

CHILDRENS HOSPITAL LOS ANGELES
POLICY & PROCEDURE MANUAL

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SUBJECT INTELLECTUAL PROPERTY POLICY	APPROVED BY
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REVIEW DATES

I. Section 1. Policy Aims

Childrens Hospital Los Angeles (CHLA) is dedicated to instruction, research, and providing medical services to the public. It is the policy of CHLA to carry out its scholarly work in an open and free atmosphere and to publish results obtained. CHLA recognizes that patentable inventions sometimes arise in the course of research conducted by its staff, faculty, and students using the Hospital's facilities. The Board of Directors has determined that patenting and licensing of inventions resulting from the work of CHLA personnel, including students, is consistent with the purposes and mission of CHLA.

The aim of the Intellectual Property Policy is to promote the progress of science and the useful arts by utilizing the benefits of the patent and copyright system consistent with the purposes for which they were established. Patents and Copyrights provide a means to encourage the commercial development and broad availability of discoveries and inventions. This policy has been established to ensure that those inventions in which the Hospital has an interest will be utilized in a manner consistent with the public good through patents, copyrights, licenses, or otherwise. The Hospital is also aware of the value of patents and copyrights in directing attention to individual accomplishments in science. In order to facilitate the above outlined objectives, all faculty, staff, and students are required to complete a formal assignment of ownership rights to CHLA and execute a Confidentiality Agreement.

The principal objectives of the CHLA Intellectual Property Policy are:

1. To provide appropriate incentive to encourage the creation and protection of intellectual property by faculty, staff, and students;
2. To establish procedures for determining the interests of research sponsors, inventors, and the Hospital;
3. To develop procedures to commercialize appropriate inventions and works of authorship;
4. To provide a means for placing information into the public domain, while safeguarding the interests of inventors, the Hospital, and research sponsors.
5. To recognize the right of the inventors to financial benefits from the invention or work of authorship.

The Intellectual Property Policy of CHLA shall be implemented as allowed under California and federal law and in a manner consistent with the provisions of other CHLA Policies, in particular, the Conflict of Interest Policy.

The Intellectual Property Policy of CHLA, as amended from time to time, shall be deemed to be a part of the conditions of employment.

A. Section 1.1. Effective Date of this Policy

This policy, approved on 26th of October, 2006, and amended on October 19, 2007 supersedes all previous CHLA Patent and Copyright Policies. In particular, royalty disbursements for existing agreements due on or after the policy approval date will be based on the current policy.

II. Section 2. Definitions

For the purposes of the CHLA Intellectual Property Policy, the following definitions will apply.

Approved Persons – Members of the CHLA Community who are authorized by this Policy (Section 6) to approve and sign documents and agreements that may impact, *directly* or *indirectly*, the Hospital's rights of ownership of IP, or documents and agreements that conflict with this Policy.

CHLA – Childrens Hospital Los Angeles, including the Saban Research Institute and the CHLA Foundation.

CHLA IP – intellectual property (IP) created, conceived, derived, or invented by one or more Members of the CHLA Community, on which CHLA has *sole* or *partial* rights or ownership (see Section 3).

COIRC – CHLA Conflict of Interest in Research Committee.

Copyright – the exclusive legal right, given to an originator or an assignee to print, publish, perform, film, or record literary, artistic, or musical material, and to authorize others to do the same.

Disclosed CHLA IP – CHLA IP that has been disclosed to the Office of Technology Transfer, and assessed as potentially requiring formal protection. By default this definition encompasses all inventions on which a provisional or nonprovisional patent application is pending.

Equity - any common stock, preferred stock, other equity security (including any security convertible into any equity security such as an option, warrant, or other convertible security) or other similar right to share in the profits of a business received by CHLA in connection with the transfer or license to a company of intellectual property rights, including any accrued dividends thereon.

Gross Income – all income, including, but not limited to, monies, stocks, notes, negotiables, or intangibles, received by CHLA from the sale or licensing of intellectual property, including license fees, royalties, and milestone payments, but excluding research funding and sponsored research contracts.

Intellectual Property (IP) – a work or invention that is the result of creativity, such as a manuscript or a design, to which one has rights and for which one may apply for a patent, copyright, trademark, etc. This includes, but is not limited to, notebooks, data, methods, know-how, databases, photographs, drawings and diagrams, computer software and algorithms, and materials such as proteins, genes, gene products, DNA probes, cell lines, and transgenic animals.

Invention(s) - any discovery including but not limited to patents, copyrights, trade secrets, know-how, and proprietary processes.

Inventor(s) – the person or persons who first actually conceive the idea, reduce it to practice, or create a work of authorship.

