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March 3, 2003

**CHANCELLORS
LABORATORY DIRECTORS
VICE PRESIDENT GOMES
ACADEMIC COUNCIL CHAIR BINION**

Dear Colleagues:

Over the last few decades, relationships with industry – including faculty consulting relationships – have become increasingly important to research and education at the University. The University supports and encourages outside consulting relationships as they often provide a public benefit and are valuable to the faculty in their research and teaching activities.

Based on questions directed to campus and Office of the President administrators, it has become increasingly evident that some faculty who engage in consulting arrangements are unclear about their obligations to the University regarding intellectual property matters. For this reason, the Technology Transfer Advisory Committee (TTAC) convened an Ad Hoc Subcommittee on Faculty Consulting to address these inquiries. During the past year, the subcommittee reviewed State law and existing University policies and guidelines, and developed a single comprehensive summary document on this matter.

The resulting document, *Guidance for Faculty and Other Academic Employees on Issues Related to Intellectual Property and Consulting*, is not new policy, but a synopsis and explanation of longstanding University policies and State law on this topic. We believe it presents a clear, non-technical summary, accessible to faculty, other researchers, industry, administrators, students, and the public. Each campus and Laboratory is encouraged to share this information in a way and form that is most appropriate to its local needs. It will also be available on the WWW at: <http://www.ucop.edu/ott/consult.html>.

Sincerely,

Sincerely,

C. Judson King
Provost

Joseph P. Mullinix
Senior Vice President

Attachment

cc: President Atkinson
Members, President's Cabinet
Senior Vice President Darling
Executive Director Bennett
Vice Chancellors for Research/Administration
Members, Technology Transfer Advisory Committee

Patent Coordinators
Contract and Grant Officers
Conflict of Interest Coordinators
Special Assistant Gardner
Principal Officers of The Regents

**GUIDANCE FOR FACULTY AND OTHER ACADEMIC EMPLOYEES
ON ISSUES RELATED TO
INTELLECTUAL PROPERTY AND CONSULTING**

Executive Summary

Purpose of this Guidance Document

This guidance document is intended to clarify University policy and State and Federal statutes governing an employee's obligations to the University regarding intellectual property and other issues related to consulting. The subject matter discussed in this guidance document is complex and faculty and other academic employees are encouraged to read beyond this summary to the full text contained within this document or available at <http://www.ucop.edu/ott/consult.html>.

Consulting agreements between faculty or other academic employees and outside entities are personal agreements to which the University is not a party. Thus, it is the responsibility of a University employee to ensure that its terms do not conflict with their University research and teaching obligations and that they are consistent with University employment obligations regarding disclosure and assignment of inventions to the University.

Outside professional activities are encouraged

The University of California encourages faculty to participate in outside professional activities that contribute to their profession and to the broader community and contribute to the University's public service mission. Engagement with the outside community is also an important component of the academic enterprise and one way in which faculty and other researchers maintain contact with research directions and priorities that exist in the private sector. This knowledge also guides faculty in preparing students for careers in the private sector.

Consulting activities are regulated

A series of University policies based upon State statutes and Academic Senate consultation have been developed over the years to guide faculty in consulting and other outside professional activities. These statutes and policies relate to faculty consulting and other outside professional activities in three ways:

- First, they address the appropriateness of the consulting "activity" itself and provide the legal and policy framework covering obligations to the University from an academic employment perspective.
- Second, they address the University's and the employee's legal or contractual rights and obligations with regard to the specific results of outside professional activities, such as an invention made by a University employee in the performance of a consulting activity. For example, while a consulting activity may be completely appropriate under University

academic policy, other parties (the State and Federal governments, the University, third-party sponsors or providers of research materials or resources, or others) may have legal rights to inventions made by a University employee while he or she is engaged as a consultant. Thus, an employee's intellectual property obligations to the University are based upon State labor laws and addressed under the various University intellectual property policies, including the University Patent Policy.

