

Office of the President

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA:

ACTION ITEM

For Meeting of September 17, 2020

AUTHORIZATION TO JOIN MULTI-UNIVERSITY MEMBER LLC TO FACILITATE LICENSING OF UNIVERSITY PATENT ASSETS

EXECUTIVE SUMMARY

The President of the University, on behalf of its Berkeley and Los Angeles campuses, seeks approval from the Regents for the University of California (UC) to have authorized campuses each participate as a member of a new limited liability company (LLC). Expected to be formed with thirteen other U.S. research institutions, the purpose of the LLC is to facilitate the commercialization of certain patent assets. The membership of the LLC is limited to nonprofit research institutions, government entities, and other tax-exempt organizations. The LLC will be a new means of potentially attracting commercial investment in UC-derived technologies that have not been successfully licensed via a bilateral “one patent, one license” transaction. The Regents are being asked to approve the participation of authorized UC campuses in the LLC pursuant to the Regents’ Bylaw 22.2(c).

RECOMMENDATION

The President of the University recommends that the Board of Regents approve of the following¹:

1. Approve the University of California’s participation as a member, on behalf of each of its Berkeley and Los Angeles campuses which will be separate and unique members, in a new limited liability company (LLC), which will:
 - a. Consist of a membership comprised of a number (currently approximately fifteen in total, including each of UC Berkeley and UCLA as unique voting members) of nonprofit and/or governmental entities, each of which will contribute self-selected patent assets, as well as potentially non-patentable subject matter, (collectively, “Contributed IP Assets”) to the LLC through a license agreement;
 - b. Offer industry access, via a single sublicense, to a vast array of exciting and potentially transformative intellectual property (IP) assets, including Contributed IP Assets from each of UC Berkeley and UCLA, with the goal of accelerating

¹ Board of Regents approval is contingent on the positive outcome of the business review by the Department of Justice’s Antitrust Division, as described in further detail in this Action Item.

innovation and facilitating commercialization by attracting commercial investment in technologies that have not otherwise been successfully licensed via a bilateral “one patent, one license” transaction by either of UC Berkeley or UCLA;

- c. Take a variety of steps to ensure its licensing practices with respect to the Contributed IP Assets remain consistent with the mission and policies of UC, as well as the principles established by the Federal Bayh-Dole Act, such as translating research into useful products and services for societal benefit, encouraging adoption via startups and small businesses, utilizing an “added-value” licensing strategy, and facilitating ongoing research and consulting collaborations with faculty;
 - d. Be represented primarily by a law firm retained by the LLC to handle the licensing agreements of the Contributed IP Assets as well as any litigation that may arise, provided each member of the LLC retains sole discretion over whether any of its contributed assets are included in litigation;
 - e. Work with a litigation finance firm (via a contractual relationship with the LLC) to provide capital and advisory services related to evaluating the expected economic benefits or costs of pursuing licensing, disputes, litigation and arbitration, and the strength and weaknesses of claims, in relation to Contributed IP Assets; and
 - f. Unless otherwise approved by requisite vote of the LLC members (as described in detail at the end of this Action Item), be prohibited from, among other things, admitting new members, incurring debt in excess of \$1,000,000, using LLC funds to extend credit or make loans (other than any intercompany loans), or transferring or selling the Contributed IP Assets to third parties, thus providing the members with certain control over the Contributed IP Assets to enable them to which can be an additional guard against “patent trolling” activity.
2. Authorize the President of the University to approve the subsequent participation of other UC campuses in the LLC, subject to UC campus interest and acceptance of any such campus by requisite approval of the members of the LLC.
 3. Authorize the President, which authority (subject to the terms hereof) may be further delegated to the Chancellors of UCLA, UC Berkeley and any other UC campuses that subsequently participate in the LLC, after consultation with the Office of the General Counsel and the Office of Research and Innovation, to approve and execute: (i) any documents reasonably required to accomplish the above; and (ii) any modifications, addenda, or amendments (collectively, “amendments”) thereto; provided such amendments or other documents are materially consistent with the terms and conditions set forth above; provided, further, that the President is solely authorized to make any appointments on behalf of the UC and any of its campuses to the board of the LLC; and, provided further, UC Berkeley, and UCLA and any other UC campuses that subsequently participate in the LLC are not authorized to directly contribute any UC Berkeley, UCLA or any other UC

campus funds towards the operations of LLC (other than those generated by the LLC and applied towards operations in accordance with the LLC Agreement).²