IPC – CHLA Intellectual Property Committee.

Liquidation Event - Any event upon the occurrence of which the Equity held by CHLA may be sold, redeemed or otherwise converted to cash. Liquidations may arise out of one or more of the following circumstances: the sale for cash of Equity in a public market, the sale of Equity in a private transaction (including as part of an acquisition or merger of the company); the redemption by the company of Equity from CHLA for cash, the conversion of Equity (including the exercise of stock options or warrants or the conversion of other convertible securities).

Members of the CHLA Community (or the **CHLA Community**) – all medical and research faculty, staff, employees, and students, as well as fellows, visiting scientists, and volunteers and any other persons whilst utilizing CHLA's resources and facilities, regardless of such person's affiliations to other institutions or companies.

Net Income – gross income, of any form, less all expenses, except CHLA salaries, incurred by CHLA attributable to publishing, patenting (including patent searches, filing, prosecution, and maintenance), litigation, licensing, auditing, marketing and any other Hospital financial obligations associated with the intellectual property (including, but not limited to, royalty sharing clauses with third parties included in grants, contracts, and license agreements).

OTT – the Office of Technology Transfer (formerly the Office of Corporate Relations and Technology Transfer).

Patent – a government authority to an individual or organization giving the right to exclude others from making, using, or selling an invention.

Royalty – income, in any form, from the sale or licensing of intellectual property.

SRI – Saban Research Institute.

TTOC – Technology Transfer Oversight Committee

III. Section 3. Ownership of Intellectual Property and other Provisions

A. Section 3.1. General

- (a) Except as set down in Section 3.2 (“Exceptions”), every invention, works of authorship and software development, and discovery or part thereof, that relates to any activity (including duties within the scope of a person’s employment) that meet any of the following criteria shall be the

property of CHLA:

- (i). Relates to the business of CHLA;
 - (ii). Derives from know-how, expertise, or results acquired by the inventor(s) or author(s) as part of his/her/their duties at CHLA;
 - (iii). Was conducted, carried out, researched or developed at CHLA;
 - (iv). Used CHLA facilities or staff;
 - (v). Used funds administered by the Hospital.
- (b) This policy applies to medical and research faculty, staff, employees, and students, as well as to fellows, residents, visiting scientists and volunteers and any other persons who may utilize CHLA's resources and facilities.
- (c) Except as set down in Section 3.1(a), CHLA does not claim ownership on Intellectual property developed by a person in his or her own time.
- (d) Members of the CHLA Community shall not enter into agreements with third parties that conflict, directly or indirectly, with this Policy, including but, not limited to, the Hospital's rights of ownership to IP as defined in this Policy, except as approved and signed by Authorized Persons (see Section 6) after consultation with the Director OTT.
- (e) Notwithstanding the provisions of this Section 3.1, the Hospital realizes that inventors and authors will wish to maximize their financial share in the value of any IP. This policy provides a clear framework for disbursing Royalty Income to inventors and authors (Section 5.2). Although the OTT is charged with managing CHLA IP in the best interests of the Hospital, the OTT will use best practices to diligently seek to commercialize CHLA-IP and advocate for appropriate financial return to the inventor(s) and author(s).

B. Section 3.2. Exceptions

- (a) **Undergraduate and Graduate Students.** To avoid conflict with the Intellectual Property Policy of the University of Southern California (USC), the Hospital does not claim ownership of student dissertations submitted to USC as a formal requirement of coursework or a degree.
- (b) **Textbooks.** The Hospital does not claim ownership of textbooks wholly or party authored by Members of the CHLA Community.
- (c) **Documents Associated with Consulting Agreements.** The Hospital does not claim copyright ownership of documents wholly or party authored by a Member(s) of the CHLA Community and required by a consulting agreement permissible under the policy(ies) of CHLA and/or USC (for USC Faculty only), provided that the only applicable provision of Section 3.1 is the use of a computer owned by CHLA and approved for use by the said Member(s) of the CHLA Community.
- (d) **Assigning Copyright for Journal Publications.** Although the Hospital claims copyright on all works of authorship as stated in Section 3, the Hospital realizes that many scientific journals require authors to assign copyright to them. The Hospital does not restrict such an assignment, providing that the copyright held by the journal is only for the published version of the work, and does not abrogate the Hospital's rights to the research data.

C. Section 3.3. Visiting Scientists and other Visitors

Where permitted by federal law, all people who visit CHLA for professional reasons, including, but not limited to, visiting scientists from other institutions (including non-CHLA-based USC faculty, staff and students), are subject to the Intellectual Property Policy of CHLA irrespective of such person's obligations to other institutions. Visitors should disclose any potentially conflicting obligation from their respective institution to the appropriate supervising faculty, CHLA Department Chair/Head, appropriate VP, or the Director OTT. If a potential conflict exists, the Director OTT should be consulted.

