

GIFT AGREEMENT BETWEEN THE
MCKNIGHT BRAIN RESEARCH FOUNDATION
AND THE UNIVERSITY OF ARIZONA

This Agreement is made as of the 17th day of October, 2006, by and between the McKnight Brain Research Foundation (the "MBRF") and The Arizona Board of Regents, a body corporate, for an on behalf of The University of Arizona (the "University") and all references herein shall be "Gift Agreement".

1. **The Gift.** The MBRF agrees to contribute an aggregate \$5,000,000 (the "Gift") to the University. The first \$1,000,000 shall fund an endowed chair, (the "Chair") as further described herein. The Chair shall be subject to the "Endowment Gift Agreement" attached to this document as Attachment A. The remaining \$4,000,000 (the "Fund") will not be an endowment and will fund the work of the Evelyn F. McKnight Brain Research Institute, (the "Institute") at the University of Arizona. Administration of the Chair, the Institute and the Fund shall be carried out in accordance with this Agreement and Endowment Gift Agreement, as applicable.

1. **Purpose of Gift.** The purpose of the Gift is to promote research and investigation of the brain and the fundamental mechanisms that underlie the neurobiology of memory with clinical relevance to problems of age related memory loss. All references herein to purpose or purposes shall be to this purpose (the "Purpose"). Research emphasis shall be placed on the memory loss associated with the normal aging process, rather than disease-associated cognitive changes that can occur during aging.

2. **Schedule and Form of Contributions.** The MBRF will make five (5) transfers to the University as follows:

\$1,000,000 on or before November 1, 2006 (contribution to "the Chair")
\$1,000,000 on or before August 1, 2007 (contribution to "the Fund")
\$1,000,000 on or before August 1, 2008 (contribution to "the Fund")
\$1,000,000 on or before August 1, 2009 (contribution to "the Fund")
\$1,000,000 on or before August 1, 2010 (contribution to "the Fund")

3. **University Commitments.** References to University Commitments are to the Chair, the Institute, and the Match, as defined herein.

4. **University Match.** The MBRF is making this Gift contingent upon a 100% match by the University or University donors of each transfer described in Section 3 at the time of the transfer (the "Match"). It is agreed the Match is a University Commitment as defined in Section 4.

5. **Prohibited Uses.** The University agrees that no portion of the Gift will be used to directly or indirectly construct, purchase, improve or maintain real property, or pay overhead or indirect costs, or otherwise be used for other than direct expenditures in furtherance of the Purpose. (Such use is referred to herein "Prohibited Use"). Specifically, the Fund shall not be subject to the University's Facilities and Administrative Cost Rate or Administrative Service Charge, but will be subject to the University's Development Fund Fee, Investment Management Fee and Employee Related Expense Rate (employee related expenses and fringe benefits such as F.I.C.A., retirement, employee health insurance, etc). All reports provided to the MBRF will include an affirmative statement to the effect that no portion of the Fund or distribution from the Fund has been used for any Prohibited Use.

6. **Commercial Exploitation.** The University and the MBRF agree that if any property is developed, invented, created, or otherwise results from the research conducted as a result of the Gift, the property will be owned by the University, and the University agrees that

any funds derived there from will be allocated according to University policy, as the same may exist at the time of the commercial exploitation; provided, however, the share allocated to the University shall be used for the Institute. A copy of the current University of Arizona Intellectual Property Policy is attached as Exhibit 2.

7. **Recognition.** The Gift will be given recognition similar to recognition the University gives to similar, in dollar amount, gifts. For this purpose, the dollar amount of the Gift shall include the Match. The University agrees that press releases and other information announcing the Gift shall be subject to prior MBRF approval.

8. **Endowed Chair.** The University agrees to establish the Evelyn F. McKnight Chair for Learning and Memory in Aging (the "Chair") in perpetuity. It is agreed that the first \$1,000,000 of the Gift shall be used to establish the Chair. The Purpose of the Chair shall be as stated in Section 2 and further described in Schedule 9.

8.1 **Naming of the Chair.** It is anticipated the University will periodically name a qualified person of national prominence to the Chair. The initial person appointed to the Chair will be Carol A. Barnes, Ph.D. The Chair will not remain vacant for more than one (1) year without approval of the MBRF. The University agrees the naming of subsequent Chairs shall be made in consultation with the MBRF. The occupant of the Chair will be a full time member of the University Faculty. In the event the Chair does not fulfill the Purpose of or does not carry out the goals and objectives of the Institute or the Chair, McKnight may request the removal and naming of another Chair. References herein to the Chair shall mean either the occupant of the Chair or the Chair as context dictates.