- Third, they address both the potential conflict of commitment and conflict of interest that may arise between an outside professional activity and the faculty/researcher's University employment.

Employees must disclose all inventions

The University must be able to meet its obligations assumed under legal contractual obligations with regard to intellectual property rights. Such rights may be generated by faculty and other researchers as a result of sponsored research agreements, material transfer agreements, and other research support agreements entered into on behalf of those faculty and research staff. Therefore, *all* inventions made by a University employee must be disclosed to the University, including inventions made on weekends, on leave, at home "in the garage," or during paid or unpaid consulting work. Disclosure is a legal obligation of employment at the University.

Employees must assign inventions when certain conditions exist

The process of determining the University's rights in any potentially patentable invention made by a University employee is initiated with the disclosure of an invention, typically on a Record of Invention form. The University may assert its right to an invention based on three primary criteria: 1) the use of University funds or facilities in conceiving and/or developing the invention; 2) potential obligations to third parties; and 3) intellectual property rights and obligations that arise from the faculty/researcher's scope of University employment. The determination regarding the use of University funds or facilities and third party obligations is typically managed by the campus/Laboratory authorized licensing, contracts and grants, or comparable administrative office. For University faculty and researchers, the question of an employee's scope of employment is initially an academic issue best addressed by the appropriate University academic manager – most often the department chair or dean – with guidance from the Office of General Counsel as necessary.

Under certain conditions the University does not claim rights in inventions

An invention may be determined to have been made under a "permissible consulting" arrangement when it is conceived and/or developed by a University employee in the course of an outside professional activity: 1) without utilization of University research facilities and/or gift, grant, or contract funds administered through the University; 2) without incurring any University obligations to other parties; and 3) outside an individual's academic employment obligations ("scope of employment") to the University. Such inventions must still be disclosed to the University for review and assessment against these criteria. While the University does not claim rights to any invention made by an employee that falls within the above three criteria, the

determination of what is or is not “permissible consulting,” and consequently what is the University’s ownership interest in an employee invention, is a University-based decision supported by the application of these criteria to the facts and equities of the situation.

Proprietary company information disclosed to the University can be protected

On occasion, it may be necessary to disclose company proprietary information to the University in order for a faculty/researcher to disclose an invention made in the course of an outside professional activity (e.g. consulting). In this case, the proprietary information may be protected by executing a non-disclosure agreement between the company and the University. Company proprietary information either existing prior to the consulting relationship or embodied in an invention made under the consulting relationship may be included under the terms of such non-disclosure agreement.

Personal consulting agreements should be carefully reviewed

Because provisions of a consulting agreement may affect the faculty/researcher in many ways beyond concerns about intellectual property rights, careful examination of proposed consulting agreements is advised. Ideally, the faculty/researcher should talk with their personal attorney before executing an agreement with a commercial firm, to ensure that their personal interests are protected and that the terms of the agreement do not conflict with their employment obligations to the University. The faculty/researcher also should make the company aware of their obligations to the University. University employees are strongly encouraged to include a provision in their consulting agreements acknowledging that the University employee has pre-existing obligations to disclose all inventions to the University and to assign to the University any intellectual property resulting from activities that involve University research funds or facilities, University commitments to others, or that fall within the employee’s scope of employment.

While the University is not a party to personal consulting agreements between University employees and outside parties, some campuses offer to faculty and other researchers the service of reviewing proposed consulting agreements for consistency with University policy. Any review of a prospective consulting agreement by University personnel is solely for the purpose of commenting on consistency with obligations to the University. It does not constitute legal or other advice on the final contractual terms between the faculty/researcher and the third party engaging the consulting services.

University regulates allowable consulting time but not income

Full-time faculty members on a nine-month appointment may engage in compensated consulting activities for 39 days during the academic year and full-time faculty members with fiscal-year appointments may engage in compensated consulting for 48 days for the entire year (see *University Policy on Conflict of Commitment and Outside Activities of Faculty Members*; APM 025). Faculty members may consult full-time during the summer months in which there is no other salary compensation from the University (such as work on sponsored projects). Consulting activities of employees working at the National Laboratories may be subject to U.S. Department

of Energy policies and procedures. However, the University does not regulate the amount of compensation from outside personal consulting arrangements, except as agreed upon under a health sciences compensation plan.