D. Section 3.4. Consulting Agreements and Sabbaticals

- (a) Consulting agreements and sabbaticals involving Members of the CHLA Community do not automatically abrogate the Hospitals rights and interests, as set down in the provisions of Sections 3.1, in any IP generated as a consequence of said activities, unless the activity(ies) represent an

exception under the provisions of Section 3.2. If a consulting agreement, or the policy(ies) of the host institution(s) for a sabbatical, conflict with the CHLA Intellectual Property Policy, the associated Member(s) of the CHLA Community shall notify the Director OTT in a timely manner - It is the responsibility of all Members of the CHLA Community to ensure that any agreements (written or verbal) entered into with third parties are consistent with the Intellectual Property Policy of CHLA.

- (b) In order to protect the integrity of research performed at CHLA, Members of the CHLA Community shall not enter into consulting agreements with third parties that prohibit the disclosure of said agreement.

E. Section 3.5. Waiver of Hospital Ownership

If an inventor believes that intellectual property was made outside the general scope of his or her Hospital duties, he or she shall request that the Intellectual Property Committee (IPC, see Section 4.5) determine the respective rights of the Hospital and inventor. The following points shall be considered:

- (i). The circumstances under which the invention was made and developed;
- (ii). The employee's official duties at the time of the making of the invention; and
- (iii). The inventor's intention to request an acknowledgment that the Hospital has no claim if such request is deemed appropriate.

If the IPC recommends that the Hospital should waive ownership, the Director OTT shall request to the Administrative Director SRI, Director SRI, or CEO that a written Waiver of Hospital Ownership be issued to the requesting inventor(s).

F. Section 3.6. Contracts, Grants, and other Agreements (including Material Transfer Agreements or MTA)

- (a) CHLA shall follow Federal Regulations with respect to election of title (ownership) in contracts and grants with Federal agencies.
- (b) The Hospital normally reserves the right to ownership of patents on inventions arising out of research supported in whole or in part by grants or contracts with non-governmental third parties. Contracts or agreements that are entered into between the Hospital and such third parties should contain clauses setting forth such a reservation unless deviations are requested by the Director OTT. In the interest of fair treatment to the sponsor and in consideration of its investment, the Director OTT may negotiate special provisions.
- (c) In order to protect both the integrity of research conducted at the Hospital, and the Hospital's mission to perform research for the public good, Members of the CHLA Community shall not undertake research for a sponsor who either:
 - (i). Prohibits the disclosure of the existence of the agreement between the Hospital and the sponsor; or,
 - (ii). Unduly restricts or prohibits the publication, or other public disclosure, of information or research results developed by Members of the CHLA Community. Delays in public disclosure may be negotiated for the purposes of filing a patent application(s).
- (d) Members of the CHLA Community, other than those so authorized, may not:
 - (i) Sign any agreements (including Material Transfer Agreements or MTA) with outside persons or organizations that address Intellectual Property or relate in any way to this Policy; or,
 - (ii) Without prior authorization, use the name of the Hospital or any of its units in connection with any invention or product in which the Hospital has an interest.

G. Section 3.7. Transfer of Research materials and other Tangible Intellectual Property Outside of CHLA

Research materials and other tangible materials considered CHLA IP (including, but not limited to, transgenic animals, cells, clones, vectors, and invention designs and prototypes) shall be transferred to another party, institution, or other entity *only* if the receiving party has executed an authorized Material Transfer Agreement (MTA), except under the terms of a license agreement.

IV. Section 4. Administration of the CHLA IP Policy

A. Section 4.1. Protecting CHLA IP

1. Section 4.1.1. Patents

- (a) The primary mechanism of protecting inventions is the application for a Patent in the United States and, in specific cases, also in selected foreign countries. Securing patent protection allows CHLA to exclude all others from making, using or selling inventions for a specific term, usually 20 years from the filing of a non-provisional patent application.
- (b) The Hospital recognizes that the evaluation of IP and the administration, development and processing of patents and licensable inventions involves substantial time and expense, and requires talent and experience not ordinarily found among its faculty and staff; therefore, the Hospital maintains the Office of Technology Transfer (OTT) to manage the CHLA IP.
- (c) The Hospital recognizes that inventors and authors should have a significant role in determining how the CHLA IP they create is managed and administered. Notwithstanding, the Hospital reserves the right to manage and administer CHLA IP in the best interests of the Hospital as deemed by the Administrative Director of the Saban Research Institute (SRI), Director OTT, Director SRI, or the CEO of the Hospital, to the extent that such management fully considers the inventor's financial and intellectual interests as outlined in this policy.