BACKGROUND

1. Introduction

Over the past three years, UCLA and UC Berkeley have been working with approximately thirteen other U.S. nonprofit research institutions that are either, governmental entities, and/or other tax-exempt organizations to form and launch the LLC. The LLC will allow leveraging patent-pool licensing best practices, such as offering bundled royalty rates which provide an effective lower per-patent royalty cost, and minimizing the transaction cost and personnel commitment of negotiating and executing one license agreement for the intended patent bundle versus the cost of obtaining the licenses with multiple, separate universities. The LLC is designed to encourage collaboration amongst the tech industry and various leading nonprofit research institutions, government entities, and other tax-exempt organizations that participate in the LLC. Ultimately, UCLA and UC Berkeley envision that the LLC will provide a useful mechanism for the campuses to use when traditional efforts to successfully license a patented technology that falls within the industry focus of the LLC have been exhausted.

The LLC is being formed to enable industry to license cutting-edge technologies more easily from some of the world's leading research institutions. The patent pooling (e.g., bundled patents) approach offered by the LLC is viewed as a potentially successful model for commercializing intellectual property in the high-tech physical sciences and engineering industry sectors. In these sectors, in contrast to discrete drugs/biotherapy innovations, a single high-tech product is likely to be covered by numerous patents requiring the commercializing entity to negotiate distinct licenses with multiple entities. While an individual patent may be deemed to be of nominal value, curated patent bundles offer integrated technologies that may be of much higher value to a potential licensee. Furthermore, patent bundles reduce barriers to licensing complexity and transactions costs, thus creating a compelling value proposition. The LLC will be a new means of potentially attracting commercial investment in technologies from the Berkeley and Los Angeles campuses that have not been successfully licensed via a bilateral "one patent, one license" transaction.

The LLC is seeking a Business Review Letter from the Antitrust Division ("Division") of the Department of Justice ("DOJ") concluding that LLC's licensing program, as proposed, does not raise U.S. antitrust law concerns that would warrant investigation or enforcement action by the Division. LLC does not believe that it or its operations raise any competition concerns, but receipt of the Business Review Letter will be a gating item to consummating the transaction. A response

² Any initial participation in the LLC will be solely through UC Berkeley and UCLA. As such, this Regents Action Item is drafted from the perspective of participation by those two campuses, even though delegation of authority to the President to allow other UC campuses to potentially participate in the LLC in the future is being sought from The Regents. Acceptance of other campuses as participating members of the LLC would require support of the Chancellor and, as applicable, Vice Chancellor of as well as approval of two-thirds of the members of the LLC. There are no assurances that any such LLC member approval will be obtainable.

from the DOJ is expected in late September/early October. If a favorable response is received from the DOJ, LLC expects to quickly launch thereafter.

Moreover, a variety of steps will be taken to ensure its activities remain consistent with the mission and policies of UC, as well as the principles established by the Federal Bayh-Dole Act, such as translating research into useful products and services for societal benefit. To encourage adoption, the LLC will focus on non-exclusive sublicenses, utilizing an “added value” licensing strategy allowing a sublicensee to select patent assets (and only those assets) which benefit its business, and facilitating ongoing research and consulting collaborations with faculty.

The Chancellors and the Vice Chancellors of Research of UC Berkeley and UCLA have been informed by their respective technology transfer office directors about participating in the LLC. The Chancellors have each signed a letter of support. UCLA also sought and received approval from the Board of Directors of the UCLA Technology Development Corporation, a separate nonprofit organization that provides oversight and direction to the activities of UCLA’s Technology Development Group.

