

17.01 Intellectual Property Management and Commercialization



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Policy Statement

This policy ensures 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 intellectual property process 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 copyrightable 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 works 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 and is hereby assigned to the system by such individuals.

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 and is hereby assigned to the system by such individuals.

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 significant use of funds, space, hardware or facilities administered by a member, where use was essential and substantial rather than incidental, shall be owned by and is hereby assigned to the system by such individuals. 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 member and assigned to the member in writing, will be owned by the member and is hereby assigned to the 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 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 member is responsible for the commercialization of all institutional works or works for hire.

2.3.2 The member that first adopts and uses a trademark in connection with its goods or services will own and is hereby assigned 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 governmental entities or a nonprofit or for-profit nongovernmental entity shall be owned by the system as provided in Section 2.2. The research sponsor 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 members, shall ensure that all reporting requirements and other obligations to research sponsors regarding intellectual property including, but not limited to, obligations to the U.S. government under 37 CFR 401, are met. Intellectual property developed under sponsored research should be promptly disclosed to the OTC through the relevant member chief executive officer (CEO) or designee 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 recognizes that external faculty consulting can be an effective mechanism for professional development and for establishing good relationships with industry. Notwithstanding anything to the contrary in this policy, System Policy 31.05, *External Employment and Expert Witness*, and regulations promulgated pursuant to such policy shall solely govern all intellectual property arising under consulting or external employment subject to any of the system's prior legal obligations to third parties.

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 or designee. The member and the OTC will review the developmental history of the TRP to assess any obligations and to determine the conditions of such proposed transfer, distribution or sale.

If the TRP is determined by the 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 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 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 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 their relative contributions and how they will share any benefits accruing to the creators consistent with the terms of this policy. Final determination of each creator's share shall be made only upon receipt by the OTC of a signed agreement between or among 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 months of the submission of a completed invention disclosure form, that portion of income to which the creators are entitled under Section 4.8 of this policy will be distributed amongst the creators as the 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 members or in the event that multiple creators represent two or more members, the member CEOs will agree as to the relative contribution of each member and how the members will share any benefits accruing to the members, considering such factors as annualized FTE by member 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 the system or one of the 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 Board of Regents (board) pursuant to System Policy 21.05, *Gifts, Donations, Grants and Endowments*.

2.9.2 The 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 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.

2.9.5 OTC, in consultation with the relevant member, will determine the distribution of income at the time of donation.

2.10 Software Ownership

Except as otherwise stated in this policy, the system may assert ownership in software as an invention and/or as a copyrightable work consistent with the other provisions of this policy.

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 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 90 calendar days from receipt of a complete disclosure in the case of inventions and tangible research property and no later than 60 days in the case of works subject to copyright.

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 of the system or member. Such written assignment is to confirm, in a specific instance, the allocation and present assignment of intellectual property rights mandated by this policy and shall not be construed as making the present assignment of rights in this policy conditional upon the execution of such written agreement.

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 reimburse the OTC for all related costs associated with protecting the intellectual property. The associate vice chancellor for commercialization (AVCC) or designee, through the vice chancellor for federal and state relations of the system (VCFSR), shall notify the relevant member CEO of his/her decision; if the decision is not to seek protection, the CEO or designee shall notify the OTC if the 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 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 involvement of the creator(s) in the commercialization process is critical to success. The subject matter expertise, industry contacts and ongoing research of the creator(s) often facilitate commercialization. Successful commercialization requires that the OTC, 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 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 member-approved sponsored research agreement, must be approved by the VCFSR or designee 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 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 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 VCFSR or designee 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 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 or bear all expenses incurred by the system in obtaining the licensed patent(s).

- (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) Commitments should not be made for future inventions even when improvements are expected. The VCFSR or designee may make exceptions occasionally as appropriate including, without limitation, to handle subordinate patents and well-defined derivative works for software.