2. Section 4.1.2. Copyright

Copyright is a form of legal protection of original works of authorship. At CHLA, the most common examples of original works of authorship are written documents, such as books, journal articles, brochures, and fliers. Furthermore, works do not need to be formally published to have copyright protection. Unlike patents, copyright protection is secured automatically when the work is created, and thus, does not need application for, approval by, or registration with the US Government. However, there are benefits in registering a work under the US Copyright Law (title 17, U.S. Code). Most notably, registering works with the US Copyright Office establishes a public record of the copyright claim. CHLA authors are encouraged to discuss copyright registration with the Director OTT.

3. Section 4.1.3. Public Disclosure of CHLA IP, Confidential Information and Trade Secrets

- (a) Prior to formal legal protection (e.g., patent or copyright), IP may comprise of information that must not be disclosed to third parties, or placed in the public domain. In fact, patent protection may be compromised if the nature of an invention is disclosed to a third party prior to filing a patent application with the appropriate Patent Office. Investigators must ensure that an executed Confidentiality Disclosure Agreement (CDA) or Non-Disclosure Agreement (NDA) is in place before discussing inventions or other CHLA IP with third parties. The OTT will assist in the drafting of an appropriate CDA or NDA.
- (b) In some circumstances, the Hospital may deem that the most appropriate means of protection of an invention is to keep it as confidential proprietary information or a trade secret. A trade secret is defined as information that companies wish to keep secret to give them an advantage over their competitors. Perhaps the most famous trade secret is the formula for Coca-Cola. For IP that the Hospital has deemed either confidential information or a trade secret, it is the responsibility of the inventor(s), and any other Members of the CHLA Community that are privy to the IP, to not inappropriately disclose the nature of the IP.
- (c) Inappropriate disclosure of confidential information is considered a serious violation of Hospital Policy.

B. Section 4.2. Publications

- (a) The Hospital strongly encourages scholarly publication of the results of research by faculty and students. However, in order to fully carry forth the Intellectual Property Policy, all written or electronic

documents submitted for publication or public disclosure, whether in print or electronic format, relating to Disclosed CHLA IP (see Definitions) shall be submitted to the Director OTT for review, this is in addition to any publication requirements of an MTA, grant or contract. The document(s) shall be provided to the Director OTT at the time of submission for publication or public disclosure. It is the responsibility of the author(s) or inventor(s) to ensure that the document(s) are received by the OTT *at least* 60 days prior to the date of publication or public disclosure for journal submissions and books or book chapters, and *at least* 30 days prior to the date of publication or public disclosure for documents (e.g., abstracts, posters, and slide presentations) submitted to meetings. For the purposes of this Section 4.2, written or electronic documents include, but are not limited to: submissions of manuscripts; lectures; abstracts; poster sessions; or symposia.

- (b) The Director OTT, Administrative Director SRI, and/or the Director SRI (or their delegates) shall review the submitted documents in a timely manner and recommend necessary modifications or such other arrangements to protect the Hospital's interests.
- (c) All members of the CHLA community are encouraged to submit written or electronic documents submitted for publication or public disclosure to the Director OTT even if the subject matter does not relate to existing CHLA IP. This will allow the Director OTT to assess nature of the work carried out at CHLA and also determine whether there is any IP in the document(s) that may require formal protection (for example, filing a patent application).

C. Section 4.3. Disclosure of Inventions

4.3.1. Responsibilities of CHLA Staff, Faculty and Students

- (a) It is the responsibility of Members of the CHLA Community who either alone, or in association with others, make an invention to discuss their discovery or invention with the Director OTT. If the invention appears to be a matter that should be considered for patenting, the inventor(s) should prepare a disclosure using the approved Invention Disclosure Form and submit the form to OTT. OTT is available for assistance in the completion of the Invention Disclosure Form.
- (b) For any invention in which the Hospital has an interest, the inventor(s), upon request of the Director OTT shall execute promptly all contracts, assignments, waivers, or other legal documents necessary to vest in the Hospital or its assignees any or all rights to the invention, including complete assignment of any patents or patent applications relating to the invention.
- (c) The Director OTT will promptly acknowledge receipt of disclosures and may distribute the disclosure to the CHLA Intellectual Property Committee (IPC) for review (see Section 4.5). Upon completion of the disclosure and transmittal to the Director OTT, a copy of the document will be submitted by the OTT to the appropriate Department/Division Head or VP.

