

17.01 Intellectual Property Management and Commercialization



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Policy Statement

This policy assures that the new ideas, discoveries and technologies arising from research conducted as a part of the educational process are used in the best interest of The Texas A&M University System (system), its members, and the public it serves.

Reason for Policy

This policy addresses the ownership and management of intellectual and tangible research property.

Procedures and Responsibilities

1. GENERAL POLICY STATEMENTS

1.1 Introduction

The system is committed to teaching, inquiry-driven learning and the research associated with it, and public service. Research is one of the most important and rewarding aspects of the educational process, regularly leading to the development of new ideas, discoveries and technologies with the potential to benefit the public at large.

This policy is based on three fundamental principles: enhancing academic freedom, providing a clear pathway for pursuing technology commercialization, and protecting all interested parties. To that end, the purposes of this policy are to:

- (a) ensure that the commercial development of research results enhances the system's education, research and public service missions;
- (b) protect the academic freedom of faculty with respect to the publication of their research findings;
- (c) foster an entrepreneurial environment, through incentives and protections, that encourages the creation, discovery, development, and rapid transfer of new knowledge for the public benefit;

- (d) educate and assist faculty, staff and others in the use of the patent system with respect to their discoveries and inventions; and
- (e) establish the principles for determining and protecting the interests of the system, creator, and sponsor with respect to discoveries and inventions created by faculty, staff and others in a manner that is equitable to all parties.

The Office of Technology Commercialization (OTC) was created in December 2005 to facilitate technology transfer for the system. It is the mission of the OTC to encourage broad practical application of system research for public benefit; to encourage and assist those associated with the system in the protection, licensing and commercialization of their discoveries; to ensure the equitable distribution of royalties and other monetary benefits resulting from the commercial application of intellectual property; and to see that commercialization activities benefit the research, education and outreach missions of the system into the future.

1.2 Applicability

This policy applies to all employees of the system and its members, including, but not limited to, full and part-time faculty and staff; and all persons using system facilities under the supervision of system personnel, including visiting and adjunct faculty and researchers, undergraduate students, candidates for master's and doctoral degrees, post-doctoral students, and non-degree seeking graduate students; provided, that visiting and adjunct faculty may be excluded in a written agreement negotiated by the system or its member in advance of employment or visitation. The ownership and rights to technology-mediated materials are governed by System Regulation *17.02.02, Technology-Mediated Instruction*.

2. OWNERSHIP OF INTELLECTUAL PROPERTY AND TANGIBLE RESEARCH PROPERTY (TRP)

Rights in intellectual property and TRP are as follows:

2.1 Creator or Third Party-Owned

2.1.1 Intellectual property which is unrelated to an individual's employment responsibilities and developed on his or her own time without the support of the system or any of its members or significant use of their facilities as defined in Section 2.2.3 of this policy is owned by the creator, subject to the rights of third parties.

2.1.2 The system recognizes and affirms the traditional academic freedom of its faculty and staff to publish pedagogical, scholarly or artistic works without restriction. In keeping with this philosophy, the system does not claim copyright to pedagogical, scholarly or artistic works, regardless of their form of expression, unless required by a funding or research contract. Such works include, but are not limited to, faculty-prepared works such as textbooks, course materials and refereed literature, and works of students created in the course of their education, such as dissertations, papers and journal articles. Furthermore,

the system claims no ownership in popular nonfiction, novels, poems, musical compositions, or other works of artistic imagination that do not constitute significant use of resources and/or are not “work for hire” as defined in Section 2.3.1 of this policy.

2.1.3 If an author retains title to copyright in teaching or course materials that are not works for hire, such as class notes, curriculum guides and laboratory notebooks, the system will retain a royalty-free right to use the materials for educational purposes.

2.1.4 Authors of copyrightable works that are not owned by the system, its members, or another party such as a research sponsor, own the copyright in their works and are free to publish them, register the copyright, and receive any revenues which may result.

2.2 System-Owned

2.2.1 Except as otherwise expressly provided in this policy, intellectual property conceived or developed (1) as a result of activities related to an individual's employment responsibilities, and/or (2) with support from the system or any of its members in the form of administered funds, and/or (3) with significant use of resources as defined in Section 2.2.3 of this policy shall be owned by the system.

2.2.2 Intellectual property that is conceived or developed in the course of or resulting from research supported by a grant or contract with the federal government (or an agency thereof) or a nonprofit or for-profit nongovernmental entity, or by a private gift or grant to the system or its members, shall be determined in accordance with the terms of the sponsored grant or contract, or in the absence of such terms and to the extent consistent with applicable law, shall be owned by the system.

2.2.3 Intellectual property that is not institutional work or “work for hire” as defined in Section 2.3.1 of this policy, but is work that is developed with integral and significant use of funds, space, hardware, or facilities administered by a system member, where use was essential and substantial rather than incidental, shall be owned by the system. The system will not construe the provision of salaries, offices, or library facilities as constituting significant use of system resources, and therefore these works may be owned by the creator in accordance with Section 2.1.2.