Under the *University Policy on Conflict of Commitment and Outside Activities of Faculty Members* (APM 025), faculty are required to submit annual reports on outside professional activities (to include consulting) to department chairs or equivalent unit heads.

Do conflicts of interest arise in consulting relationships?

Faculty and other researchers must disclose on the Statement of Economic Interests (Form 700-U) whether or not there has been any consulting activity with a company when accepting research funding at the University from that company. In addition, the National Science Foundation and the Public Health Service require that all investigators responsible for the design, conduct, or reporting on projects supported by funds from these agencies disclose any financial interests (including consulting income above \$10,000 in the prior twelve months) in entities that would reasonably appear to be affected by the work performed under the NSF or PHS project. Thus, under both State law and NSF/PHS regulations, an existing or prior consulting arrangement might require that a proposed University contract or grant be reviewed and approved by a campus Independent Substantive Review Committee (ISRC) as to conflicts of interest concerns.

**GUIDANCE FOR FACULTY AND OTHER ACADEMIC EMPLOYEES
ON ISSUES RELATED TO
INTELLECTUAL PROPERTY AND CONSULTING**

Background

The University of California encourages faculty to participate in outside professional activities that contribute to their profession and to the broader community. Such engagement with the outside community is an important component of the academic enterprise and one way in which faculty and other researchers contribute to the University's public service mission. The University defines outside professional activities as "...activities that are within a faculty member's area of professional, academic expertise and that advance or communicate that expertise through interaction with industry, the community, or the public, and through consulting or professional opportunities" (Academic Personnel Manual 025). Paid faculty consulting, including summer and incidental employment, is one form of such outside professional activity which the faculty member undertakes as an individual and not under the auspices of the University.

Over time, the University has worked with the Academic Senate to develop a number of policies that address and guide the outside professional activities of its faculty. Taken as a whole, these policies provide faculty with a great deal of flexibility and autonomy in engaging in outside professional activities that contribute to their profession and to the broader community. At the same time, these policies are intended to:

- safeguard the interests of students;
- minimize faculty and University exposure to litigation, liability, and conflicts of interest;
- ensure that University resources, which are assets of the State of California, are used for the public benefit rather than for private gain;
- ensure that outside professional activities are consistent with the performance of University duties, including safeguarding faculty members' ability to do future University research free from inappropriate external restrictions or legal encumbrances; and
- provide the clarity that industry needs with regard to ownership of inventions made under a consulting activity.

Legal and Policy Framework for Consulting Activities

The statutes and University policies that guide faculty consulting and other outside professional activities include:

Policies Addressing Academic Issues

- ***Regulation 4, Special Services by Members of the Faculty (APM 020):***

Members of the faculty may render professional or scholarly services for compensation, unless they are prohibited by the terms of their appointment from accepting such compensation; but in no case may such employment be solicited or interfere with regular University duties.

The *Principles Underlying Regulation 4* go on to state:

...such service may be justified if it does not interfere with University commitments and if 1) it gives the individual experience and knowledge of value to his teaching or research; 2) it is suitable research through which the individual may make worthy contributions to knowledge; or 3) it is appropriate public service.

- ***General University Policy Regarding Academic Employees: Conflict of Commitment and Outside Activities of Faculty Members (APM 025):***

Outside professional activities may be a valuable contribution to the University and to an individual's professional growth so long as the activities are undertaken in a manner consistent with the full performance of the faculty member's primary University obligations.

- ***Regents' Standing Order 103.1(b)***

No one in the service of the University shall devote to private purposes any portion of time due to the University nor shall any outside employment interfere with the performance of University duties. Arrangements for private employment by Officers, faculty members, or other employees of the University shall be subject to such regulations as the President may establish.