1. 4.3.2. The Handling of a Disclosure

- (a) The Director OTT may refer the disclosure to the Intellectual Property Committee (IPC; see Section 4.5) for review. OTT and/or IPC may make any of the following recommendations:
 - (i). To submit the disclosure for a formal review of patentability, which may include the inventor(s) presenting their invention(s) to the IPC;
 - (ii). To make inquiries of potential licensees that may have an interest in the invention, including the financing of a patent application, where applicable;
 - (iii). To conduct a patent search;
 - (iv). To apply for a patent with Hospital resources;
 - (v). To waive further Hospital interests in the invention and allow the inventor(s) to apply for a patent. Pursuant to this Section 4.3.2.(a)(vi), if the inventor(s) wish to use funds or resources managed by CHLA (including, but not limited to, discretionary funds or Departmental funds) to support one or more patent applications, then CHLA shall retain ownership rights to the IP as set down in Section 3.
- (b) The Intellectual Property Committee will meet on a monthly basis. OTT will notify the inventor within

four (4) weeks of an IPC meeting or receipt of the disclosure, as applicable, about the disposition of the disclosure.

- (c) Pursuant to the provisions and restrictions of Sections 4.1.3 and 4.2, CHLA inventors and authors shall not disclose the nature of any Disclosed CHLA IP to any third party, or place the Disclosed CHLA IP in the public domain, without discussing in a timely manner the proposed disclosure with the Director OTT (or his/her delegate).

D. Section 4.4. Review of Patent Applications

- (a) For CHLA IP on which one or more patent applications are filed and pending, it is the responsibility of the respective CHLA inventor(s) to provide regular updates on the state of research and development of the invention(s).
- (b) Inventors with pending Provisional Patent Applications are expected to provide updates on the state of research and development of the embodied invention(s) to the Director OTT and the IPC at 6 and 9 months after the filing date (i.e., 6 months and 3 months before the due date for a non-provisional application). Such updates may require the inventor(s) to make a presentation to the IPC.
- (c) Providing updates to the Director OTT and the IPC is a critical component to the process of deciding the level of continued support by CHLA for pending patent applications and issued patents.

E. Section 4.5. CHLA Intellectual Property Committee (IPC)

- (a) The Director SRI, Administrative Director SRI, and the Director OTT shall jointly appoint an Intellectual Property Committee consisting of no fewer than five (5) members. The Director OTT serves as Chairperson of the Committee, unless the Administrative Director SRI or Director SRI approves an alternate. The IPC is an advisory committee that reviews and recommends to the Director OTT, appropriate disposition of invention disclosures, resolves questions of ownership, recommends expenditures of Hospital resources, and makes such recommendations as are deemed appropriate to encourage disclosures and to assure prompt and effective handling, evaluation, and prosecution of invention opportunities and to protect the interests of the Hospital and its staff, faculty and students.

Section 4.6. CHLA Technology Transfer Oversight Committee (TTOC)

- V. The TTOC consists of at least nine (9) members. Members include the CEO, Director Saban Research Institute, the head of the Office of Technology Transfer (OTT) and a representative of the Office of General Counsel. The TTOC is chaired by the CEO. The TTOC provides the guidance, policy direction, oversight and support of OTT.

VI. Section 5. Licensing and Commercialization.

A. Section 5.1. Licensing

- (a) A license agreement represents formal written permission for a third party (the Licensee) to make, use, and/or sell the property of another (the Owner or Licensor). Licensing is the primary means used by CHLA to commercialize IP. Although Licensees usually reap the bulk of the financial gain from the commercialization of the IP, the Licensor (in this case, CHLA) receives income through licensing. The income that the Licensor receives typically derives from four different types of payments from the Licensee. (1) The license fee – the fee that the Licensee pays to secure the license. (2) A yearly maintenance fee – paid in order to keep the license active. (3) Milestone payments – paid by the Licensee upon reaching significant developmental stages of the IP. (4) A running royalty - percentage of the net sales of the commercialized product of the IP. These four types of payments represent the Royalties or Income. Some license agreements may incorporate payments specifically to support research; such sponsored research funding is not considered Income for the purposes of Royalty Sharing (see Section 5.2.).
- (b) The negotiation of CHLA interests in license agreements is solely the responsibility of the OTT, with

final approval by one or more of the Authorized Persons (See Section 6). With the exception of the Director OTT (or his/her delegate) and the Authorized Persons, no Member of the CHLA Community may:

- (i) Promise or infer acceptance of any provisions of a future or pending license agreement to a third party;
- (ii) Promise or infer that a future or pending license agreement will be approved by CHLA.
- (c) Although the OTT will diligently seek licensing opportunities that are in the best interests of the Hospital, the Director OTT will use best practices to ensure that the financial expectations of the inventor(s) or author(s) are considered.