2.3 Member-Owned

2.3.1 Intellectual property that is either: (1) created by an employee who was hired by a member specifically or required as part of his or her employment to produce intellectual property for institutional purposes; or (2) commissioned or contracted by the system member and assigned to the member in writing, will be owned by the system member on whose behalf the work was performed. For example, work assigned to programmers is “institutional work” or “work for

hire” as defined by law, as is software developed for the system member by staff working collaboratively. Brochures, training programs, CD-ROMs, videos, and manuals developed by staff are other examples of institutional works, or “works for hire.” The general expectation that faculty teach, research, and publish does not by itself make intellectual property an institutional work or work for hire under this Section 2.3.1. The system member is responsible for the commercialization of all institutional works or “works for hire.”

2.3.2 The system member that first adopts and uses a trademark in connection with its goods or services will own that trademark.

2.4 Intellectual Property Involving Sponsored Research

2.4.1 Except as provided by Section 2.4.3, intellectual property conceived or developed in the course of or resulting from research supported by a grant or contract with the federal government (or an agency thereof) or a nonprofit or for-profit nongovernmental entity shall be owned by the system. The research sponsor or third party should be offered an option to acquire license rights to develop and commercialize any intellectual property resulting from the project, subject to system policy and in accordance with the licensing guidelines in Section 4.3 of this policy.

2.4.2 The OTC, in coordination with the sponsored research offices of the system members, shall ensure that all reporting requirements and other obligations to research sponsors regarding intellectual property, including but not limited to obligations to the US Government under 37 CFR 401, are met. Intellectual property developed under sponsored research should be promptly disclosed to the OTC through the relevant system member chief executive officer (CEO) so all sponsor requirements and obligations can be met.

2.4.3 The acceptance of a contract, grant or agreement which does not require ownership of intellectual property by the system, may be approved by the OTC or by a member CEO, or designee, with notification to the OTC, if the benefit from the level of funding for proposed research and/or other consideration from the sponsor, licensee, or other party outweighs the potential value of system ownership.

2.5 Intellectual Property Arising from Consulting Activities

The system encourages external faculty consulting as an effective mechanism for professional development and for establishing good relationships with industry. Before entering into a consulting agreement, special attention should be given to the terms of any agreement to ensure that the assignment of rights to intellectual property resulting from the consulting activities does not conflict with this policy. Additionally, external employment is subject to the provisions of System Policies *31.05, External Employment and Expert Witness*, and *33.04, Use of System Resources*, and System Regulations *31.05.01, Faculty Consulting, External Employment and Conflicts of Interest*, and *33.04.01, Use of System Resources for External Employment*.

2.6 Tangible Research Property

The system owns TRP related to an individual's employment responsibilities and/or developed with support from system-administered funds, facilities, equipment or personnel. Prior to the transfer, distribution and/or sale of system-owned TRP, the creator of the TRP must notify the OTC through his or her CEO. The system member and the OTC will review the developmental history of the TRP to assess any system obligations and to determine the conditions of such proposed transfer, distribution or sale.

If the TRP is determined by the system member and the OTC to have commercial value, it will be managed by the OTC as system intellectual property, including licensing and distribution of income from commercialization in accordance with Sections 4.2, 4.8.1 and 4.8.2.

If the system member and the OTC determine that the TRP can be distributed or sold outside of the system for non-commercial research purposes with no financial consideration beyond the recovery of costs associated with shipping and handling, the system member will manage and facilitate the transfer and distribution with assistance from the OTC as needed.

Any transfer, distribution or sale of TRP for commercial purposes must include a written agreement between the system and the recipient of the TRP, and any transfer or distribution of TRP for non-commercial purposes must include a written agreement between the system member and the recipient of the TRP.

2.7 Multiple Creators

In the event of multiple creators, the creators will agree between or among themselves as to the ownership rights and benefits accruing to the creators consistent with the terms of this policy; and final determination of each creator's share shall be made only upon receipt by the OTC of a signed agreement between the creators. In the event that the creators cannot agree upon an appropriate sharing arrangement as evidenced by a clear and unequivocal written agreement within three (3) months of the first receipt of royalties or license fees, that portion of income to which the creators are entitled under Section 4.8 of this policy will be distributed as the system member CEO may deem appropriate under the circumstances. Such a decision shall be binding on the creators.

2.8 Joint Employment

In the event that a creator is a joint employee of two or more system members, or in the event that multiple creators represent two or more system members, the member CEOs will agree as to the ownership rights and benefits accruing to the members, considering such factors as annualized FTE by member, relative contributions of the creator to the work and level of financial support by the member. If the member CEOs cannot agree upon the appropriate sharing arrangement, the chancellor or designee will make the decision as deemed appropriate under the circumstances and such decision shall be binding on the members.

2.9 Offers of Intellectual Property

2.9.1 If an owner of intellectual property chooses to offer to the system intellectual property in which the system has no claim, the system may accept ownership of the intellectual property provided that: (1) the owner makes the offer through one of the system members as if the intellectual property had been created within the system; (2) the owner agrees to all provisions (including distribution of income provisions) of this policy; (3) the owner warrants that he or she owns all right, title and interest to the intellectual property, and that to the best of his or her knowledge, the intellectual property does not infringe upon any existing intellectual property legal rights, and (4) the gift is accepted by the system Board of Regents (board) pursuant to System Policy 21.05, *Gifts, Donations, Grants and Endowments*.