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 other sponsorship agreements and with appropriate approval from the sponsor, following notice and approval by the 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 and educational purposes.
- 4.5.2 In the case of significant use of resources as defined in Section 2.2.3 of this policy, the system may elect to 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 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 or release 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* and *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. The OTC shall ensure that the TRP distribution agreement contains provisions which address proper use, limits on creator's and member's liability for the TRP or products derived therefrom and other necessary terms. Sharing of any income resulting from the distribution of TRP will be made in accordance with Sections 4.8.1 and 4.8.2 of this policy.

4.8 Distribution of Royalties, License 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, Plant Varieties 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 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, Plant Varieties and TRP, Licensed or Sold On or 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 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 or 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 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 member originating the copyrightable work agree that the member will conduct the commercialization, the distribution of royalties, license fees and sale proceeds shall be determined by the member.

4.8.5 Notwithstanding the provisions of Sections 4.8.1, 4.8.2, 4.8.3 and 4.8.4, the 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, 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 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 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 Code.

5. FORMATION AND INVESTMENT IN OR ASSISTANCE PROVIDED TO VENTURES DEVELOPING OR COMMERCIALIZING SYSTEM INTELLECTUAL PROPERTY OR ESTABLISHED TO ASSIST INDIVIDUALS COVERED BY THIS POLICY TO COMMERCIALIZE INTELLECTUAL PROPERTY

5.1 General

- 5.1.1 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.
- 5.1.2 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. Equity received by the system or member in exchange for monetary or non-monetary support will not be subject to distribution of funds in Section 4.8.
- 5.1.3 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 AVCC through the VCFSR 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. The system will obligate the company to comply with applicable laws, regulations and system requirements.
- 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 VCFSR or designee 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 review 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. OTC shall determine the extent of the due diligence to be performed which will depend on the extent to which system resources are involved.

- 5.3.1 To guide the consideration of OTC business ventures, the OTC will be responsible for the development and maintenance of the minimum requirements for OTC business ventures, subject to approval by the VCFSR and chancellor. Business ventures may not be considered unless they meet the minimum requirements.
- 5.3.2 The OTC is responsible for submitting a commercialization plan for review including (1) an analysis of the potential business venture's business model and financial plan; (2) its probability of succeeding in commercialization; (3) a plan for addressing conflicts of interest; and (4) potential return to the system in terms of investment return or increased research revenue. The AVCC, subject to approval of the VCFSR and 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 documents 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, including a review of the commercialization plan.
- 5.3.4 The OTC is responsible for reviewing the business venture's progress every six months. If the venture receives a financial investment from the OTC, the initial review shall be conducted in three 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 VCFSR, chancellor and the chief financial officer and treasurer.
- 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 Office of the Chief Financial Officer and Treasurer for management.

5.3.6 To ensure that potential and actual conflicts of interest are promptly identified and resolved, the OTC shall provide to the OGC the information required by this subsection.

(a) The OTC shall obtain annual financial disclosures from 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.

(b) The OTC shall promptly disclose to the OGC information revealing the existence of a potential or actual conflict of interest regarding OTC employees or the individuals listed in a) of this subsection. The OGC, in consultation with the Office of the Chief Financial Officer and Treasurer and the System Internal Audit Department, shall review information provided by the OTC in this subsection and shall report to the board, the chancellor, and the OTC the status of its review and recommendations for resolving any potential or actual conflicts. The OGC's recommendations shall be implemented to the satisfaction of the board chairman and the chancellor.

5.4 Assistance Programs Offered by the OTC

As described by the Texas Education Code, Section 153.004, 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. 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 VCFSR 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 financial, intellectual, administrative and/or infrastructure support for the OTC endeavors related to company formation may come from members or affiliated entities, at the discretion of each respective CEO or designee.
- 5.5.3 As provided in the Texas Education Code, each 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 consistent with System Policy 22.02, *System Investment*.

