

**The Kauffman “Free Choice” Proposal:
A Response to the Memorandum of August 17, 2009, to Esther Lee, Department of
Commerce**

Slide 1

Thanks, Charles.

And thanks to COGR for providing me an opportunity to respond to the proposal from Bob Litan and Lesa Mitchell of the Kauffman Foundation that federal rulemaking occur permitting faculty inventors to freely choose the licensing agent for their inventions, whether affiliated or not with their university.

I also thank Lesa Mitchell and John Tyler for their willingness to participate in the panel discussion today and to further explain their proposal.

Notwithstanding the comments we’ve just heard from Lesa, it is important that we focus on the points made in the Memorandum submitted in August 2009 to Esther Lee of the Department of Commerce, since that is a document of record for the “free choice” proposal.

I also want to make sure I cover issues associated with a generic Free Choice requirement in my allotted time.

I have three major points that I want to make today regarding the “free choice” proposal.

Slide 2

First, there is no credible evidence that university technology transfer offices or TTOs, large or small, are sub-optimal or underperforming as asserted in the proposal.

Second, there is no evidence that the specific “free choice” proposal would work. In fact evidence demonstrates that it is a bad idea and for many reasons will harm commercialization of university inventions.

And third, the proposal contains a flawed understanding of university technology commercialization, Bayh-Dole, and the mission of universities.

So, let’s examine each of these major points in detail.

Given the sophistication of this audience and the need to cover a lot of ground, I’m going to move quickly through many specific details and merely list them.

Slide 3

What is the real story on the performance of TTOs?

Did you know that 34 percent of the American public believes that UFOs exist? Indeed, 1 in 12 claims to have seen a UFO!

Even better, New Yorkers believe that large albino alligators infest the city sewage system.

And my favorite, 94 venture capitalists when surveyed stated that they thought university TTOs were hard to work with. Of course, no one interviewed the TTOs to see what THEY thought about venture capitalists.

Underperformance is an urban myth, just like the alligator story!

It's asymmetric or one-sided reporting that has little or nothing to do with the performance of TTOs. Technology commercialization is a "contact sport" as is easily reflected through the opinions expressed in such surveys and anecdotal stories.

We cannot base assumptions about performance, good or bad, on such stories and reports. What we need are specific case studies reported in refereed journals using proven data analysis techniques.

Furthermore, positing simplistic and unsupported explanations for complex issues such as NIH funding versus rate of FDA drug approval as evidence for TTO underperformance and the need for a Free Choice requirement is a waste of everyone's time.

Also, IP "out the back door" is no longer a problem in UT System institutions as we continue to improve our commercialization operation in the right way.

Understaffing is a real issue, but a Free Choice requirement through competing TTOs offers no credible business plan for how that will be solved.

The Kauffman Foundation seems obsessed at times with speed to market rather than quality deals. Quality deals require a complex ecosystem with TTOs using a complex set of strategies in a situational matrix, not for-profit TTOs.

Revenue distribution is also not a determinative factor in commercialization.

Slide 4

AUTM data as shown in this slide clearly reflects a robust system where trained professionals make many quality deals every day without any of the angst that anecdotal stories and pundits would have us believe exists.

Furthermore, invention disclosures that truly have commercial potential are professionally managed and don't sit on the shelf. The putative "pot of gold" of unprocessed inventions with commercial potential is another one of those myths that need to be dispelled.

Slide 5

While AUTM data display part of the story, the "rest of the story," as Paul Harvey would say, is one of transformational culture change in universities, experimentation in all forms of technology commercialization, networking and sharing of best practices, and rapid advances in the complex art and science of commercialization and regional engagement.

The Kauffman mantra that universities are myopically focused on licensing and patents for revenue generation is badly dated and doesn't remotely reflect the innovation/commercialization ecosystems being formed in all our states.

Let me just quickly demonstrate this point by describing parts of the Texas ecosystem.

We have over 100 trained professionals with all kinds of councils, networking, and mechanisms for sharing best practices and reviewing case studies across the entire space of transfer and commercialization.

We have 12 incubators and our campuses are currently working with over 250 startup companies. Online resources through our Ideas on Fire program provides free entrepreneurial training for faculty.

Our Board of Regents blessed commercialization as appropriate in tenure and promotion decisions and a requirement for mission statements. Their Texas Ignition Fund has supported 40 proof-of-concept grants with nearly 10 startups already formed and more coming.

The State of Texas continues to support commercialization through large-scale funding.

These are just a small sample of the transformational activities underway in Texas and they are representative of the full spectrum of actions universities and states are taking.

Slide 6

What about the performance of campuses with a modest level of research expenditures? Again, let me demonstrate the "rest of the story" from Texas.

The UT Brownsville Incubator has mentored nearly 60 start-up companies since 2003. ConsultingPoint in particular has a contract with NASA.

UT Pan American has created a new incubator to work the NAFTA economy and the many Fortune 500 companies located in the valley. FibeRio is an excellent case study of a faculty spinout company that made use of an extended relational network. Brownsville and Pan Am each have about \$10M in research expenditures.