B. Section 5.2. Royalty Sharing

- (a) The Hospital agrees to share a proportion of the Net Income received with the author(s) or inventor(s) and their research program(s). Net income includes all income received by CHLA from the sale or licensing of IP (excluding research funding and sponsored research contracts) less all expenses incurred by CHLA attributable to publishing, patenting (including patent searches, filing, prosecution, and maintenance), litigation, licensing, auditing, and marketing. CHLA shall maintain accurate records and documentation of all expenses attributable to managing CHLA IP. Details of expenses incurred for CHLA IP will be made available to the associated CHLA inventor(s) on written request. OTT will use best practices to manage the CHLA IP and will not use unsupported and/or unreasonable expenses to reduce the Net Income.
- (b) If CHLA is obligated to disburse income to one or more third party institutions, companies, foreign governments or to the US Government (see Section 5.5), such third party Royalty share(s) shall be taken from the net income, as contractually defined.
- (c) The Hospital will share with the author(s) or inventor(s) between 35 and 55% of the Net Income less any third party Royalty share (see Sections 5.2(b) and 5.5) and subject to the cumulative lifetime net income as shown in Table 1 below.
- (d) The Hospital will share 10% of the Net Income with the author(s) or inventor(s) research program(s), which can be used, at the discretion of the author(s) or inventor(s), to support the research and/or educational activities of the author(s) or inventor(s), or donated to the author(s) or inventor(s) respective CHLA Program, Division, or Department, but must be used for research or education purposes only. If an inventor or author elects to donate the Program Share to his or her CHLA Program, Division, or Department, these funds shall not be used to cover the salary or stipend of the inventor or author. The Program Share shall be disclosed by the OTT to the appropriate Division or Department Head, or VP. If there are two or more authors or inventors, the disbursement of the Program Share shall be based on the provisions of Section 5.2(i). The provisions of this Section 5.2(d) only apply to authors and inventors who are Members of the CHLA Community.

Table 1. Disbursement of Net Income

Cumulative Net Income	Inventor/Author Share	Program Share	Hospital Share	IP R&D Fund Share
<\$100K	55%	10%	15%	20%
\$100K to \$500K	45%	10%	15%	30%
>\$500K	35%	10%	15%	40%

- (e) For each License Agreement, upon termination of all associated authors or inventors employment with or work at the Hospital, the program(s) share is/are forfeited, to be distributed equally between the Hospital and the IP R&D Fund. The author(s) or inventor(s) will still receive their share of any income received. In the event of the death of the inventor or author, the Inventor/Author Share shall inure to the benefit of his or her estate.
- (f) The Hospital will allocate 20 – 40% of net income to the IP Research and Development Fund (see Section 5.3. below). This allocation may be increased pursuant to the provisions of Section 5.2(e) above.

- (g) The Hospital Share of the net income shall be allocated by the Hospital's President and CEO solely to support financially the research and/or educational activities of the Hospital. To the extent that such revenue is allocated to the SRI, those funds shall be administered and managed by the Administrative Director SRI subject only to the authority and supervision of the Director SRI and/or the Hospital's President and CEO.
- (h) Net income shares will be disbursed at least twice a year in July and January.
- (i) All co-authors and co-inventors are required to sign an Income Sharing Agreement detailing the percentage distribution of the Inventor/Author Share to each co-author or co-inventor, including any non-CHLA co-author(s) or co-inventor(s). In the absence of a Sharing Agreement filed with the Office of Technology Transfer, the inventor/author disbursement will be shared equally amongst the inventor(s) or author(s). If an inventor or authors wishes to use their Inventor/Author Share, in whole or in part, as personal income, the Hospital will require Tax ID information before disbursing said monies.
- (j) The Hospital recognizes that receipt and disbursement of Royalty and Licensing income may create a conflict of interest or potential for conflict of interest for the inventor(s). In such cases, the Director OTT (or his/her delegate) shall refer the case to the CHLA Conflict of Interest in Research Committee (COIRC).

C. Section 5.3. IP Research and Development (R&D) Fund

- (a) The Hospital will allocate 20 – 40% of net income (subject to the provisions of Section 5.2(e) above) to the IP R&D Fund. This share shall be used at the discretion of the Administrative Director SRI with consultation from the Director OTT with guidance from the Intellectual Property Committee to support the research, development, and commercialization of CHLA IP.
- (b) The IP R&D Fund will be capped at \$10 million, based on the balance at the end of the financial year. The re-allocation of funds in excess of this cap shall be to support financially the research and/or research education needs of the Hospital and Research Institute as agreed by both the CEO and Director of Research, and approved by the Academic Council.

