acknowledges, confirms and grants that all copyright rights for any works of authorship prepared for the District, either alone or with others, on District time and/or with District assets belong to the District. "Works of authorship" include works fixed in any tangible medium of expression, now known or later developed from which

they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include literary works, musical works, dramatic works, pantomimes and choreographic works, pictorial, graphic and sculptural works, motion pictures and other audiovisual works, sound recordings and architectural works.

Agreed this _____ day of _____, 19 ____.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

EMPLOYEE

By: _____

[Print Name]

Signature: _____

Signature: _____