2.9.2 The system member CEOs shall advise the OTC of all such offers.

2.9.3 Should the board agree to accept the offer of intellectual property on behalf of the system, the owner will execute an assignment agreement transferring all right, title and interest in the intellectual property to the system, and acknowledging that the owner agrees to all provisions of this policy. In cases in which the owner has already expended funds toward obtaining patent or other legal protection for the intellectual property, the owner and the system member may negotiate terms to allow recovery of legal and/or patent expenses from license fees and/or royalty income. Such an agreement would modify normal royalty sharing provisions until such expenses are recovered by the party entitled to recovery of the expenses.

2.9.4 The board may accept charitable donations of intellectual property from governmental or private organizations in accordance with System Policy 21.05. Upon the transfer of title in the intellectual property to the system, the intellectual property will be managed in accordance with this policy.

2.10 Software

The system may assert ownership in software as an invention or as a copyrightable work.

3. EVALUATION AND PROTECTION OF INTELLECTUAL PROPERTY

3.1 Responsibility

The OTC is responsible for administering the system's rights and obligations, evaluating the commercial potential, determining inventorship, obtaining the necessary legal protection, and taking the required actions to maximize the benefits of any intellectual property to the public, the creator(s), the system and its members. The OTC will also advise the creator(s) and the system members on the process and best practices of protecting and commercializing intellectual property.

3.2 Disclosure

Individuals subject to this policy are required to promptly disclose to the OTC, through their CEO, all inventions, copyrightable work, and tangible research property in which the system has an ownership interest under the provisions of Section 2 of this policy, or for which disclosure is required by contract or law. Prompt disclosure is especially important for inventions conceived and/or made with federal or state agency funding so that the system may meet its legal obligations under such funding agreements.

Questions about whether an idea or discovery constitutes an invention, and is therefore patentable, can be complex. Any publication or verbal disclosure that describes a patentable invention prior to filing for patent protection may entirely preclude patenting in foreign countries and may also preclude protection in the United States unless a patent is filed within one year of publication. In recognition of this complexity, individuals covered by this policy are encouraged to disclose as soon as possible after the conception of the invention or seek guidance from a technology licensing professional at the OTC as soon as questions arise as to what is patentable and what must be disclosed to the OTC.

Disclosure shall be made in a form prescribed by and available from the OTC, include a full and complete description of the discovery or development, and identify all contributing participants. Disclosure will initiate the evaluation process. Disclosure forms are available on the OTC website.

3.3 Disclosure Evaluation Process

Upon receipt of a completed disclosure form, the OTC will conduct a review of the disclosure to determine the rights and obligations of all parties concerned and the commercial significance of the discovery, and will evaluate patentability issues. The first step in this process is typically a meeting with the creator(s) to better understand the disclosure's scientific and commercial merit and, if necessary, devise strategies for protection, development and commercialization. It is the obligation of the creator(s) to make available to the OTC additional information as needed in all stages of this process.

The OTC will inform the creator of the outcome of its review regarding rights and obligations as soon as practical, but no later than ninety (90) calendar days from receipt of a complete disclosure in the case of inventions and tangible research property and no later than sixty (60) days in the case of works subject to copyright.

System members are encouraged to review disclosures for scientific and commercial merit and share the results with the OTC to assist in the management of intellectual property owned by the system.

3.4 Assignment of Rights

All persons subject to this policy shall, upon request by the chancellor, the CEO, or designee of the respective member or the OTC, execute an assignment agreement available through the OTC to set forth effectively the ownership and rights to intellectual property.

3.5 Protection of Intellectual Property

3.5.1 The system will not generally seek protection for innovations that the OTC determines are not commercially attractive, even if the intellectual property has intellectual merit, unless required by the sponsor or the member CEO, in which case the sponsor or the member shall pay all related costs associated with protecting the intellectual property. The vice chancellor for federal relations and commercialization (VCFRC) shall notify the relevant system member CEO of his/her decision; if the decision is not to seek protection, the CEO, or designee, shall notify the OTC if the system member requires the OTC to seek protection.

3.5.2 The OTC may fund all of the costs associated with the protection of intellectual property subject to ownership by the system, or it may request funding at any time from the member originating the intellectual property. Unless the system member is requiring protection of the intellectual property, the decision whether to provide such funding shall be at the discretion of the member CEO, or designee. In either case, costs associated with the protection of the intellectual property will be recovered for the funding party before distributing royalties, license fees or sale proceeds as outlined in Section 4.8.

4. COMMERCIAL DEVELOPMENT

4.1 Creator Assistance

With few exceptions, the creator's involvement in the commercialization process is critical to success. The creator's subject matter expertise, industry contacts, and ongoing research often facilitate commercialization. Successful commercialization requires that the OTC, system member and the creator(s) all work in consultation with one another.