- ***The Faculty Code of Conduct (APM 015)***

Professors [shall] give due regard to their paramount responsibilities within their institution in determining the amount and character of the work done outside it. (AAUP Statement, 1966, Revised, 1987.)

The *Faculty Code of Conduct* goes on to cite as "unacceptable conduct":

...unauthorized use of University resources or facilities on a significant scale for personal, commercial, political, or religious purposes.

The above policies address fundamental issues relating to the appropriateness and scope of faculty outside professional activities within the context of academic employment. Issues that may arise in the course of such activities are generally within the domain of the academic management structure of the University under the jurisdiction of the Chancellor or the Chancellor's designee. The department chair is often the lead interpreter and decision-maker in this arena, occasionally in consultation with University legal counsel or University administrative offices, as appropriate.

Faculty and other researchers should be aware that in addition to the academic employment issues involved in consulting relationships, outside consulting contractual commitments may have important implications for University and faculty research programs, for faculty research and technology transfer relationships with outside entities, and for University obligations to research sponsors. Resolution of any academic employment concerns by the department chair may not necessarily resolve all research and intellectual property issues. Therefore, the faculty/researcher should also seek technical guidance from campus administrative staff as to: 1) appropriate use of University funds or facilities; 2) potential obligations to third parties; and 3) intellectual property rights and obligations relating to the faculty/researcher's scope of University employment (see discussion below).

Statutes and Policies Addressing Inventions and Patents

The University policies that guide outside professional activities as discussed above address general consulting "activity" from an academic perspective. They do not speak directly to legal or contractual rights and obligations to the specific *results* of the activity, such as an invention made by a University employee in the performance of the consulting activity. Although consulting activity may be completely appropriate under University policy, the University, the State and Federal governments, and perhaps third-party sponsors or providers of research materials or resources may have rights to inventions made by a University employee while engaged as a consultant.

Rights and obligations of University employees with respect to inventions are addressed by State law, the University Patent Acknowledgement, and the University Patent Policy.

- ***California Labor Code Section 2860***

This law provides that:

...everything which an employee acquires by virtue of his employment, except compensation...belongs to the employer.

- **California Labor Code Section 2870**

This law provides an employer the right to require assignment of inventions by its employees that either:

...relate at the time of conception or reduction to practice...to the employer's business, or actual or demonstrably anticipated research or development of the employer... or

...result from any work performed by the employee for the employer.

To prevent any possible confusion, it is important to distinguish the terms **disclosure** and **assignment** as they relate to inventions. **Disclosure** is the reporting of a potential invention to the employer to determine its patentability and ownership; **assignment** is the transfer of ownership from the inventor to the employer or to any other third party.

- **University Patent Acknowledgement (formerly Patent Agreement)**

The University implements the State Labor Code with regard to inventions by requiring all employees as a condition of employment to sign the University Patent Acknowledgement (formerly Patent Agreement). By signing this form an employee acknowledges the following:

I acknowledge my obligation to assign inventions and patents that I conceive or develop while employed by University or during the course of my utilization of any University research facilities or any connection with my use of gift, grant, or contract research funds received through the University. I further acknowledge my obligation to promptly report and fully disclose the conception and/or reduction to practice of potentially patentable inventions to the Office of Technology Transfer or authorized licensing office. Such inventions shall be examined by University to determine rights and equities therein in accordance with the Policy.

- **The State of California's Political Reform Act of 1974 (Act)**

This State law provides that:

No public official at any level of state or local government shall make, participate in making or in any way attempt to use his official position to influence a governmental decision in which he knows or has reason to know he has a financial interest.