8.2 Chair Reports and Consultation. At least annually, the Chair will prepare an annual report to the MBRF that describes the research programs and how the research programs further the Purpose. The report will be delivered prior to December 31st each year following the University's fiscal year end.

At the request of the MBRF, the Chair and the MBRF will confer about research programs and the make-up of further research programs and how they further the Purposes of the Chair. The MBRF recognizes this is a consultation arrangement. The annual report from the Chair will include an affirmative statement both that the Gift is not being used for a Prohibited Use, as described herein, and the Gift is being used in a manner consistent with and in furtherance of the Purpose outlined in Section 2 and as provided in Section 6. The Chair will create collaboration both within the University and with other programs outside the University whose work is similar to the Purpose and Section (vii), F.1. of Schedule 10.8.

9. Evelyn F. McKnight Brain Institute at the University of Arizona. The University will establish the Evelyn F. McKnight Brain Institute (the "Institute") on a permanent basis within the University of Arizona. Carol A. Barnes, Ph.D. will be appointed the initial Director of the Institute. If Dr. Barnes should leave the University, the University will name a person whose research is in furtherance of the Purpose as the Director of the Evelyn F. McKnight Brain Institute. The University agrees the naming of subsequent Directors shall be made in consultation with the MBRF. The Director will always be a full time member of the University Faculty.

9.1 Continuation of Institute. The Institute will exist in perpetuity. Schedule 10.1 is a description of the plans for the Institute. The activities conducted in the

future at the Institute will be at substantially the same level, quantity and quality, or greater than the activities described in Schedule 10.1 and 10.8.

9.2 **Fund Distributions.** Schedule 10.2 is an estimate, describing the timing of distributions and uses of distributions from the Fund. The MBRF recognizes both timing and uses may, and probably will, change. In the event of a material change to Schedule 10.2, the Institute will consult with the MBRF. In all events, the use of the Fund will be consistent with the Purpose and will not be a Prohibited Use.

9.3 **Modification.** The MBRF recognizes that Schedule 10.1 is a general plan that will undergo changes in detail from time to time. However, Schedule 10.1 and the Purpose together form an overview of the understanding of the University and the MBRF as to the general parameters of the Institute activities and goals. The annual report will describe any proposed changes in the Purpose or the Institute's activities anticipated in the coming year, and such change in the Purpose or the Institute's activities will require approval of the MBRF, which approval will not be unreasonably withheld.

10. **Gift Refund.** Gifts are irrevocable, and the University is not expected to return all or part of the Gift. However, in the event that the University is unable to carry out one or more University Commitments, then at the discretion of the University, the University will return an amount equal to the unexpended portion of the Chair to the MBRF. Approval for such a return will be made by the Assistant Vice President for Financial Services of the University or designee, in consultation with the University Director of Development.

12. **University Qualification.** The Internal Revenue Service has declared the University (Federal Tax Identification No. 866004791) to be an organization described in

Section 115 of the Internal Revenue Code of 1986, as amended. Deductions for contributions to the University are allowed by virtue of Section 170 (c)(1) of the Internal Revenue Code.

13. **Entire Agreement.** This Agreement constitutes the entire Agreement among the parties and supercedes any prior understandings, agreements, or representations by and among the parties written or oral to the extent that they were in any way related to the subject matter hereof. References to Section or Sections are to Sections of this Agreement and references to Schedule or Schedules are to Schedules of this Agreement.

14. **Notices.** Notices hereunder shall be given to the parties set forth below and shall be made by hand delivery, facsimile, overnight delivery or by regular mail. If given by regular mail, the notice shall be deemed to have been given within a required time if deposited in the U.S. mail, postage prepaid, within the time limit. For the purpose of calculating time limits which run from the giving of a particular notice, the time shall be calculated from actual receipt of the notice. Any deadline which falls on a Saturday, Sunday or legal public holiday, shall be extended to the next business day. Notices shall be addressed as follows, or to such other address as is designated in writing by the University or the MBRF to the other party.

