OSU Start-up Guidelines

Introduction. The University recognizes that early stage technologies may best be commercialized by a start-up company affiliated with an OSU inventor. In addition to being a good avenue for commercialization, there are economic benefits that can flow from a local start-up in the form of funding opportunities, new job creation for students, local investment, and diversifying of the local business community. OSU welcomes the opportunity to provide services and mentoring expertise through the Office of Commercialization and Corporate Development to the faculty entrepreneurs. Working closely together, we can assist the successful transformation from technology concept toward a valuable corporate enterprise.

The University has made considerable investments in research faculty, staff, lab facilities, equipment, and scientific instruments necessary for the development of inventions. The accompanying relationship affords the start-up more favorable financial considerations over the standard license to industry, which would normally include up-front fees, immediate royalties and other expenses when out-licensing of an invention to an already successful company. OCCD will fairly negotiate an exclusive license that is commensurate with the projected market size and potential market capture by the start-up. Our intent is to encourage the use of OSU technology for commercial purposes and to be flexible in license terms to start-ups to help make for an easier financial burden that assists them in attaining a sustainable and profitable venture.

Step 1. Technology Disclosure
The first step to an invention commercialization is for faculty inventors to provide a written invention description to the University in a thorough and technically detailed overview. The disclosure is actually part of your contractual arrangements with OSU. Submission of an invention disclosure is easily completed online and conveniently available on the OCCD website. If an inventor is interested in starting a company to develop the invention, it is best to inform OCCD of that desire right from the beginning. It is very important that OSU faculty inventors should not disclose details of their inventions to outside parties, even potential business parties, until proper confidentiality agreements are in place. We can explain more about this important point in person. In addition, inventors should keep OCCD apprised of any improvements to the inventions throughout the research and commercialization process. Table 1 provides an approximate timeline for the many steps of commercialization.

OCCD Licensing Managers welcome the opportunity to provide guidance and perform valuable free services on behalf of the faculty entrepreneur. When contemplating a startup, the inventor needs to consider “what not to do” (e.g. sell, publicize, etc.) and “how to do it right the first time” before and after disclosing the invention to OCCD. The Licensing Manager will provide faculty with a wealth of experience, services and resources to fairly evaluate the technology on the basis of intellectual property protection and market potential of the invention. A common service available to all faculty is developing confidentiality and/or material transfer agreements with outside parties taking an active involvement in the evaluation of the technology.

Step 2. Intellectual Property Protection
As a researcher, you should always be mindful that your work may have commercial potential. Patenting an invention derived from OSU research is an important step in maximizing value to the inventor, OSU and society. Patenting incentivizes the investment necessary for commercial development and protects the interests of its creators and investors. Inventors must work closely with the OCCD Licensing Manager and patent attorneys to timely file patent application(s) (provisional, non-provisional, PCT and/or national phase applications, based on
overall patent strategy). As mentioned above, be mindful that virtually all public disclosures describing your invention will lead to loss of patent rights in the vast majority of countries around the world.

The Licensing Manager receiving the faculty’s invention disclosure will oversee the triage process to determine patentability and marketability with the inventor’s assistance. Internal services provided during the triage process includes professional and student analysis of the technology and relevant prior art, as well as various intellectual property and market software resources. Upon deciding that patent protection is warranted, OCCD will hire external patent attorneys and manage the patent filing process. Patent(s) are inherently strategic and must be filed to protect your future commercial ability. Therefore, patent filing times (U.S. and International) are critical to orchestrate prior to any publicizing of the invention. The how, what and when of any public disclosure should be discussed with your Licensing Manager.

□Step. 3 Marketing the Technology
Descriptive materials are essential to providing the public a general understanding of the value and benefits of the invention. OSU inventors should proactively develop a simple one page summary describing in laymen’s terms the invention features and benefits without enabling the reader to recreate the invention (i.e. without giving away the “secret sauce”). In addition, it is desirable to include the researcher’s biography and the depth of expertise in the area for the purpose of attracting public interest.

As a taxpayer supported educational institution, OSU employees are stewards of the public’s intellectual property and are expected to broadly market technologies for the greatest benefit. OCCD recognizes that, given an inventor’s intimate knowledge of his or her own invention and the passion that often accompanies the insight and unique abilities of faculty inventors, the inventor(s) often is best positioned to successfully commercialize the invention. OCCD is committed to providing start-up guidance, resources and assistance through the OSU Advantage Accelerator and the License Manager to review technology pitches, news stories and promotional tools in view of protecting patentability and commercialization.

□Step 4. Conflict of interest (COI) and conflict of commitment (COC)
OSU employees that will have a financial interest in the start-up company should contact the COI office, as they need to have COI/COC plan in order to proceed with a license to the invention. It is important that the company activities are clearly separated from the University employment obligations (i.e. wearing two hats). Start-ups need to be aware of the policies regarding private activity and restrictions on University buildings encumbered by tax-exempt bonds. OSU employees who intend to dedicate significant time to the company should contact the COI committee with their plans.