All University employees and officials, either directly or by application of the University's Conflict of Interest Code, are subject to the provision of the Act. Therefore, due to an employee's potential personal interest, as defined under the Act, in any invention made by that employee resulting from an outside professional activity, a determination of whether or not the University will retain title to the invention must be made by the campus/Laboratory authorized licensing office – not by the employee. Consequently, in order to allow the University to make such a determination, an employee must disclose all inventions conceived or developed during the term of his/her employment with the University, whether or not the employee believes the invention is potentially patentable and whether or not the employee expects to be able to retain ownership rights in the invention.

- ***The University Patent Policy***

The "Policy" referenced in the University Patent Acknowledgment is the University Patent Policy (<http://www.ucop.edu/ott/patentpolicy/pat-pol.html>), which states:

An agreement to assign inventions and patents to the University, except those resulting from permissible consulting activities without use of University facilities, shall be mandatory for all employees...

The term "permissible consulting" introduced in the University Patent Policy occasionally causes some confusion as to which inventions must be reported and which inventions must be assigned to the University.

Many years ago the University incorporated the term "permissible consulting" into the University Patent Policy to describe the criteria it would apply to employee inventions to ensure compliance with State labor laws and University policies discussed above. In making its decision about what is or is not "permissible consulting" and consequently what is the University's ownership interest in an employee invention, the University applies the criteria listed below to the facts and equities of the situation.

An invention is considered to have been made under a "permissible consulting" activity if that invention is made: 1) pursuant to an outside professional activity (as discussed under APM 025); 2) without utilization of University research facilities and/or gift, grant, or contract funds administered through the University (University Patent Policy); 3) without incurring any University obligations to other parties (University Patent Policy and Patent Acknowledgement); and 4) outside an individual's employment obligations ("scope of employment") to the University as provided under California Labor Codes, University Regulation 4, APM 025, Regents Standing Order 103.1(b), and the Patent Acknowledgement.

The University does not claim rights to any invention made by an employee within the above four criteria for "permissible consulting" activity. The employee is still

obligated, however, to disclose such inventions to the University so that it can make the necessary determinations as discussed above.

- ***The Federal Bayh-Dole Act***

A number of invention-related obligations of the University are based on Federal law as well as on California law. For all inventions that arise even partially from Federal funding at the University, the Federal government has rights in the inventions and depends on the University to require invention disclosure from its employees (PL 96-517, the “Bayh-Dole Act,” and the “Patent and Trademark Act Amendments of 1980”). Federal law 35 USC 202(c)(1) provides that *Federal rights attach to University-developed, Federally funded inventions whether or not they are disclosed to the University*. Thus, universities must have blanket, effective invention disclosure policies so that at a minimum, they can comply with the law and properly administer the government's rights.

- ***Contractual Obligations of The Regents of the University of California***

In addition to obligations assumed by the University under the Bayh-Dole Act through its acceptance of Federal research funding agreements, the University assumes legally binding contractual obligations with regard to intellectual property rights generated by faculty and other researchers. This is achieved by entering into sponsored research agreements, material transfer agreements, and other research support agreements on behalf of those faculty and research staff. The University must be able to meet such legal obligations, which often involve the disclosure, management, and licensing or other transfer of intellectual property rights generated by its employees.

The Requirement to Disclose

What must be disclosed? The answer is: ***all inventions*** made by a University employee must be disclosed to the University, including inventions made during vacation, on weekends, while on leave, in the evening, or at home (“in the garage”) when engaged in paid or unpaid consulting work. As noted above, disclosure is a legal obligation of employment at the University. It is not permissible to sign an agreement with an external party that precludes or limits disclosure of inventions to the University.

How will the employee know *what* is disclosable? Or, in other words, how will the employee know what qualifies as an “invention”? An invention is ordinarily defined as being a new and useful machine, article of manufacture, composition of matter, process, or any new use of the same. It is sometimes difficult to know whether something is really an “invention.” This can be a complex legal determination. Whether something is an invention, and is therefore patentable, involves a precise determination based on Federal law that requires the exercise of judgment based upon technical experience and training.