If to the University:

Evelyn F. McKnight Brain Institute
Life Sciences North Building, room 384
PO Box 245115
University of Arizona
Tucson, AZ 85724-5115
Telephone: (520) 626-2312
Facsimile: (520) 626-2618

If to the MBRF:

c/o SunTrust Bank, Corporate Trustee
P.O. Box 620005
Orlando, Florida 32862-0005
Attention: Teresa W. Borcheck, Senior Vice President
(407) 237-5907 (o)
(800) 432-4760, ext 5907 (o)
(407) 237-5604 (f)


15. **Severability.** Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any jurisdiction.

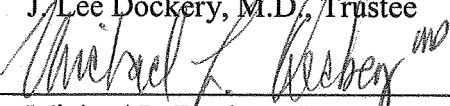
16. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona.


17. **Authorization.** The MBRF and the University represent that each has the full power and authority (including full corporate power authority) to execute and deliver this Agreement and to perform its obligations hereunder.

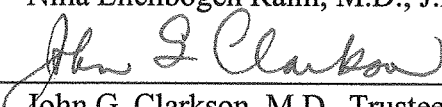
[Signatures follow on next page.]

**McKNIGHT BRAIN RESEARCH
FOUNDATION**

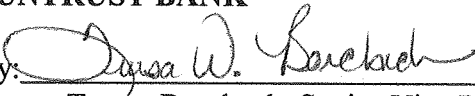
By: 
J. Lee Dockery, M.D., Trustee

By: 
Michael L. Dockery, M.D., Trustee

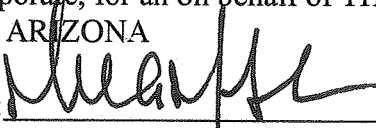
By: 
Nina Ellenbogen Raim, M.D., J.D., Trustee

By: 
John G. Clarkson, M.D., Trustee

SUNTRUST BANK


By: 
Teresa Borcheck, Senior Vice President

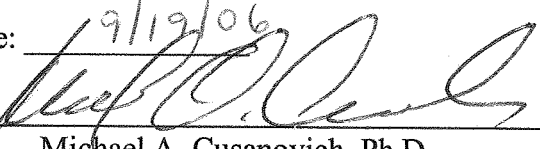
**THE ARIZONA BOARD OF REGENTS, a body
corporate, for an on behalf of THE UNIVERSITY
OF ARIZONA**

By: 
Mark A. McGurk
Comptroller, University of Arizona

Date: 9/15/06

UNIVERSITY OF ARIZONA

By: 
Leslie P. Tolbert, Ph.D.
Vice President for Research
University of Arizona

Date: 9/19/06
By: 
Michael A. Cusanovich, Ph.D.
Director, Arizona Research Laboratories,
University of Arizona

Date: 9/18/06

SCHEDULE 7.1

The University of Arizona Intellectual Property Policy is attached as Exhibit 2.

SCHEDULE 9

DESCRIBE CHAIR

The Evelyn F. McKnight Chair for Learning and Memory in Aging will serve as Director of the Evelyn F. McKnight Brain Institute at the University of Arizona. The Chair will establish a research program that furthers the Purpose of the Chair. The initial person appointed to the Chair will be Carol A. Barnes, Ph.D.

The Chair will ensure that the highest quality research projects are supported, aimed at an understanding of normal brain aging and its impact on cognition, consistent with the Purpose. In addition, the Chair will facilitate interactions among those scientists in the State of Arizona and elsewhere who can interact synergistically to develop novel approaches to understanding the neural mechanisms of memory loss in aging and potential therapeutic interventive strategies. The Chair will report to the Director of Arizona Research Laboratories and to the Vice President for research for Research.

SCHEDULE 10.1

INSTITUTE PLANS

The focus of the McKnight Brain Institute at the University of Arizona is to understand the neural basis for cognitive changes that occur during the process of normal aging. The goal of the proposed Institute is both to develop the tools necessary for reaching such an understanding of the aging brain, using appropriate animal-models as well as humans, and to implement these tools in well-designed studies that will characterize the nature of brain changes during normal aging and distinguish such normal changes in memory from those that reflect pathological conditions. Understanding normal aging is a prerequisite both to early detection and treatment of disease states and to the development of approaches that optimize cognitive function in healthy older persons. The Institute will create collaboration both within the University and with other programs outside the University whose work is similar to the Purpose and Section (vii), F.1. of Schedule 10.8.