4.2 Licensing of Inventions and Copyright to Third Parties

Licensing intellectual property to third parties is the most common strategy for technology transfer. In the case of exclusive licensing, the third party is given the necessary rights to justify the often significant investment of time and resources in the commercial development of the technology. Given the breadth of research taking place within the system, and the diversity of the intellectual property created, each license agreement is somewhat unique to the technology being licensed. However, there is a need to ensure consistency with respect to certain legal principles in each agreement.

4.2.1 The OTC and the System Office of General Counsel (OGC) shall cooperatively develop a model license agreement for licensing system intellectual property which shall include, as a minimum, the guidelines set forth below. The model agreement shall be submitted to all potential licensees for system intellectual property, and individuals involved in negotiation of license agreements shall endeavor to achieve utilization of the significant aspects of the model agreement for all licenses of system intellectual property under the administration of the

OTC. Any exceptions to the model agreement, other than special terms set out in a system member-approved sponsored research agreement, must be approved by the VCFRC and the OGC.

- 4.2.2 In the case of member-owned intellectual property, the licensing guidelines in Section 4.3 do not apply. The system member has the primary responsibility and authority, with assistance from the OGC, for negotiating with third parties having an interest in using, developing or otherwise commercializing intellectual property resulting from institutional works or “works for hire” and trademarks. The system member CEO, or designee, may also request that the OTC conduct the commercialization of certain intellectual property resulting from institutional works or “works for hire.”

4.3 Licensing Guidelines

The following guidelines are applicable to license agreements with private entities including those formed primarily for the purpose of developing and/or commercializing system-owned intellectual property. The VCFRC may approve exceptions to these guidelines from time to time:

- (a) No entity shall be granted the exclusive right to the development and/or commercialization of all intellectual property created at a system member. Agreements should grant rights only under specified projects.
- (b) If an entity is granted the exclusive rights with respect to a particular invention, product, process, utility, methodology, or other item of intellectual property, the agreement should provide that such rights will revert to the system in the event the entity fails to develop and commercialize the property within a specified period of time that is appropriate to the particular circumstances as determined by the OTC.
- (c) An entity that is granted exclusive rights to develop or commercialize intellectual property that is patentable should be required to reimburse the system for all expenses incurred by the system in obtaining a patent or, if a patent has not been obtained, should be required to prosecute and bear the expense of obtaining patent protection for the benefit of the system and, in either event, the entity should be allowed to take all actions necessary, including litigation, to protect and preserve such patented rights from infringement.
- (d) The system, the member, and the employees of each should be protected and indemnified from all liability arising from the development, marketing, or use of the particular intellectual property.
- (e) The OTC will work with the creator to ensure that the licensing process does not restrict publication rights of the creator.
- (f) An entity that grants a license or sublicense to some other entity for property or technology that is in whole or in part derived from or based on that which is licensed to the entity by the system, should be required to share with the system a minimum of 50% of any royalty received by the entity and 50% of any equity position to which the entity may be entitled.

- (g) Commitments should not be made for future inventions even when improvements are expected.

License agreements shall contain such other provisions as may be determined by the OTC and the OGC to be in the best interest of the system.

4.4 Licensing of System-owned Intellectual Property to Creators

Individuals subject to this policy may also request a license to commercially develop system-owned intellectual property they conceived where such licensing would best achieve the transfer of technology, is consistent with system obligations to third parties, does not involve a conflict of interest, and follows the licensing guidelines set forth above. For additional information on conflicts of interest, see System Policies *07.01, Ethics* and *07.03, Conflicts of Interest, Dual Office Holding and Political Activities*, System Regulation *31.05.01*, and Section 4.6 of this policy.

4.5 Waiver or Release of System Rights

Subject to any federal research or industrial sponsorship agreements and with appropriate approval from the sponsor, following notice and approval by the system member, the OTC may waive or release the system's rights to specified intellectual property for or to the creator(s), clearing the way for the creator(s) to seek ownership. At any time, a creator(s) may request a waiver or release of system rights in writing to the OTC, through the creator's member CEO, or designee. The following provisions will apply to any waiver or release of system rights:

- 4.5.1 The system shall retain a perpetual, royalty-free license to use the intellectual property and any corresponding patents, copyrights, service marks or trademarks for research, education and service purposes.
- 4.5.2 In the case of significant use of resources as defined in Section 2.2.3 of this policy, the system shall receive a share, to be negotiated at the time of waiver or release of system rights, of proceeds generated from commercialization of the intellectual property after the creator recovers documented out-of-pocket costs for obtaining legal protection for the intellectual property. If there was not a significant use of resources, no such share of proceeds shall be sought. Use of significant resources will be resolved by the system member CEO, or designee.
- 4.5.3 In the case of a waiver or release of system rights to the creator, the creator will not receive a share of the proceeds received by the system in consideration of the waiver or release of the system's rights.
- 4.5.4 Creators receiving a waiver of system rights should review potential conflicts of interest with their department head. For additional information on conflicts of interest, see System Policies *07.01* and *07.03*, and System Regulations *31.05.01, 15.01.03, Conflict of Interest in the Design, Conduct and Reporting of Sponsored Research and Educational Activities*.