D. Section 5.4. Equity

In a typical licensing transaction, CHLA grants the company rights to use the technology in exchange for certain license fees and royalty payments

In some cases, however, the company that CHLA determines is best positioned to develop the technology is a small company that is not reasonably able to provide adequate compensation for licensing in cash. In such situations, CHLA may choose to accept Equity in that company, in partial lieu of cash, to facilitate the practical application of a CHLA technology for the general public benefit while providing CHLA with additional financial compensation for the value of the technology contributed.

CHLA recognizes that the acceptance of Equity has the potential to create a conflict of interest for the hospital and inventors because an equity holder stands to gain personally if the company does well, and thus potentially has or may appear to have an incentive to take actions that favor the company's interests over the health care, research and academic missions of the hospital. These guidelines are intended to strike a balance between permitting the holding of Equity in appropriate situations and minimizing conflict of interest concerns.

a) Acceptance

- (i) CHLA's acceptance of Equity in consideration of licensing a CHLA technology shall be based upon the principles of openness, objectivity and fairness in decision-making, and the preeminence of the education, research, and public service missions of CHLA over institutional or individual financial gain. Such licensing activity shall be conducted in accordance with this policy, CHLA Guidelines for Licensing to CHLA-Derived Start-Up Companies, the CHLA Conflict of Interest and Commitment in Research Policy, CHLA's Policy on Integrity in Research, and any other applicable CHLA policies and guidelines.

- (ii) CHLA shall handle all subsequent relationships with a company in which CHLA has accepted Equity in a business-like manner pursuant to relevant CHLA policies and guidelines.
- (iii) The terms of a technology licensing-related transaction where Equity is a component of the consideration to CHLA are generally expected to be consistent with the terms of other CHLA transactions involving comparable technologies where no Equity is received by CHLA.
- (iv) CHLA shall not hold a controlling interest in a company.
- (v) CHLA's relationship to a company in which it owns Equity will be an arms-length relationship. CHLA will maintain the right to vote as a shareholder and generally will not hold an active seat on the licensee's governing board nor exercise any voting rights on board actions. However, exceptions may be made on a case-by-case basis as approved by the Technology Transfer Oversight Committee (TTOC) in consultation with the Conflict Of Interest and Commitment in Research Committee (COIRC). CHLA may accept non-voting, observer positions on such company's board.

VII. b) Management

- (i) All Equity obtained by CHLA in connection with a license or other agreement negotiated by OTT will be held and controlled by CHLA's Chief Financial Officer (CFO) in accordance with applicable CHLA policies and procedures.
- (ii) Any reasonable documented costs of managing the Equity may be deducted as expense from income prior to sharing the income as provided in this policy.

VIII. c) Sale and Distribution

- (i) All Equity received as compensation under a license agreement, including the Inventor/Author Share, Program Share, Hospital Share and IP R&D Fund Share detailed in this policy will be received in the name of CHLA. CHLA shall hold such Equity until the first Liquidation Event and shall liquidate such Equity upon such event. Except that, with regard to the inventor's share of the Equity, CHLA shall give the inventors the opportunity to retain all or part the Equity in lieu of cash.
- (ii) The proceeds from the liquidation of the Equity (net of costs) shall be distributed in accordance with this policy as applicable to all consideration received from the licensing of CHLA intellectual property.
- (iii) In no event shall CHLA be responsible to the Inventors/Authors for any loss of value that may occur during the period between the receipt of the Equity and its distribution.
- (iv) Any cash or other dividends previously paid by a company on Equity securities and accumulated by CHLA shall be distributed on the same basis as the Equity securities upon which such dividends were paid.
- (v) Distributions shall be made in accordance with all federal, state, and other applicable securities laws, including the rules and regulations of the SEC.

A. Section 5.5. Royalty Disbursement to Third Parties

1. Section 5.5.1. General

- a) CHLA realizes that funding agencies and foundations may require Royalty sharing clauses within grants and contracts. Prior to approval by an Authorized Person, the Director OTT, in consultation with the Intellectual Property Committee and the Administrative Director SRI, shall review all agreements with such third party Royalty sharing clauses. The Director OTT may make one of the following recommendations in reference to the inclusion of Royalty sharing clauses:
 - (i) To not approve the agreement unless the third party Royalty sharing clause(s) is/are removed;
 - (ii) To not approve the agreement unless the third party Royalty sharing clause(s) is/are revised so that the Royalty share reflects the level of support provided by the third party up to a maximum of 40% of the Net Income;
 - (iii) To approve the third party Royalty sharing clause(s) as is. However, unless the provisions of Section 5.5(ii) are met, the Hospital may not pursue any patent applications or licensing of IP

conceived, derived, developed, or reduced to practice using funding provided under the terms of the specific agreement. This restriction does not affect the Hospital's rights of ownership as set down in Section 3.