SCHEDULE 10.2

PROPOSED FUND DISTRIBUTIONS

McKnight Contribution for Endowed Chair (only shown for 15 years)
(Estimates 9.3% Annual Interest Return)

	yr 1 2006/2007	yr 2 2007/2008	yr 3 2008/2009	yr 4 2009/2010	yr 5 2010/2011	yr 6 2011/2012	yr 7 2012/2013	yr 8 2013/2014
McKnight Contribution	\$1,000,000							
Principal	\$1,000,000	\$1,049,000	\$1,100,401	\$1,154,321	\$1,210,882	\$1,270,216	\$1,332,456	\$1,397,747
Long-term growth (4.9%)	\$49,000	\$51,401	\$53,920	\$56,562	\$59,333	\$62,241	\$65,290	\$68,490
Interest Income to Chair (3.6%)	\$36,000	\$37,764	\$39,614	\$41,556	\$43,592	\$45,728	\$47,968	\$50,319
		yr 9 2014/2015	yr 10 2015/2016	yr 11 2016/2017	yr 12 2017/2018	yr 13 2018/2019	yr 14 2019/2020	yr 15 2020/2021
Principal		\$1,466,236	\$1,538,082	\$1,613,448	\$1,692,507	\$1,775,439	\$1,862,436	\$1,953,695
Long-term growth (4.9%)		\$71,846	\$75,366	\$79,059	\$82,933	\$86,997	\$91,259	\$95,731
Interest Income to Chair (3.6%)		\$52,784	\$55,371	\$58,084	\$60,930	\$63,916	\$67,048	\$70,333

McKnight Contribution for Research Funds (with 15-year Spend Out Plan)
(Estimates 9.3% Annual Interest Return)

	yr 1 2006/2007	yr 2 2007/2008	yr 3 2008/2009	yr 4 2009/2010	yr 5 2010/2011	yr 6 2011/2012	yr 7 2012/2013	yr 8 2013/2014
McKnight Contribution	\$0	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000			
Principal	\$0	\$940,000	\$1,959,900	\$3,066,492	\$4,267,143	\$4,629,850	\$4,317,763	\$3,979,148
6% development fund	\$0	\$60,000	\$60,000	\$60,000	\$60,000			
Long-term growth (4.9%)	\$0	\$46,060	\$96,035	\$150,258	\$209,090	\$226,863	\$211,570	\$194,978
Interest income to institute (3.6%)	\$0	\$33,840	\$70,556	\$110,394	\$153,617	\$166,675	\$155,439	\$143,249
Research funds to Institute	\$0	\$0	\$0	\$0	\$0	\$705,625	\$705,625	\$705,625
		yr 9 2014/2015	yr 10 2015/2016	yr 11 2016/2017	yr 12 2017/2018	yr 13 2018/2019	yr 14 2019/2020	yr 15 2020/2021
Principal		\$3,611,750	\$3,213,124	\$2,780,614	\$2,311,342	\$1,802,181	\$1,249,741	\$650,344
Long-term growth (4.9%)		\$176,976	\$157,443	\$136,250	\$113,256	\$88,307	\$61,237	\$31,867
Interest income to institute (3.6%)		\$130,023	\$115,672	\$100,102	\$83,208	\$64,879	\$44,991	\$23,412
Research funds to Institute		\$705,625	\$705,625	\$705,625	\$705,625	\$705,625	\$705,625	\$705,625

ANTICIPATED MATCHING FUNDS FROM THE UNIVERSITY

Category	Year 1 2006/2007	Year 2 2007/2008	Year 3 2008/2009	Year 4 2009/2010	Year 5 2010/2011	Totals
TRIF						
Venture Fund - Bioinformatics Faculty	\$0	\$125,000	\$125,000	\$125,000	\$125,000	\$500,000
TRIF						\$350,000
Optics/Bioimaging - Confocal Microscope	\$350,500					
Optics/Bioimaging - Confocal Support		\$40,000	\$40,000			\$80,000
TRIF						
BioS - Graduate Student Support		\$100,000	\$100,000	\$100,000	\$100,000	\$400,000
BioS - Automated <i>in situ</i> Hybridization Instrument		\$160,000				\$160,000
Institutional Commitment						\$140,000
ARL - Confocal Microscope	\$139,500	\$500				\$60,000
ARL - 6% Development Fund for Endowment	\$60,000					
SBS - Graduate Support	\$50,000	\$50,000	\$50,000			\$150,000
COM - Resident Stipend	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$250,000
Federal Earmark		\$750,000	\$750,000	\$750,000	\$750,000	\$3,000,000
State Legislature	\$350,000	\$350,000	\$350,000			\$1,050,000
Vice President for Research		\$250,000				\$250,000
Total*	\$1,000,000	\$1,875,500	\$1,465,000	\$1,025,000	\$1,025,000	\$6,390,000
Trif = Technology Research Infrastructure Fund						
ARL = Arizona Research Labs						
SBS = College of Social and Behavioral Sciences						
COM = College of Medicine						
* Totals for the match will not exceed \$1,000,000. Higher figures in this column reflect some uncertainty about matching sources.						