4.6 Board of Regents Approval Requirement

In accordance with Texas Education Code, Section 51.912, a creator of intellectual property who wishes to participate as an employee, officer or member of the governing board or authority of a business entity that has agreements with the system relating to the research, development, licensing or exploitation of the creator's intellectual property must obtain approval from the board. See also System Regulation *31.05.01* for additional information.

4.7 Tangible Research Property

Commercial distribution of system-owned tangible research property will be managed by the OTC as an invention with distribution of income made in accordance with Sections 4.8.1 and 4.8.2 of this policy.

4.8 Distribution of Royalties, Fees, and Sale Proceeds from Licensing

Royalties, license fees and sale proceeds received by the system from the licensing or sale of intellectual property will be distributed at the end of each quarter in which they were collected.

The chancellor, subject to approval by the board may adjust the allocation of royalties, license fees and sale proceeds set forth herein.

4.8.1 Distribution of Royalties, License Fees and Sale Proceeds from Licensing or Sale of Patentable Inventions and TRP, Licensed or Sold Before June 1, 2006

Step 1 – Deduct from gross royalties, license fees or sale proceeds the cost of obtaining legal protection for the intellectual property (when such costs are not already paid in full by another source at the time of distribution) and payments to any third-parties to arrive at net income.

Step 2 – Distribute forty-two and one-half percent (42.5%) of net income to the creator(s) as personal income.

Step 3 – Distribute thirty-nine and one-half percent (39.5%) of net income to the system member supporting the research leading to the disclosure.

Step 4 – Distribute eighteen percent (18%) of net income to the OTC. This deduction is directed toward covering the administrative costs associated with evaluating, protecting, marketing and managing intellectual property.

4.8.2 Distribution of Royalties, License Fees and Sale Proceeds from Licensing or Sale of Patentable Inventions and TRP, Licensed or Sold On and After June 1, 2006

Step 1 – Deduct from gross royalties, license fees or sale proceeds the cost of obtaining legal protection for the intellectual property (when such costs are not already paid in full by another source at the time of distribution) and payments to any third-parties to arrive at net income.

- Step 2 – Distribute thirty-seven and one-half percent (37.5%) of net income to the creator(s) as personal income.
- Step 3 – Distribute thirty-seven and one-half percent (37.5%) of net income to the system member supporting the research leading to the disclosure.
- Step 4 – Distribute twenty-five percent (25%) of net income to the OTC. This deduction is directed toward covering the administrative costs associated with evaluating, protecting, marketing and managing intellectual property.

4.8.3 Distribution of Royalties, License Fees and Sale Proceeds from Copyrightable Works Licensed or Sold On and After June 1, 2006

- Step 1 – Deduct from gross royalties, license fees or sale proceeds the cost of obtaining legal protection for the intellectual property (when such costs are not already paid in full by another source at the time of distribution) and payments to any third-parties to arrive at net income.
- Step 2 – Distribute forty percent (40%) of net income to the creator(s) as personal income.
- Step 3 – Distribute forty percent (40%) of net income to the system member supporting the research leading to the disclosure.
- Step 4 – Distribute twenty percent (20%) of net income to the OTC. This deduction is directed toward covering the administrative costs associated with evaluating, protecting, marketing and managing intellectual property.

4.8.4 In those cases in which the OTC and the system member originating the copyrightable work agree that the system member will conduct the commercialization, the distribution of royalties, license fees and sale proceeds shall be determined by the system member.

4.8.5 Notwithstanding the provisions of Sections 4.8.1, 4.8.2, 4.8.3 and 4.8.4, the system member shall be entitled to all income from the distribution or commercialization of institutional works, “works for hire” and trademarks as defined in Section 2.3.1 of this policy.

4.9 Equity as a Consideration in Licensing

The OTC may negotiate an equity interest in lieu of or in addition to royalty and/or other monetary consideration as a part of an agreement relating to rights in intellectual property owned by the system. The system is not restricted in the percentage of equity it may take in a company as a part of an agreement relating to rights in intellectual property owned by the system.

The distribution of income from equity received as consideration for a license agreement will be distributed in the same manner as royalties and license fees as described in Section 4.8 of this policy. The system may, in its discretion, distribute shares of equity when appropriate. Should the system elect not to distribute shares, it

shall control the disposition of equity at its sole discretion. This may include agreeing to receive the equity interest under terms that restrict its ability to sell, distribute or otherwise deal with the equity interests.

As stated in Texas Education Code, Section 153.007, and except as otherwise provided by law, the board, the system, system members and employees of the system do not owe a fiduciary duty to any person claiming an interest in consideration received by the system or a system member in exchange for technology.

Individuals subject to this policy should also refer to System Regulation *31.05.01* regarding equity ownership.

4.10 Revenue from Enforcement of Intellectual Property Rights

If the system receives revenue from third parties as a result of settlement or litigation related to the enforcement of system rights in intellectual property, such revenue will be first used to reimburse the system (or the sponsor or licensee, if appropriate) for expenses related to such actions. The creator(s) and the system member are entitled to the recovery of lost royalties from the remaining net revenue according to the distribution formula outlined in Section 4.8 of this policy.