Based on the foregoing, in this Action, the Regents are being asked to approve the participation of UC in the LLC pursuant to Regents’ Bylaw 22.2(c). The Regents are also being asked to delegate authority to the President to approve the subsequent participation of other UC campuses in the LLC, subject to UC campus interest and acceptance of any such campus by requisite approval of the members of the LLC. Further, the Regents are being asked to delegate authority to the President, which authority is expected to be further delegated by the President to the Chancellors of UC Berkeley, UCLA and any other UC campuses that may be subsequently permitted to participate in the LLC, to execute any and all agreements related to the participation of UC in the LLC.

2. Benefits and drawbacks of participating in the LLC

Membership in the LLC has broad benefits. The first benefit includes the ability of the LLC to raise the profile of valuable inventions owned by participating universities that might otherwise not be known outside of academia. By bringing this IP to the attention of industry participants, the LLC can actively encourage companies to bring these inventions to the marketplace. Importantly, the patent assets that UCLA and UC Berkeley will initially contribute to the LLC have been heavily marketed and yet remain unsuccessfully licensed. The LLC would therefore provide another mechanism for these campuses to get these technologies into the marketplace.

A second benefit is that the LLC may further accelerate innovation and facilitate commercialization of Contributed IP Assets. Industry participants can access a vast array of exciting and potentially transformative IP assets via a single license. Due to this approach, UCLA and UC Berkeley view the LLC as an opportunity to attract commercial investment in its technologies that have not otherwise been successfully licensed via a bilateral “one patent, one license” transaction. From a broader perspective, reducing the barriers for industry to access patented technology achieves a primary goal of the patent system: encouraging new innovation and improvements. This has obvious benefits to state, regional and local economies.

A third possible benefit is an improved relationship with industry and other commercialization partners. The LLC processes offer a more transparent, streamlined approach to negotiating complex license agreements. Negotiating license agreements for individual patents through universities tend to be unacceptably cumbersome such that many companies turn away and lose interest. One of the institutions leading this effort has experience participating in a patent pool, which has greatly enabled the LLC to be better prepared and anticipate potential challenges post-launch. Note, however, that the arrangement could have an adverse effect with certain industry and commercialization partners as described in the “cons” below.

Finally, should the LLC’s efforts be successful, participating members will raise revenue that can support continued research activities at their home research institutions. Participation in the LLC is expected to be limited exclusively to public and other tax-exempt academic and research institutions; thus, these revenues represent a return on taxpayers’ contributions to inventions.

A summary of the pros and cons of UCLA and UC Berkeley participating in the LLC appear below:

<p><u>PROS:</u> UCLA and UC Berkeley will gain an opportunity to <i>potentially</i>:</p> <ul style="list-style-type: none">• successfully license patent assets that would otherwise likely be abandoned,• recover sunk patenting costs with respect to the Contributed Patent Assets (although UC Berkeley and UCLA have noted they do not expect any significant revenues from this arrangement),• participate in an innovative model with other leading research institutions,• build and expand relationships with industry members, e.g., involvement may lead to industry affiliate programs, sponsored research, gifts, and student employment (however, it’s possible the arrangement could have an adverse effect as per the listed “cons”),	<p><u>CONS:</u> The University <i>may</i> incur:</p> <ul style="list-style-type: none">○ negative publicity, e.g., allegations may arise that the LLC’s activities are tantamount to a patent troll³ or if LLC were to initiate an enforcement or other action against any entity with which the UC has a significant relationship (e.g., LLC may commence litigation against material UC donors, even where the UC has opted not to include its IP in the litigation matter); risk mitigation strategy includes the fact that LLC members retain discretion about whether UC’s IP will be included in litigation.⁴
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³ Patent trolls are often characterized as companies who do not make and sell products/services themselves that use patent infringement claims to win court judgments for profit or to stifle competition.

⁴ LLC seeks consensual licensing arrangements and has noted it will pursue infringement litigation only where consensual licensing efforts fail. Where litigation is considered, members will make individual—not group—determinations about whether a member will participate in litigation in accordance with a detailed process set forth in the Contribution Agreement. Members that participate in litigation may be entitled to certain increased revenue distributions from LLC.