SCHEDULE 10.8 INSTITUTE GOVERNANCE STRUCTURE

(i) The University will establish the Evelyn F. McKnight Brain Institute (the "Institute") on a permanent basis within the University of Arizona. The occupant of the Chair, Carol A. Barnes, Ph.D., will be appointed the initial Director of the Institute. If Dr. Barnes should leave the University, the University will name a person whose research is in furtherance of the Purpose as the Director of the Evelyn F. McKnight Brain Institute. The University agrees the naming of subsequent Directors shall be made in consultation with the MBRF. The Director will always be a full time member of the University Faculty.

(ii) The Director will constitute a board of scientists with research expertise in the area of normal aging and memory, who will advise the Director on issues relating to the operation of the Institute and distribution of Institute funds.

(iii) The Director will ensure that the highest quality research projects are supported, aimed at an understanding of normal brain aging and its impact on cognition, consistent with the Purpose. In addition, the Director will facilitate interactions among those scientists in the State of Arizona and elsewhere who can interact synergistically to develop novel approaches to understanding the neural mechanisms of memory loss in aging and potential therapeutic interventive strategies.

(iv) The Director will cause the Institute to create collaboration both within the University and with other programs outside the University whose work is similar to the Purpose and Section (vii) F.1. of Schedule 10.8.

(v) The Director will report to the Director of Arizona Research Laboratories and to the Vice President for Research.

(vi) **Scientific Advisory Board:** The Director will constitute a board of scientists with research expertise in the area of normal aging and memory, who will advise the Director on issues relating to the operation of the Institute and distribution of Institute funds. The Director of the Institute will also serve as chair of the Scientific Advisory Board. The initial members of the Scientific Board of the Institute are the following:

Carol A. Barnes, Ph.D., Chair of the Scientific Advisory Board

Bruce L. McNaughton, Ph.D.

Naomi E. Rance, M.D., Ph.D.

Alfred W. Kaszniak, Ph.D.

Lee Ryan, Ph.D.

Geoff L. Ahern, Ph.D.

(vii). **Institute**

(A). **Location.** The Institute will be housed in the Life Sciences North Building, at the University of Arizona in Tucson, Arizona. The Institute will be located in not less than 10,000 square feet of contiguous space. It is recognized that in the future it may be necessary to change the physical location of the Institute. A proposed change in the physical location of the Institute will be made in consultation with the MBRF. In all events, the new location will be comparable, both as to size and otherwise, to the space initially occupied by the Institute.

(B). **Recognition/Publicity.** References by the University to the Institute should be to the Evelyn F. McKnight Brain Institute. To the extent reasonably practicable, the University shall cause print and broadcast media to refer to the Institute as the Evelyn F. McKnight Brain Institute. All publications resulting from research conducted with Institute funds shall refer to the Institute.

(C). **Signage.** Evelyn F. McKnight Brain Institute shall appear on or around the Institute in a fashion similar to other facilities named in recognition of donors to the University. The signage actually used and its location shall be chosen with the approval of the MBRF, which approval will not be unreasonably withheld and shall be consistent with University signage policies.

(D). **Stationery.** The letterhead stationery, cards, and other references used by the Institute will show its address and/or location as being the Evelyn F. McKnight Brain Institute.

(E). **Governance Structure.** The University will put in place an Institute governance (the "Governance Structure"). The initial Governance Structure is described above. Any change in the Governance Structure is subject to prior approval of the MBRF, which approval not be unreasonably withheld.

(F). **Collaboration Consultation, Reports and Meetings.**

(1). **Collaboration/Visiting Professors.** The Director of the Institute will endeavor to identify research scientists involved in research relevant to the Purpose at other institutions and at the University who would collaborate with scientists at the Institute to complement or augment the Institute.