4.11 Research Support as Consideration in Licensing

If the system accepts research support in the form of a sponsored research agreement or unrestricted grant as part of an agreement relating to rights in intellectual property owned by the system in addition to or in lieu of royalties, license fees, equity and/or other monetary consideration, the creator shall have no entitlement to receive a share of the research support or grant as personal income.

4.12 Distribution of Income from Intellectual Property in Case of Death

In the case of death or incapacitation of a creator, royalty distributions, including any equity to which the creator was entitled, shall be made pursuant to the Texas Probate Code and the United States Internal Revenue Service.

5. FORMATION AND INVESTMENT IN OR ASSISTANCE PROVIDED TO VENTURES DEVELOPING OR COMMERCIALIZING SYSTEM INTELLECTUAL PROPERTY

5.1 General

Following disclosure, evaluation and protection of intellectual property, the OTC may elect to form and operate a business entity or assist with the formation and operation of a business entity, or enter into a new venture with another party for the purpose of developing and/or commercializing system intellectual property.

The commercialization process should include the means by which the system and members will be able to receive a return on investment of system and member resources. If monetary or non-monetary support is exchanged in part or in whole for

equity, the exchange of equity must comply with this policy and Texas Education Code, Chapter 153.

Creators of intellectual property covered by this policy or members from which the intellectual property originated shall be offered equity in a company formed or business venture entered into by the OTC or any of its centers based on their level of involvement in the formation and ongoing operations of the company or venture. Offers of equity in OTC ventures will be recommended by the VCFRC and approved by the chancellor.

5.2 Company Formation by the OTC

5.2.1 The OTC is responsible for determining the organizational structure and the financing strategy, executing a license agreement subject to the guidelines set forth in this policy between the company and the system, and other activities related to company formation, such as selection of a CEO, other company officers and members of the governing board or authority.

5.2.2 Outside counsel services may be contracted to assist with the formation of a company, or to review and prepare documents associated with a venture whose purpose is to develop and commercialize system intellectual property with the consent of the VCFRC and the OGC and, as required by law, the attorney general of the state of Texas. Outside counsel contracts are subject to System Regulation *09.04.01, Legal Counsel and Attorney General Opinion Requests*.

5.2.3 The OTC and the OGC shall approve the form of all shareholder or member agreements for the protection of the system's interest in a company subject to this policy.

5.2.4 A license agreement will be executed with the company following the licensing guidelines set forth in Section 4.3 of this policy.

5.2.5 The system is not restricted in the percentage of equity it may own in an entity formed for the purpose of developing and/or commercializing system intellectual property.

5.3 Due Diligence Process

Before the OTC elects to form a business venture or assist with the formation of a business venture, or enter into a business venture with an existing company for the purpose of developing and/or commercializing system intellectual property, the OTC will perform due diligence on the proposed business venture.

5.3.1 To guide in the consideration of OTC business ventures, the OTC will be responsible for development and maintenance of the minimum requirements for OTC business ventures, subject to approval by the chancellor. Business ventures may not be considered unless they meet the minimum requirements.

- 5.3.2 The OTC is responsible for review of a commercialization plan including analysis of the potential business venture's business model, financial plan, viability of succeeding in commercialization, a plan for addressing conflicts of interest and potential return to the system in terms of investment return or increased research revenue. The VCFRC, subject to approval of the chancellor, will have authority for approving the commercialization plan, consistent with the results of the review and analysis, and the responsibility for setting milestones for the business venture.
- 5.3.3 Due diligence for OTC business ventures will include: (1) a review of the manner in which conflicts of interest will be addressed; (2) background checks on the CEO and other corporate officers; (3) evaluation of the competence of management to execute the business plan; (4) evaluation of the financial risk and reward profile of the company; and (5) a review of legal risks by the OGC.
- 5.3.4 The OTC is responsible for reviewing the business venture's progress every six (6) months. If the venture receives a financial investment from the OTC, the initial review shall be conducted in three (3) months. Review will focus on compliance with the commercialization plan and the achievement of established milestones. Results of all reviews will be provided to the chancellor and the associate vice chancellor for budgets and accounting.
- 5.3.5 OTC business ventures must have an exit strategy which indicates how any financial interest will be returned to investors. In the event a business venture distributes publicly traded securities to the system, securities will be immediately transferred to the System Office of the Treasurer for management.
- 5.3.6 The ongoing monitoring of conflicts of interest pertaining to business ventures formed or supported by the OTC is the responsibility of the OTC. This will include all individuals involved in the OTC process including, but not limited to, employees of the system and its members, staff of the participant companies, and other investors in the business venture. Actual conflicts will be disclosed to the board and resolved to the satisfaction of the board prior to any agreements being executed or immediately upon becoming aware of the actual conflict of interest for those agreements already in place.

5.4 Assistance Programs Offered by the OTC

Upon approval by the board of policies and procedures to assess the qualifications of participants as required by the Texas Education Code, Section 153.005(b), the OTC may operate programs to provide assistance to individual persons and companies in commercializing technology owned wholly or in part by the system or in which the system has an interest, including individuals covered by this policy. Assistance may include providing monetary support or non-monetary support, including the use of premises, computers, computer software, telecommunications terminal equipment, office equipment and supplies, machinery, custodial services, utilities, or other services that are customarily treated as overhead expenses.