<ul style="list-style-type: none">• gain a potential financial upside (for participating, UCLA/UC Berkeley will receive a portion of LLC revenues even if no UC patent assets are licensed or litigated in a curated bundle), and• demonstrate the UC tech transfer unit's commitment, as expressed to the Provost, President, and Regents' Innovation Group, to taking creative approaches to seek to increase licensing revenue. <p>Further, any burdens on the UC system created by campuses choosing to license through an LLC structure are no greater than licensing through any other form of a patent pool.</p>	<ul style="list-style-type: none">• administrative burden involved in participating in the LLC, however:<ul style="list-style-type: none">○ the bulk of the required efforts have already been incurred – going forward such efforts would be incurred primarily by UCLA's and UC Berkeley's technology transfer offices in the normal course of business• costs of participating in the LLC. While there is little to no out-of-pocket expenses required for membership, the extent of the member's financial upside may depend on the member's voluntary financial contributions to the LLC, e.g., to cover litigation expense.⁵• Potential (and campus expectation) for low revenues, given UC's mixed performance record in prior patent pools and that the campuses have identified very few patents in the initial target areas
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3. The LLC's operational framework

The LLC will be governed by a five-member Board of Directors solely comprised of appointed representatives from member institutions. Appointments will rotate periodically. There are many benefits to participating on the Board, e.g., increased opportunities to provide input and drive decisions, closer collaborations with participating university colleagues, etc. However, UC Berkeley and UCLA have indicated that they would be willing to forego any Board seat(s) that may be offered to either of the campuses from time to time, if that would ease approval of this Action Item.

The LLC will be represented and advised by a law firm previously selected through a request-for-proposals process. It will be retained through contract and compensated (and expenses recouped) from revenues earned by the LLC. The law firm will work closely with the LLC's Board of Directors and any related board subcommittees to handle the licensing (pursuant to a standard form of non-exclusive sublicense agreement or on terms as otherwise approved by the LLC Board) and any litigation of any Contributed IP Assets approved by a member; provided there are no legal conflict of interest. The LLC also will enter a contract with a litigation finance firm to provide capital and advisory services related to evaluating the expected economic benefits or the costs of

⁵ If the LLC is required to withhold taxes on amounts that are not currently distributable, on the Board's request, the member must contribute the amount required to be withheld or paid to the LLC.

pursuing licensing, disputes, litigation, and arbitration. Neither the law firm nor the litigation finance firm will become members of the LLC – such relationships will be defined as set forth in the applicable vendor contracts. Neither the law firm nor the consultants are or will become members of the LLC – such relationships will be defined as set forth in the applicable vendor contracts.

Each curated bundled technology pool within the LLC is expected to have its own subcommittee consisting of the members who have Contributed IP Assets in such pool. The Board and subcommittees plan to meet once per quarter, alternately in person (circumstances permitting) and by phone, and would be available occasionally for email or phone advice on specific issues. The day-to-day management would be handled by the Board in consultation with the law firm retained by the LLC.

The LLC members have agreed to contribute self-identified Contributed IP Assets to the LLC by a worldwide exclusive license agreement (with certain exceptions); i.e., the LLC is the licensee of the Contributed IP Assets (such agreement, the “Contribution Agreement”). Through its processes the LLC will sublicense the curated bundled patents to industry and other customers. The sublicense agreements could be non-exclusive or exclusive. The rights of the LLC members include the following:

- Retain the right, under its own patents, to conduct academic research and engage in educational activities and grant licenses to, among others, universities, non-profits, and governmental agencies to do the same, independently or jointly with the member.
- In certain circumstances, grant non-exclusive licenses to companies who manufacture products that compete with products licensed by the LLC, which will allow those companies to continue their sales of those alternative products without fear of suit by the LLC.
- Agree to a standard sublicense template, with economic terms based on the number of patents licensed (discussed below). The intent is to be flexible on license terms to meet licensee needs once the LLC is disclosed.
 - These documents have been reviewed by the Office of the General Counsel and the Office of Research, Policy, Analysis and Coordination.
- Pre-approve patents and targets for which litigation is permitted. The LLC does not have the right to bring non-pre-approved litigation without consent of the nonprofit research institution owning the patent(s).