A faculty member can obtain guidance about what is patentable and what must be disclosed from his or her campus or Laboratory technology licensing professional. Generally, it is prudent to proceed with formal disclosure to the University. Certainly, if an invention has been disclosed to a company or if the company is proposing to file a patent application on a consulting faculty member's research result, this invention must be disclosed to the University.

Disclosure of an invention to the University is typically accomplished by submitting a completed Record of Invention (ROI) Form to the appropriate campus/Laboratory technology transfer office as soon as possible after the conception of the invention. The ROI provides the information necessary for the University to evaluate patentability issues, inventorship, assignment obligations, and third-party patent obligations. The ROI and the information contained therein are treated as University confidential information and should be kept confidential by the disclosing faculty member.

If, in meeting his or her invention disclosure obligations to the University, it is necessary for a faculty member to disclose any information that a company may consider to be its proprietary information, a company's concerns regarding the faculty member's disclosure of such information to the University can be addressed through the execution of a non-disclosure agreement between the company and the University. Company proprietary information either existing prior to the consulting relationship or embodied in an invention made under the consulting relationship may be included under the terms of such non-disclosure agreement.

The requirement for total disclosure was elucidated by UC President Gardner in the May 17, 1989 University policy *Guidelines on University-Industry Relations* (<http://www.ucop.edu/ott/unindrel.html>), which states:

*...Provisions of outside consulting agreements must not limit a faculty member's ability to carry out ongoing obligations under University policies such as the Patent Policy. **While all patentable inventions must be disclosed,** [emphasis added] inventions resulting from permissible consulting activities without use of University funds or facilities need not be assigned to the University.*

The Guidelines on University-Industry Relations clarifies the obligation on the part of the employee to disclose all potentially patentable inventions and the right of the University to make a separate determination as to its rights in each invention.

The Requirement to Assign

The process of determining the University's scope of rights in any invention made by a University employee is managed by the campus or Laboratory authorized licensing office and is initiated by the disclosure of an invention that is conceived and/or developed by an employee. This determination involves several University decisions:

1. Are there legally binding obligations of the University whereby invention rights are committed to a third party through “any connection with . . . use of gift, grant, or contract funds received through the University”? Such obligations include rights to inventions resulting from the use of sponsored funding or tangible research materials provided by others that are legally committed under agreements entered into by the University. The employee’s obligation to assign such inventions to the University is specified in the Patent Acknowledgement signed by all employees. Determinations as to whether any third-party obligations exist are made by the appropriate University contracts and grants office, technology transfer office, and/or the Office of General Counsel.
2. Was there “utilization of any University research facilities” by a University employee in the creation and/or development of the invention? Again, the employee’s obligation to assign such inventions to the University is specified in the Patent Acknowledgement signed by all employees. Such utilization determinations are made by the appropriate technology transfer office in consultation with the local contracts and grants office, the employee’s school and/or department, and the Office of General Counsel, as appropriate.
3. Does the invention fall within the employee’s scope of employment with the University? As a public trust, the University must exercise its responsibility to protect the public interest in a State employee’s inventions made within their scope of employment (California Labor Code Sec. 2860 and 2870). An employee’s obligation under law to assign inventions to the University that are conceived and/or developed “while employed by the University” is contained in the Patent Acknowledgement. This assignment determination, based upon an employee’s scope of employment, can be difficult. This determination must be distinguished from the irrelevant question of whether the invention falls within the broad area of an employee’s professional expertise – which it normally would.

In guidance provided on March 22, 1978, University General Counsel Reidhaar advised that inventions resulting from a consulting activity fall within the employee’s scope of employment when “*the activity to be undertaken by the consultant is a direct extension of his/her University research project or duties, or if the activity can be construed as one that has a close and umbilical connection which cannot be severed with the University work.*” For University faculty and researchers, the question of an employee’s scope of employment is initially an academic issue best addressed by the appropriate University academic manager – most often the department chair or dean – with guidance from the Office of General Counsel as necessary. Ultimately, scope of work may become a legal issue.