OCCD does not require management plans above or beyond what is normally required for COI or COC. It is the responsibility of the OSU faculty affiliated with the Start-up to comply with all university policies.

□ Step 5. Incorporate the company
The inventor is required to form a company in order to start discussion of the licensing agreement. There are only two types of organization that OSU allows: either a “C” corporation or a “Manager-managed Limited Liability Company.” The company files for incorporation before license discussions begin (Name _______, Date______, State ____). It is customary for the company to provide a capitalization table and subscription agreement, spelling out the details of the investor transactions, including the price and agreed upon amount of the shares. In addition, a

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commercialization plan is necessary for consideration by OCCD’s Licensing Manager in drafting reasonable license terms. OSU employees will need to first finalize any required COI and COC management plans or approvals prior to licensing. Prior to entering into license negotiations, the company shall appoint a non-OSU employee to negotiate and execute the license agreement in order to avoid conflicts of interest (i.e. financial) by the OSU employee. Examples of appropriate appointees include the company CEO or business associate or trusted advisor.

**OCCD must sign an agreement with a legal entity (not the individual inventors) and will negotiate in good faith with the start-up company representative. Prior to finalizing the agreement, OCCD will check to see that COI and COC management plans are in place.**

**Step 6. Begin negotiations for a license to the technology**

After completing all Steps 1 through 5, the company’s authorized representative should approach OCCD’s Licensing Manager to negotiate terms to license the technology. Many startups have founders who are inexperienced at licensing technology from a university. Licenses include numerous terms that can be complex and that can cause confusion at best and form a lack of trust with long term negative financial and legal implications at worst. To address these challenges, startups often hire attorneys to provide legal advice, but fees can be very significant at a time when the startup has limited funding. Start-ups often hire attorneys who are inexperienced with university technology-based startups and licensing, causing significant additional challenges and unnecessary expenses for both parties. Please keep in mind that attorneys only advise and recommend to their clients and that their advice may represent the most legally conservative positions, rather than the positions that make the most business sense. Therefore, attorneys should not be exclusively relied on to make business decisions for the start-up founders. It is in both the interest of OSU and of the inventor to come to mutual agreement and help the startup be a great success.

There are several key areas of a License Agreement that are common to most OSU Start-ups. OCCD has developed a fair and equitable Start-up license template that has been accepted and vetted by respected attorneys representing similar technology start-up companies that is: 1) Fair and balanced for both OSU and for any startup company – a template that any business attorney versed in startups could advise their clients to sign without significant reservation or negotiation beyond business terms, and 2) Fundable – a template that will pass due diligence with the majority of investors without significant reservation or a requirement to re-negotiate the non-business terms. Licensing Managers often employ a useful tool in working toward an agreement – a shared Financial Term Sheet (see attached). As part of the license negotiations, the company will need to provide the Licensing Manager with a brief business/commercialization plan or complete a Business Model Canvas. A capitalization table may also be required. Samples and templates of these forms are available upon request. In addition, the Accelerator can provide faculty with extensive training and mentoring in the above subjects.

**Step 7. Managing the intellectual property portfolio**

The company and OCCD will work together to manage commercial plans and identify countries and regions (e.g. EU, Japan) where additional patent applications will need to be filed. The company will be required to reimburse OCCD for all costs related to patent filings in accordance with agreements made in the license.

Patent rights can be easily lost if applications are not filed or issued patents are not maintained on time, especially in foreign countries. OCCD maintains the technology patent carriage and has ultimate authority regarding patent application filings, but relies heavily on company advice and interests in establishing a global patent strategy.

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**Step 8. Managing the license**
The company must meet required license payments and commercialization milestones. If problems arise, then the company should proactively communicate with OCCD on the specific issue(s) and seek mutual resolutions.

*The successful launch of the startup and continued public/private investment in research is a central goal of the University. OCCD will monitor the licensee performance to ensure compliance with license terms on behalf of the public’s benefit. The license agreement will identify due-diligence terms that support the timely development, marketing and selling of the technology. This is to assure the partners move aggressively from innovative idea to marketable products.*