- b) These options shall not be deemed as approval of the complete agreement in the absence of the normal review process. Furthermore, for each agreement containing third party Royalty sharing clause(s), it is the responsibility of the CHLA Principal Investigator(s) to explain the consequences of said clause(s) to all investigators and staff funded by, or otherwise affected by, the agreement, prior to implementation.

2. Section 5.5.2. US Government

The Hospital acknowledges that agreements with the US Government (including NIH, DOE, NSF, and DOD) represent a special case. Thus, the provisions of Section 5.5.1. do not apply to agreements with the US Government. However, the Director OTT, in consultation with the Administrative Director SRI, may request revision of any income-sharing clauses that exceed the restrictions of Section 5.5.1.

B. Section 5.6. Conflict of Interest or Commitment

1. Section 5.6.1. Conflict of Commitment:

Members of the CHLA community owe their primary professional allegiance to CHLA, and their primary commitment of time and intellectual energies should be to the education, research and scholarship programs of the Institution. The specific responsibilities and professional activities that constitute an appropriate and primary commitment will differ across departments/divisions, but they should be based on a general understanding between the faculty member and his or her Department/Division Chair or appropriate VP.

2. Section 5.6.2. Conflict of Interest:

- (a) A conflict of interest occurs when there is a divergence between an individual's private interests and his or her professional obligations to the Institution such that an independent observer might reasonably question whether the individual's professional actions or decisions are determined by considerations of personal gain, financial, or otherwise. A conflict of interest depends on the situation, and not on the character or actions of the individual.
- (b) Conflicts of interest are common and practically unavoidable in a modern research institution. At CHLA, conflicts of interest can arise out of the fact that a mission of the Institution is to promote public good by fostering the transfer of knowledge gained through Institutional research and scholarship to the private sector. Two important means of accomplishing this mission include faculty consulting and the commercialization of technologies derived from faculty research. It is appropriate that faculty be rewarded for their participation in these activities through consulting fees and sharing in royalties resulting from the commercialization of their work. It is wrong, however, for an individual's actions or decisions made in the course of his or her Institution activities to be determined by considerations of personal financial gain. Such behavior calls into question the professional objectivity and ethics of the individual, and it also reflects negatively on the Institution. Childrens Hospital Los Angeles is an institution of public trust; faculty must respect that status and conduct their affairs in ways that will not compromise the integrity of the Institution.
- (c) Faculty members should conduct their affairs so as to avoid or minimize conflicts of interest, and must respond appropriately when conflicts of interest arise. Every CHLA faculty member has an obligation to become familiar with, and abide by, the provisions of CHLA's Conflict of Interest in Research policy. If a situation raising questions of conflict of commitment or interest arises, faculty are urged to discuss the situation with the department chair, the Director SRI or the COIRC.

IX. Section 6. Approval and Execution of Documents

- (a) The Office of Technology Transfer (OTT), or its delegate, has the sole right to negotiate agreements regarding the use, commercial development, distribution, publication, transfer, and other exploitation

of intellectual property which is owned by the Institution or to which the Institution has rights under this policy.

- (b) Such Agreements can only be executed by CHLA's General Counsel, the Administrative Director SRI or the CEO (Approved Persons) in consultation with the TTOC and the Director OTT. The Approved Persons may delegate execution authority to the Director OTT.

X. Section 7. Policy Violations and Disputes

A. Section 7.1. Response to Policy Violations

- (a) Violations of this policy will be subject to sanctions as described in the policies and procedures governing the conduct of Faculty and Staff at Childrens Hospital Los Angeles to include the Faculty Handbook and Staff Employment Policies and Procedures. In said cases of violations by the faculty, the chairperson of the IPC will inform the Director SRI of the reported allegations of policy violations. The Director SRI shall institute an inquiry to determine (a) if the allegation(s) is substantiated, (b) the scope and seriousness of violation (c) and the impact of the violation on the Institution's claims to the specified Intellectual Property in question. Based on the findings of the inquiry, the Director SRI will recommend to the President and CEO disciplinary actions to be taken.
- (b) Members of the CHLA Community should carefully consider the provisions of Section 3 before initiating discussions or negotiations with third parties.

B. Section 7.2. Resolution of Disputes

Any disputes that arise in connection with the interpretation of this policy shall be resolved by the CEO with the advice of VP Legal Affairs and the Board of Trustees.

Author: Office of Technology Transfer