6. CONFLICTS OF INTEREST

In all activities addressed by this policy, system employees are responsible for avoiding (or, if applicable, disclosing/managing) potential and actual conflicts of interest and conflicts of commitment in compliance with federal and state requirements and applicable system policies and regulations, such as System Policies 07.01; 07.03; 07.04, *Benefits, Gifts and Honoraria*; 31.05; 33.03, *Nepotism*; 33.04, *Use of System Resources*; and System Regulations 15.01.03; 31.05.01; and 33.04.01, *Use of System Resources for External Employment*. 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 including, without limitation, the authority to do all things necessary to effectuate the operation of such companies.

7.2.2 The chancellor may delegate to the VCFSR 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. Furthermore, the chancellor may delegate to the VCFSR or designee the authority to do all things necessary to effectuate the operation of companies that the system forms or in which the system has an equity interest.

7.2.3 The AVCC is responsible for the day-to-day operations of the OTC and reports directly to the VCFSR. The AVCC shall file annually with the chancellor an Annual Financial Disclosure Report as required for vice chancellors in System Policy *07.03*.

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 AVCC through the VCFSR 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 or serve as a member of the governing board.

7.3 Intellectual Property Committees

The Intellectual Property Oversight Committee (Oversight Committee) is chaired by the chancellor and comprised of the VCFSR, the AVCC, the CEO from each member principally involved in research and commercialization as determined by the chancellor, and one faculty representative who is the chair of the Intellectual Property Constituent Committee (Constituent Committee). The Oversight Committee shall advise the chancellor on matters related to intellectual property and may be expanded by the chancellor to include additional members.

The Constituent Committee is 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, within 60 days of the end of each fiscal year, the AVCC shall prepare and route through the VCFSR a report listing the titles and a brief description of each disclosure received under Section 3.2 of this policy since the last report for the board, chancellor and the participating member CEO.
- 7.4.2 The AVCC shall prepare a semi-annual report on all license agreements and commercialization activities involving system intellectual property. The AVCC through the VCFSR shall present the semi-annual report to the Oversight and Constituent Committees. For third party license agreements, the report should include an overview of each licensee's compliance with license terms and resulting gains to the system through financial return or increased research funding.
- 7.4.3 In compliance with Section 51.912 of the Texas Education Code, the 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 AVCC through the VCFSR will submit to the board's Committee on Finance and the Oversight and Constituent Committees an annual report on technology commercialization investments within 60 days of the end of each fiscal year. 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.

7.5 Dispute Resolution

Disputes related to this policy can be made in writing to the chancellor who will submit the dispute to a panel, chaired by the faculty representative on the Oversight Committee and composed of no less than three disinterested members of the 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 Oversight Committee for consideration. The chancellor will be the final arbiter in

matters relating to this policy. The OGC will provide legal advice to the panel and to the Oversight Committee.

Related Statutes, Policies, or Requirements

[37 CFR 401](#)

[Tex. Educ. Code §51.004](#)

[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 07.04, Benefits, Gifts and Honoraria](#)

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

[System Regulation 15.01.03, Financial Conflicts of Interest in Sponsored Research](#)

[System Regulation 17.02.02, Technology-Mediated Instruction](#)

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

[System Policy 22.02 System Investment](#)

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

[System Regulation 31.05.01, Faculty Consulting and External Professional Employment](#)

[System Policy 33.03, Nepotism](#)

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

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

The May 2006 version of this policy superseded:

System Policy 17.02, Patents

System Regulation 17.02.01, Management of Intellectual Property

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. 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 – Any art or process (*way of doing or making things*), machine, manufacture, design, or composition of matter, or any new and useful improvement thereof, or any variety of plant, which is or may be patentable under the patent laws of the United States.

Patent – A property right granted by a government to an inventor to exclude others from making, using, offering for sale, or selling the invention in a territory, or importing the invention into a territory, for a limited time in exchange for public disclosure of the invention when the patent is granted.

Tangible Research Property (TRP) – Tangible items produced in the course of system research that can be physically distributed, 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.

Member Rule Requirements

A rule is not required to supplement this policy.

Contact Office

Texas A&M System Technology Commercialization
(979) 847-8682