At about \$5M in research, two startups from UT Permian Basin participated in an NCET2 competition webinar with one company making it to the final round.

UTEP at about \$50M in research is in a rapid growth commercialization mode with SENEXTA as an example of a spinout company.

Does this sound like sub-optimal or underperformance? No. Technology transfer and commercialization is a self-improving, self-adapting system at universities that is rapidly enhancing the movement of invention disclosures to the marketplace, no matter the size of the operation. Can we improve our performance? Of course! And I submit that we are doing just that.

Let's turn now and talk about "free choice" as a required option for faculty inventors. What are the problems with Free Choice?

Slide 7

First of all, similar practices didn't work before Bayh-Dole and they haven't worked internationally. Indeed, countries around the globe continue to move to the successful American model.

Free Choice will slow down commercialization with increased complexity such as the

- Complexity of multiple inventors and overlap with other technologies, the
- Complexity from the overlap of funding sources, the
- Complexity arising from multiple managers of the IP, and the
- Balkanization of faculty IP portfolios, tangled legal obligations, and legal and financial liabilities.

Free Choice will significantly increase faculty conflict of interest and conflict of commitment and lead to yet more conflict management plans which must be negotiated with faculty. Personal benefit over societal benefit, which is counter to Bayh-Dole, is a likely outcome.

Free Choice operationally equates to faculty ownership of IP. While some faculty members are outstanding entrepreneurs, faculty overall don't have the practical experience to make such free choices or to manage their IP, nor are most interested in doing so.

We've all had the experience of rescuing faculty from bad deals in those cases where we have turned management of the IP back to the faculty. And we do return IP to the faculty. Mostly, nothing happens as a result.

Slide 8

Free Choice ignores the investment by universities in inventions. It begs the question of who bears the cost of commercialization. Inventors don't want to bear that expense and neither will third-party entities. Home institutions in particular will be reluctant to risk money on IP managed by others.

Free Choice could lead to the emergence of 3rd party licensing and patenting entities other than universities. The Kauffman proposal argues that competition would be great, but competition is not the issue.

The issue is building and maintaining a sustainable innovation and commercialization ecosystem that nurtures ALL of our IP to the market. It's not just about licensing and patenting! What third-party business model is going to do that? What we will get is a slow-down in commercialization, costs being driven up, and cherry picking of IP.

Free Choice, when practiced by university TTOs, will amount to committing the resources of other universities. No one is going to do that.

Slide 9

In Texas, universities as state agencies have a fiduciary responsibility to obtain fair value for IP that they own. This will be difficult to manage through 3rd parties.

And as we've shown, there is no evidence that Free Choice would improve the performance of more modest operations.

Personally, I believe that one of the biggest problems with Free Choice is the harm it would do to the faculty/TTO relationship. Universities have a stewardship and even a fiduciary responsibility to our faculty inventors and the sponsors of our research to maintain best practice in the commercialization of inventions and innovations.

That responsibility requires the building and maintenance of close relationships with faculty inventors and fidelity to the diversified and differentiated cultures of individual institutions. Understanding faculty vision, objectives, and motives is essential to forming quality licensing deals and absolutely critical to the formation of startup companies.

Without that relationship, commercialization of university IP is in trouble. The University of Texas System, MIT, WARF, Stanford, and universities in general believe it to be inappropriate and a poor business plan to handle inventions from inventors outside of our own institutions and we have no interest in doing so.

Simply put, a requirement for faculty Free Choice will harm university commercialization and should not be done.

Slide 10

The Kauffman proposal for Free Choice is based on a flawed understanding of the Bayh-Dole Act, the missions of American universities, and the priorities and operations of TTOs in support of those missions.

Bayh-Dole is about promoting public benefit from the fruits of discovery achieved through federal funding of research. It does not mention the generation of revenues for universities or faculty inventors as an objective.

While not everyone is as adept as some at achieving this broader goal, we are all on the learning curve and improving every day. Furthermore, the federal government does not fund university research primarily for the purpose of developing commercial technologies. University research funding is about knowledge transfer through:

Education of students and the 21st century workforce as agents of technology transfer,

Creation and dissemination of knowledge through publications, symposium, and conferences,

An increase in the storehouse of STEM knowledge,

Enhancing national research capacity, capabilities, and infrastructure, and

Assuring that America remains the world leader in discovery and innovation.

Public policy on innovation, entrepreneurship, and technology commercialization must not be based on anecdotal stories, surveys of groups who have personal agendas, disgruntled participants, or a failure to understand the complex dynamic and structure that defines university technology commercialization.

We should listen to the voice of experience and do the necessary reality checks.

We must recognize that a metamorphosis of the commercialization organism is underway.

Some only see a worm or a cocoon. I see the emergence of a beautiful butterfly.

But the metamorphosis is going to take time and often look like a worm. Let's enjoy the process.

In my opinion, the Kauffman Free Choice proposal is an evolutionary dead end and we should stop spending time on it.

I challenge the Kauffman Foundation to take their "mulligan" on this one, to use a golfing term, and let's move on to new ideas that have buy-in from all the players and a chance to actually accelerate technology commercialization.

Thank you.