(2). **Annual Consultation.** The operations of the Institute will be within the sole discretion of the University. However, the University shall discuss the operations with the

MBRF, at least annually, in a consultation mode and shall take into consideration the MBRF's input regarding Institute operations and research. Said consultation may include site visits by one or more of the MBRF Trustees.

(3). **Reports.** At least annually, the Institute will prepare an annual report to the MBRF that describes the operations of the Institute. The report shall include an affirmative statement that operations and research are consistent with the Purpose and that no portion of the Fund was used for a Prohibited Purpose. The report will also include the Institute's budget for the year covered by the report. The report will be delivered prior to the December 31st following the University's June 30 fiscal year end. The Institute will also report significant Institute events to the MBRF when they occur.

(4). **Meetings and Programs.** The Institute shall notify the MBRF of meetings, conferences, and similar functions relating to the Institute and, when appropriate, permit the MBRF members to attend as observers. It is intended that this will include both formal internal Institute meetings and seminars, presentation of papers, and similar activities, generally open to the public.

ENDOWMENT INVESTMENT POLICY UNIVERSITY OF ARIZONA GROWTH INCOME POOL

This **Statement of Investment Policies and Objectives** is the result of discussions with the University of Arizona Investment Committee. The purpose of this statement is to assist in effectively supervising and managing the endowment assets in the University's **Growth Income Pool**. This Statement provides an outline for:

- The desired risk posture for the assets
- Potential asset classes to be included in the asset mix
- A strategic asset allocation policy
- Investment guidelines
- Criteria for evaluating performance

This investment policy should be considered dynamic in nature and should reflect the Investment Committee's current philosophy regarding investment of the assets. The policy should be reviewed and revised from time to time to ensure it adequately reflects any changes related to the endowments, the capital markets, and the Investment Committee's philosophy.

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SECTION 1 – Risk Posture

Introduction

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk (i.e., volatility of investment returns) assumed and the level of returns that can be expected in an investment program. In general, higher risk is associated with higher expected returns.

Given this relationship between risk and return, a fundamental step in developing an investment policy for the endowments is the determination of the endowment risk posture. Risk posture is a function of both risk tolerance, i.e., the **ability** to take risk, and risk preference, i.e., the **willingness** to take risk in the investment program.

1.1 Risk Tolerance

Endowment funds have a perpetual life, with little prospect that accumulated assets will ever be liquidated. For funds with a very long-term investment horizon, a higher level of risk is appropriate.

The primary purpose of most endowments is to provide current funding, and increased future funding, primarily for scholarships, fellowships, endowed chairs, student loans and tuition assistance. The Investment Committee has set the following goals for the endowments:

- Preserve the value of endowments by providing for growth in the corpus of the endowments, after administrative costs, above the higher education inflation rate, as measured by the Higher Education Price Index (HEPI).
- Provide for a reasonable annual payout.

The endowment spending policy will be the primary determinant of the asset allocation structure. The investment structure should cover the administrative fee, should provide for a return matching or exceeding the HEPI, and should provide for an annual payout in support of programs.

Unlike many institutional investment portfolios, such as pension funds, the amounts distributed from endowments can, to a certain extent, be controlled. The Investment Committee establishes the annual payout rate on the endowments, subject to approval of the President of the University. During periods of strong market returns, dollar amounts distributed can be increased (even while reducing the payout rate), while still allowing the endowments to grow in value. During periods of poor investment performance, amounts distributed can be reduced to minimize the impact on the corpus of the endowment. Although reducing payout rates is not very palatable, it could be done during adverse market conditions. This flexibility should allow for a more aggressive investment structure.

Risk Preference

Risk preference, or the willingness to take risk, is personal in nature. Investment Committee members, in assessing risk preference, need to address the following:

Some committee members might prefer the goal of achieving a high rate of return on assets in order to increase the value of the endowments to build a cushion for future enhancements (e.g., more and larger scholarships). Other members might temper this goal with the continuing need to protect the value of endowment assets or the annual distribution. It ultimately comes down to balancing the goals of increasing long-term expected returns, endowment values, and distributions against short-term concerns regarding possible decreases in payouts resulting from short-term investment volatility.

Overall Risk Posture

Based on the risk tolerance of the endowments and on its risk preference, the Investment Committee believes that the overall risk posture of the Growth Income Pool resulting from the established asset class allocations is appropriate.