Intellectual Property Issues in Consulting Agreements

While the University is not a party to personal consulting agreements entered into between a University faculty member and an outside party, the terms of those agreements must be reviewed carefully by the employee, ideally with the advice of his or her personal attorney, to ensure that his or her personal interests are protected and that the terms of the agreement do not conflict with

his or her employment obligations to the University. Outside consulting agreements often have language that requires assignment of patentable discoveries and/or other intellectual property to a company. The agreement may also prohibit publication of research results, may have overreaching confidentiality demands, or may even reach into the rights of other University colleagues or students in related research activities. Faculty should also be aware that consulting contracts that inappropriately assign intellectual property to an outside entity may be challengeable and/or unenforceable.

Consulting agreements with overreaching assignment requirements or publication restrictions might stand in direct conflict with a faculty member's employment obligations already made to the University and possibly with the University's obligations already made to sponsors or supporters of University research activities. It is in the company's interest to know that its consulting agreements with faculty are on firm ground and that it has clear title to any intellectual property to which it is legitimately due.¹ Thus, employees who engage in consulting outside the University are advised to consider the terms of any proposed agreement with a company or other third party carefully to ensure that no conflict is created with the employee's obligations to the University.

The faculty researcher should carefully study the content of proposed personal consulting agreements with commercial firms. The company should be informed of the employee's obligations to the University. Any agreement should include a statement that the company acknowledges that the University employee who is party to the consulting agreement has pre-existing obligations to disclose all inventions to the University, and to assign to the University any intellectual property resulting from activities that involve University research funds or facilities or University commitments to others, or that fall within the University employee's scope of employment. University employees are strongly encouraged to include a provision in consulting agreements acknowledging such obligations to the University. This is most typically accomplished by stating:

This agreement is subordinate to the terms of my employment with The Regents of the University of California, including the Patent Acknowledgement attached hereto.

An alternative statement would be that:

Company acknowledges that consultant is an employee of the University of California and that disclosure and assignment of intellectual property arising under this consulting agreement is subject to pre-existing obligations to the University as contained in the Patent Acknowledgement attached to and made a part of this agreement.

In view of the complexity of some of these issues, faculty (and other researchers) who are contemplating new consulting agreements can avoid possible later problems if they engage in some preliminary discussions with their dean or department chair to clarify scope of employment

¹As noted above, disclosure is a legal obligation of employment at the University. It is not permissible to sign an agreement with an external party that precludes or limits disclosure of inventions to the University.

issues. This is particularly important for those faculty members with multiple grants, complicated research relationships, and the potential for creating inventions. It is also advisable to seek guidance from the sponsored projects and/or technology transfer offices to assess proposed or existing third-party obligations under sponsored research, material transfer, or other extramural agreements. In particular, it is essential to differentiate clearly the scope of work to be performed under a consulting agreement from the faculty member's ongoing research at the University so as to avoid potential conflicts regarding the ownership and disposition of inventions that might arise from either of these activities. Since University researchers generally are free to choose topics of research, their associated scope of work may expand due to a choice of a new area of research.

Campuses and Laboratories have the discretion to offer faculty and other researchers the service of reviewing proposed consulting agreements for compliance with University policy. There is no requirement that faculty submit their agreements to the campus for such review. Any review of a prospective consulting agreement by University personnel is solely for the purpose of commenting on compliance with University obligations. It does not constitute legal or other advice on the final contractual terms between the consultant and the third party engaging the consulting services.

Other Common Issues in Consulting Agreements

Compromising Future Research Funding

Great care must be taken not to compromise future research funding. Although consulting agreements are personal – between the faculty member and the company – if such agreements are not properly formulated, they can jeopardize future University research programs and related funding, and may affect other researchers at the University. Companies employing consultants may desire commercial access to inventions made during the course of the consulting arrangement and often will seek rights to future yet-to-be-developed inventions made at the University which have a relation to the consulting activity. (Faculty, of course, cannot legitimately grant such rights.) Any “agreement” to provide such rights to future research results would preclude the University from providing comparable rights to other companies that sponsor future University research. Most potential research sponsors would refuse to fund research if they would be denied access to resulting inventions because of prior obligations made through a consulting arrangement.