**Table 1. Timeline for commercialization.**

<table>
<thead>
<tr>
<th>TASK</th>
<th>Starting Point</th>
<th>Early Months</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Invention Disclosure*</td>
<td></td>
<td></td>
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<tr>
<td>2. IP Protection</td>
<td>Provisional filed</td>
<td>Non-Provisional patent filed</td>
<td></td>
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<td>First patent(s) issues</td>
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<tr>
<td>3. Non-Confidential Description to Public</td>
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<tr>
<td>4. COI/COC Check</td>
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<tr>
<td>5. Incorporation</td>
<td>After COI Management Plan in place</td>
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<tr>
<td>6. Preliminary License Discussion/Option</td>
<td>During and following incorporation</td>
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<tr>
<td>7. Finalize &amp; Execute License</td>
<td>Negotiation period is typically &lt; 3 months</td>
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<tr>
<td>8. Ongoing Management of IP</td>
<td>Collaborative management of Patent Prosecution can play out for many years</td>
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<tr>
<td>9. Manage the License**</td>
<td>Begins immediately upon execution</td>
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</tbody>
</table>

* An invention disclosure is absolutely critical to beginning the process of intellectual property protection and commercialization. Please talk with IP & Licensing Managers in OCCD if you have any questions about the invention disclosure process.

**The term of a license is typically linked to the term of the last-to-issue patent in the license, or approximately 20 years, so this is the beginning of a long collaboration to making the company successful.
<table>
<thead>
<tr>
<th>Considerations</th>
<th>Preliminary Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Licensee</strong></td>
<td>Company Name_____, Type of Corporation_____, organized under the laws of the State of <em><strong>, located at Address</strong></em>___, Corvallis, OR 97330</td>
</tr>
<tr>
<td><strong>Intellectual Property Description</strong></td>
<td>Oregon State University invention Docket Number ??, now a U.S.? patent with a serial number ___________________ entitled “Title of Patent” filed on date ________ issued on date________, and all pending patent applications. (i.e. incl. Patents and/or Know-how, Copyright and/or Trademark).&lt;br&gt; <strong>OSU:</strong>&lt;br&gt; • retains ownership of existing IP.&lt;br&gt; • maintains patent carriage and has ultimate authority on infringement proceedings.&lt;br&gt; • retains technology improvements created at OSU, and licensee has the option to negotiate a license to such improvements.</td>
</tr>
<tr>
<td><strong>Scope of Grant</strong></td>
<td>To Be Determined – Field of Use (i.e. based on Start-up’s commercialization plans), Right to Sublicense, Territory______, etc.</td>
</tr>
<tr>
<td><strong>Financial Terms</strong></td>
<td>1. Low upfront license fee&lt;br&gt; 2. Repayment of past patent expenses over an extended period (i.e. access to OSU vetted attorney’s &amp; discounted legal fees).&lt;br&gt; 3. Future patent expenses and patent maintenance, as invoiced.&lt;br&gt; 4. ____% non-dilutable equity until Company’s closing of a round of private equity investment of approximately $ <em>xxxx</em> or valuation of $ <em>yyyy</em>.&lt;br&gt; 5. Annual royalty report due on first sale of a Licensed Product and/or Licensed Services, and thereafter.&lt;br&gt; a. <em>XX</em> % royalty on invention revenues and <em>XX</em> % of sublicense revenue, based on merits of the commercialization plan.&lt;br&gt; 6. Minimum performance – An ascending set minimum license maintenance fee affordable to the company.&lt;br&gt; 7. Sublicenses Granted - <em>XX</em> % of any lump sum fees made by the Sub to the Licensee.&lt;br&gt; 8. The Licensee is to assume responsibility and liability for what it does under the License.</td>
</tr>
<tr>
<td><strong>Length of License Term</strong></td>
<td>Limited term - TBD (i.e. based on Start-up’s commercialization plan and performance)</td>
</tr>
<tr>
<td><strong>Financial Contact Information</strong></td>
<td>Company Name &amp; Address, Representative w/ Authorized Authority - all contact information</td>
</tr>
</tbody>
</table>

This “Preliminary Terms Sheet” is a non-binding summary of various business terms to be further negotiated between the parties, such terms being developed through a good faith initial analysis of the business conditions made by Oregon State University (OSU) Office for Commercialization and Corporate Development (OCCD). OCCD shall negotiate with the potential licensee on these preliminary terms during a “Negotiation Period” beginning on ________________ and ending on _________________. OCCD will be under no further obligation to negotiate upon expiry of the Negotiation Period, unless an extension of time is requested by the potential licensee and agreed to in writing by OCCD.
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REFERENCES

Office for Commercialization and Corporate Development: Oregonstate.edu/research/occd

Advantage contact information: http://advantage.oregonstate.edu/

Impact -: http://advantage.oregonstate.edu/advantage-impact-occd

Accelerator: http://advantage.oregonstate.edu/advantage-accelerator

Partnership: http://advantage.oregonstate.edu/advantage-partnerships

Frequently asked Questions: http://advantage.oregonstate.edu/faculty/inventors/faq

Conflict of Interest: http://research.oregonstate.edu/coi

Copyright Policy: http://advantage.oregonstate.edu/sites/advantage.oregonstate.edu/files/osu_copyright_principles.pdf