By contributing a patent, members grant LLC the right to enforce the patent, with certain veto rights retained by the member⁶.

⁶ The LLC, at its sole cost and expense and using counsel of its choice, generally has the sole right (but not the obligation) to enforce the licensed patents, including by sending notice letters and negotiating licenses with potential

The LLC does not have a fixed term. It continues in operation until the LLC or substantially all of its assets are sold to a third party, or until dissolved or terminated by unanimous approval of the members or court decree. The LLC members can withdraw from the LLC (i) with the consent of 2/3rds of the other members, (ii) if the LLC materially breaches the Contribution Agreement, or (iii) at the third, fifth and each third year anniversary thereafter (8th, 11th, 14th, etc.) of signing the applicable agreements, if the contractually defined revenue or other licensing targets are not met by those dates. Upon termination, the LLC will no longer have the right to enter into any new sublicenses with respect to any UC Contributed IP Assets. However, any sublicenses involving Contributed IP Assets executed prior to termination of membership still will be valid upon termination.

The LLC arrangement does not bar UC Berkeley, UCLA, or any other UC campus from entering into any other internal or external patent pool arrangements for any other patents in their portfolio.

4. The LLC's technology focus areas

The LLC will initially focus primarily on Contributed IP Assets in the following eight tech areas which will be launched in phases: connectivity, autonomous vehicles, data applications, electronic fabrication, applied electronics, batteries, photovoltaics, and robotics. As noted below, it intends to initially launch with a few technology-focused pools of Contributed IP Assets in order to test the marketplace, subsequently iterate based on feedback, and gain momentum. If these initial efforts are successful, additional technology pools will follow. Once each institution decides which assets to formally submit for inclusion, each asset will be reviewed for acceptance by the LLC based on certain factors, including how such proposed patent asset fits within the larger Contributed IP Assets.

The first three technology areas that will be launched for pooling and licensing are connectivity, autonomous vehicles, and big data. While the LLC has identified about 15 of UCLA's and UC Berkeley's technologies as being of interest to date, reviews of the proposed Contributed IP Assets are still underway. UCLA and UC Berkeley expect to have a higher number of assets in subsequent tech areas such as applied electronics, batteries, photovoltaics, and robotics, among others. Importantly, UC Berkeley and UCLA retain control over whether individual patent assets are included as Contributed IP Assets and will obtain the consent of the respective lead inventors of such assets before designating them as Contributed IP Assets.

5. The LLC's licensing practices and strategies

The LLC will take a variety of steps to ensure its licensing practices with respect to the Contributed IP Assets remain consistent with the UC mission and policies and the principles established by the Federal Bayh-Dole Act. These steps will prioritize translating research into useful products and services for societal benefit, encouraging adoption via startups and small businesses, "added value" licensing, and facilitating ongoing research and consulting collaborations with faculty.

sublicensees. The LLC must obtain permission from each individual patent owner before it can file suit, and the patent owner member may freely opt out at that time.

To affect “added-value” licensing outcomes, the LLC will follow these practices:

- The LLC expects to offer a lower per-patent royalty rate to sublicensees choosing a portfolio-wide license or a license to a sub-portfolio patent group. This “pricing policy” will, in effect, provide significant discounts for a broader set of patent rights for adoption by startups and small and medium sized enterprises than would normally be possible through individual patent licensing.
- Unless otherwise approved by requisite vote of the LLC members (as described in detail at the end of this Action Item), be prohibited from, among other things, admitting new members, incurring debt in excess of \$1,000,000, using LLC funds to extend credit or make loans (other than any intercompany loans), or transferring or selling the Contributed IP Assets to third parties, thus providing the members with certain control over the Contributed IP Assets to enable them to which can be an additional guard against “patent trolling” activity. See other actions requiring member approval as set forth at the end of this Action Item.
 - Also, the standard Sublicense Agreement provides that the LLC retains the sole right and discretion to enforce any licensed Contributed IP Assets against third parties. The representing law firm would need to obtain the LLC’s prior written consent before entering into any sublicense agreement that would enable the sublicensee to enforce any licensed Contributed IP Assets against third parties.
- However, it may be advisable to consider patent infringement litigation where the LLC patent asset pool is clearly being used without the appropriate license rights being contractually engaged. Thus, the law firm will request to have a pre-commitment from the members for a subset of the patents to be able to be placed into litigation against pre-determined targets, should those business negotiations fail. For clarity, such pre-commitment has not yet been sought from the proposed LLC members. Accordingly, when the law firm is collecting the licensing rights to the broader technology pool, they will request from the members that a specific subset of those assets be pre-authorized for litigation purposes against named targets.
 - For Contributed IP Assets contemplated to be included in litigation, the members will be able to grant litigation rights **or withhold them at their sole discretion at that time**. Those members willing to allow their assets to be used in this manner will receive an additional share in any returns. Any litigation decisions will be made in consultation with the LLC’s Board and the universities that have assets in that technology pool to ensure that best efforts were made to achieve a voluntary license at a reasonable price. The University’s Office of General Counsel has final authority to approve the filing of any litigation involving Contributed IP Assets owned by the University.
 - As per UCLA and UC Berkeley, based on conversations among the contemplated LLC members and the law firm, it is also the expectation that no enforcement action will be undertaken against startups or small business firms.

- Any enforcement action would be undertaken solely at the expense of the contingency counsel or private financing unless a member voluntarily agrees to contribute financially to the LLC to cover litigation expenses. There is no expectation that the institutions will be required to contribute directly; however, a member that voluntarily participates in such litigation may receive additional financial upside from the LLC. Litigation expenses will be recovered out of the revenue from the action before any distributions of said revenue are made. Arrangements will be made to insure that any participating member may have direct input to address invalidity/nullity claims or counterclaims and any *inter partes* review or similar actions that may be instituted.
- Consent of all members is required for certain significant matters, such as filing for bankruptcy, liquidation or dissolution, acquiring assets other than the contributed patents, and modifying the economic terms of the LLC and materially amending the rights or obligations of the Board or members.
- Consent of two-thirds of members is required for, among other things, admitting new members, allowing for the voluntary withdrawal of a member, incurring debt above \$1 million, using LLC funds to extend credit or make loans (other than any intercompany loans), or transferring the LLC interests. This is not intended to exclude universities, but a vote is required to ensure manageability of the LLC and value to the licensed patent portfolios.
- Consent of a majority of the members is required to call a Member meeting other than to fill a Board vacancy, enter into any transaction with an affiliate of a member, except in connection with the licensing and sublicensing of the patents, and any election by the Partnership Representative (who handles tax, audit and similar matters) that would result in additional financial obligations of members.
- Consent of the specific member having an ownership interest in a Contributed IP Asset is required before the LLC enters into exclusive sublicenses, makes any material changes to any approved sublicense agreement that sublicenses or otherwise transfers rights to or in such member's patents, takes any steps to initiate litigation of that member's patents unless preapproved, and any amendments to the LLC Agreement that would have a discriminatory adverse effect on such member or impose a new material financial liability or economic obligation on such member.

Subject to the foregoing member approvals, the business and affairs of the LLC are managed, operated and controlled by or under the direction of the Board.

Subject to certain conditions and caveats further detailed in the applicable agreement, licensing revenues will be distributed in a fashion that takes account of the members' contribution to the overall program, as well as specific licenses. Inventors will receive their inventor share under the University's Patent Policy in a manner that is consistent with how licensing revenues have been handled in prior consortium-like arrangements.

Key to Acronyms

DOJ	Department of Justice
IP	Intellectual Property
LLC	Limited Liability Company