In addition, a faculty member's consulting relationships may affect any new or follow-on Federal grants from the Public Health Service or from the National Science Foundation (see conflict of interest discussion below.)

Acceptance of Confidential Information

It is not uncommon for a company to disclose proprietary information to a consultant. In doing so, the company will want assurances that this information will be kept confidential. Maintaining confidentiality can be a tricky proposition for a researcher accustomed to open, free

exchanges of information in a public university setting. Any disclosure of proprietary information, either intentionally or unintentionally, may be actionable under both criminal and civil law. Therefore, it is essential to limit the amount of confidential proprietary information received when consulting, to agree in advance to receive it, and to have the company agree to clearly identify such proprietary information by marking it as "confidential." It is recommended that consulting agreements include a statement about the transmission of proprietary information and a "no-fault/no liability" statement regarding unintentional disclosure.

Liability

Consultants are normally asked to provide advice to the company, which may or may not be accepted. Usually the consultant has no control over how the results are used in practice. Therefore, agreements should limit the consultant's responsibilities to negligent acts on his or her part only. Under no circumstances should a consulting agreement include general liability or liability for any product produced based on the consulting activity. It is recommended that a consultant have personal insurance for the liability exposure faced as a consultant. The University will not be responsible for providing legal help or for payment of any claim arising from a dispute with the company.

California State Law Provision

Most consulting agreements will indicate that the laws of a particular state or country will be used in a dispute, usually those of the state where the firm is located or where the consulting is taking place. If it is other than California, the litigation of any dispute likely will physically take place in that state or country. As this could be very costly and disruptive to the consultant, it is important to try to include a statement in a consulting agreement that in the event of a dispute, California laws will apply. If choice of venue cannot be negotiated in that way, then the agreement may remain silent on that issue.

Allowable Consulting Days

As delineated in the *University Policy on Conflict of Commitment and Outside Activities of Faculty Members* (APM 025), full-time faculty members on a nine-month appointment may engage in compensated consulting activities for 39 days during the academic year. Full-time faculty members with fiscal-year appointments may engage in compensated consulting for 48 days for the entire year. Faculty members may consult full-time during the summer months in which there is no other salary compensation from the University (such as work on sponsored projects). Consulting activities of employees working at the National Laboratories may be subject to U.S. Department of Energy policies and procedures.

Amount of Compensation

The University does not set a cap on compensation from outside personal consulting arrangements, except as agreed upon under a health sciences compensation plan.

Conflicts of Interest

Faculty and other researchers should bear in mind that under the California Political Reform Act of 1974, a Principal Investigator must disclose whether or not there has been any consulting activity with a company when accepting research funding at the University from that company. The format for disclosure is the Principal Investigator's Statement of Economic Interests (Form 700-U).

As a separate matter, the National Science Foundation and the Public Health Service require that all investigators responsible for the design, conduct, or reporting on projects supported by funds from these agencies disclose any financial interests (including consulting income above \$10,000 in the prior twelve months) in entities that would reasonably appear to be affected by the work performed under the NSF or PHS project.

Thus, under both State law and NSF/PHS regulations, an existing or prior consulting arrangement might require that a proposed University contract or grant be reviewed and approved by a campus Independent Substantive Review Committee (ISRC) as to conflicts of interest concerns.

Reporting Consulting Activities

Under the *University Policy on Conflict of Commitment and Outside Activities of Faculty Members* (APM 025), faculty are required to submit annual reports on outside professional activities (to include consulting) to department chairs or equivalent unit heads.

For More Information

You may obtain additional information or seek answers to questions about this document from your campus or Laboratory sponsored projects or technology transfer office. Questions about scope of employment, student involvement, and other academic concerns relating to a proposed consulting activity should be directed to the appropriate dean or department chair.