5.5 Technology Commercialization Funds

- 5.5.1 The chancellor may establish one or more technology commercialization funds at the system level to aid in the establishment, maintenance, and operation of the OTC or to aid in the discovery, development, protection, or commercialization of technology. The fund or funds may accept state appropriations, gifts, grants, contracts, and donations. System members and their affiliates, at the discretion of the CEO, or designee, may contribute to the fund or funds. All gifts, grants and donations from individuals and corporations outside of the system are subject to System Policy *21.05*. The OTC may solicit gifts to the system for the purpose of supporting commercialization efforts. The chancellor may delegate to the VCFRC or, with the prior approval of the board, may delegate to another employee of the System Offices, management oversight responsibility of the fund or funds.
- 5.5.2 Any additional intellectual, administrative, and/or infrastructure support for the OTC endeavors related to company formation may come from system members or affiliated entities, at the discretion of each respective CEO, or designee.
- 5.5.3 As provided in the Texas Education Code, each system board member has the legal responsibilities of a fiduciary in the management of funds under the control of the system on behalf of the system.
- 5.5.4 Investment of fund assets into any single business venture will be limited to the greater of \$250,000 or ten percent (10%) of a fund's total value.

6. CONFLICTS OF INTEREST

The OTC will interact with the governing board or authority of companies that have an agreement with the system relating to the research, development, licensing, or exploitation of intellectual property in which the system has an interest, faculty, government employees, and private investors with wide-ranging business interests. The reporting requirements listed in Section 7.4 are in addition to the requirements of System Policy *07.03*.

7. ADMINISTRATION

7.1 Operation and Support of the OTC

The OTC was established by the board under Texas Education Code, Chapter 153, to manage, transfer, market, and otherwise commercialize technology owned by the system or in which it owns an interest. The board authorizes the system, through the OTC and/or through any other center created by the board for the commercialization of technology, to undertake all of the activities described in Sections 153.004 and 153.006 of the Texas Education Code.

7.2 Delegation of Authority

Chapter 153 of the Texas Education Code authorizes the system to engage in technology development and transfer activities under authority provided to the board and other state and federal law.

- 7.2.1 The board delegates to the chancellor responsibility for the management of intellectual property subject to ownership by the system to include the authority to negotiate and execute, on behalf of the system, legal documents relating to the system's rights in intellectual property, including, but not limited to, license agreements, assignments of intellectual property, letter agreements, option agreements, inter-institutional agreements, commercial material transfer agreements, shareholder agreements, corporate agreements, applications, declarations, affidavits, powers of attorney, disclaimers, non-disclosure agreements and other such documents related to patents, copyrights, and trademarks and the formation and operation of companies for the commercialization of system technologies.
- 7.2.2 The chancellor may delegate to the VCFRC, or designee, the authority to negotiate and execute, on behalf of the system, legal documents relating to the system's rights in intellectual property, including, but not limited to, license agreements, assignments of intellectual property, letter agreements, option agreements, inter-institutional agreements, commercial material transfer agreements, shareholder agreements, corporate agreements, applications, declarations, affidavits, powers of attorney, disclaimers, non-disclosure agreements and other such documents related to patents, copyrights, and trademarks and the formation and operation of companies for the commercialization of system technologies.
- 7.2.3 The VCFRC is responsible for the day to day operations of the OTC and reports directly to the chancellor.
- 7.2.4 The chancellor, or designee, is authorized to serve, in his or her official capacity, on the governing board or as an officer of entities formed for the purpose of development and commercialization of technology owned by the system that have met the requirements of this policy. At the next regular meeting of the board, following the date on which the chancellor, or designee, becomes a member of the governing board, the VCFRC will provide information concerning the company and the system's involvement to the board with a request for authorization for the chancellor, or designee, to continue serving as a member of the governing board.

7.3 Intellectual Property Committees

A standing Intellectual Property Oversight Committee shall be established, chaired by the chancellor and comprised of the VCFRC, the CEO from each system member principally involved in research and commercialization as determined by the chancellor, and one faculty representative. This committee shall advise the chancellor on matters related to intellectual property and may be expanded by the chancellor to include additional committee members.

A standing Intellectual Property Constituent Committee shall also be established, chaired by a faculty representative, and comprised of no fewer than three faculty or research representatives, three deans and three administrators within the system. This

committee shall review quarterly reports provided by the OTC and make recommendations on policies and other matters relating to intellectual property affecting faculty to the Oversight Committee.

7.4 Reporting Requirements

The chancellor shall ensure that the following reports are prepared and submitted:

- 7.4.1 Annually, the VCFRC shall prepare for the chancellor, the system board and the participating member CEO, a report listing the titles and a brief description of each disclosure received under Section 3.2 of this policy since the last report.
- 7.4.2 The VCFRC shall prepare a semi-annual report on all license agreements and commercialization activities involving system intellectual property. The VCFRC shall present the semi-annual report to the Intellectual Property Oversight and Constituent Committees. For third party license agreements, the report should include an overview of each licensee's progress towards meeting development milestones, and resulting gains to the system through financial return or increased research funding. For commercialization activities in which an equity interest was received, the semi-annual report will include the following information: (1) total securities held and percentage of ownership in each venture; (2) any commitments which will result in additional ownership or investment in each participant; (3) the change in market value of the financial interest; and (4) any anticipated liquidity event which will realize the return on investment.
- 7.4.3 In compliance with Section 51.912 of the Texas Education Code, the system board must file a report identifying (a) all employees who conceive, create, discover, invent, or develop intellectual property and have an equity interest in or serve as an employee, officer, or member of the governing board of business entities that have agreements with the system relating to the research, development, licensing or exploitation of intellectual property for which they are the creator and in which the system has an ownership interest, and (b) all individuals who serve, at the request of the system, as a member of the governing board of business entities that have agreements with the system relating to the research, development, licensing, or exploitation of intellectual property in which the system has an ownership interest. The report will be filed in accordance with the requirements of Section 51.005 of the Texas Education Code.
- 7.4.4 The System Office of the Treasurer will submit to the system board's Committee on Finance a quarterly report on technology commercialization investments. The investment report will include detailed investment holdings, transaction reports, valuation of holdings, and material events that will affect the value of the investments since the last report. The System Office of the Treasurer is responsible for the calculation and monitoring of valuations on all holdings.

7.5 Dispute Resolution

Disputes related to this policy should be made in writing to the chancellor, who will submit the dispute to a panel, chaired by the faculty representative on the Intellectual Property Oversight Committee and composed of no fewer than three (3) disinterested members of the Intellectual Property Oversight Committee. This panel may be expanded by the chancellor as needed. Once the panel has conducted its review of the dispute, it will forward its recommendation to the full Intellectual Property Oversight Committee for consideration. The Intellectual Property Oversight Committee will be the final arbiter in matters relating to this policy. The OGC will provide legal advice to the panel and to the Intellectual Property Oversight Committee.

Related Statutes, Policies, or Requirements

[Tex. Educ. Code §51.005](#)

[Tex. Educ. Code §51.912](#)

[Tex. Educ. Code Ch. 153](#)

[Office of Technology Commercialization Disclosure Form](#)

[System Policy 07.01, Ethics](#)

[System Policy 07.03, Conflicts of Interest, Dual Office Holding and Political Activities](#)

[System Policy 21.05, Gifts, Donations, Grants and Endowments](#)

[System Policy 31.05, External Employment and Expert Witness](#)

[System Policy 33.04, Use of System Resources](#)

[System Regulation 09.04.01, Legal Counsel and Attorney General Opinion Requests](#)

[System Regulation 15.01.03, Conflict of Interest in the Design, Conduct and Reporting of Sponsored Research and Educational Activities](#)

[System Regulation 31.05.01, Faculty Consulting, External Employment, and Conflicts of Interest](#)

[System Regulation 33.04.01, Use of System Resources for External Employment](#)

Definitions

Copyrightable Work – An original work of authorship which has been fixed in any tangible medium of expression from which it can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device, such as books, journals, software, computer

programs, musical works, dramatic works, videos, multimedia products, sound recordings, pictorial and graphical works, etc. A copyrightable work may be the product of a single author or a group of authors who have collaborated on a project.

Creator – A person who invents, authors or otherwise creates intellectual property.

Intellectual Property – Collectively, all forms of intellectual property including but not limited to issued patents, patentable inventions, copyrightable works, trademarks, mask works, and trade secrets.

Invention – A process, method, discovery, device, plant, composition of matter, or other innovation that reasonably appears to qualify for protection under the United States patent law (utility patent, plant patent, design patent, certificate of plant variety protection, etc.), whether or not actually patentable. An invention may be the product of a single creator or a group of creators who have collaborated on a project.

Mask Works – A series of related images representing a predetermined, three dimensional pattern of metallic, insulating, or semiconducting layers of a semiconductor chip product. Mask works are registered with the United States Copyright Office and are treated as copyrightable works for the purpose of this policy.

Patent – A grant issued by the United States Patent and Trademark Office giving an owner the right to exclude all others from making, using, or selling the invention within the United States and its territories and possessions, for a period which expires twenty (20) years after the filing date. Patents may also be granted in foreign countries, with varying terms and requirements. To be patentable in most countries, an invention must be new, useful, and non-obvious.

Tangible Research Property (TRP) – Tangible items produced in the course of research including such items as biological materials, engineering drawings, integrated circuit chips, software, computer databases, prototype devices, circuit diagrams, and equipment. Individual items of tangible research property may be associated with one or more intangible properties, such as inventions, copyrightable works and trademarks.

Trademark (including Service Mark) – A distinctive word, design or graphic symbol, or combination word and design, that distinguishes and identifies the goods and services of one party from those of another, such as names or symbols used in conjunction with plant varieties or computer programs.

Trade Secret – Any formula, pattern, device, or compilation of information which is used in one's business and which gives one an opportunity to obtain an advantage over competitors who do not know or use it. Legal protection for trade secrets exists only as long as the trade secret is maintained.

Contact Office

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