SECTION 2 – Asset Allocation Policy

Potential Asset Classes to be Included

Over the long term, asset allocation policy will be the primary determinant of the returns generated by the endowments and the associated volatility of returns. In particular, the level of equity exposure is the key element within the investment policy. In developing an asset allocation policy, a determination must be made of which asset classes will be included. The committee should consider the potential long-term returns and risk levels of the various asset classes, as well as the correlation among those asset classes. By combining asset classes with different return and risk characteristics, it may be possible to reduce the overall volatility of the portfolio without sacrificing returns. Following is a (non-exhaustive) list of widely used asset classes in institutional portfolios and a very brief discussion of each:

BONDS

Investment Grade Bonds

Domestic bond investments are usually characterized by relatively low volatility and low long-term returns.

- U.S. Treasury Notes and Bonds – Debt securities Issued and guaranteed by the U.S. Government.
- Government and agency bonds – Debt securities issued by agencies or instrumentalities of the U.S. Government. Generally carry no explicit U.S. Government guarantee.
- Investment grade (Baa/BBB or higher) corporate bonds – Debt securities issued by corporations. Generally secured only by the full faith and credit of the issuing company.
- Mortgage pass through securities – Securities issued by the Government National Mortgage Association, Federal National Mortgage Association and the like, which “pass through” to the holder the interest and principal payments on a group of mortgages.
- Asset-backed securities – Fixed income securities which are backed by specifically pledged collateral such as car loans, credit card receivables, second mortgages, etc.
- Collateralized Mortgage Obligations (CMOs) – Securities resulting from a group of mortgage pass-through securities which have been pooled, with the cash flows from the pool paid out in a specific order or preference to different buyers. The individual securities within a single CMO structure are called “tranches”.
- Collateralized Bond Obligations – Like a CMO except often based on low-rated (high yield / junk) bonds as the underlying collateral. Cash flows are paid and varying amounts of collateral pledged in a specific order of preference to different buyers.

High Yield Bonds

They are also known as non-investment-grade bonds or junk bonds. They have higher volatility, higher long-term returns, and low correlation to investment grade bonds. These are useful as a diversifying asset within a fixed income portfolio.

International Bonds

Bonds issued by foreign governments and agencies, and by foreign corporations. They are included either as a separate asset class or as part of a global bond portfolio. Higher volatility than, and a low correlation to, domestic investment grade bonds, with similar long-term returns. They are useful as a diversifying asset within the fixed income portfolio.

EQUITIES

U.S. Equities

Large Capitalization equities – over \$10 billion market capitalization

Medium capitalization companies -- \$1 billion to \$10 billion market capitalization

Small capitalization companies – under \$1 billion market capitalization

They have higher volatility and higher long-term returns than bonds. There is low correlation to bonds. Generally, different return and risk characteristics for large, medium, and small cap equities. Large, medium, and small cap definitions are subject to different interpretations.

International Equities

They have higher volatility than domestic equities and similar returns over the long term. There is low correlation to domestic equities and to bonds. They are useful as a diversifying asset.

Emerging Market Equities

They are defined as equities of companies in developing countries. They have very high volatility, potential very high returns, low correlations to other equities and to bonds.

EQUITY REAL ESTATE

Long term returns higher than bonds, generally lower than equities. They have lower volatility than equities and very low or negative correlation to other asset classes. They also have low liquidity. Generally higher cash returns than bonds, with appreciation

potential. Options include developed, leased properties or development properties. Specific property types include office, industrial, retail, residential, hotel, timberland, agricultural land and self-storage properties. Most investments are made through open or closed end funds.

ALTERNATIVE INVESTMENTS

Long-term returns generally higher than domestic equities, volatility depends on specific investment. Generally, they have low correlation to other asset classes and low liquidity. Some options include private equity, venture capital, leveraged buyout funds, managed futures and hedge funds. Most investments are through closed end funds.

Asset Allocation Structure

Policy Guidelines

Asset allocation guidelines are stated as a range of exposure to different asset classes, as follows:

Asset Class	Policy Range
Equity Securities	30% to 80%
Fixed Income Securities	20% to 50%
Liquid Assets	0% to 40%

Prior Investment Committee approval is required for exposure to any of the asset classes that would be above or below the limits of the Policy Range

Strategic Asset Allocation Policy

This asset allocation sets a long-term strategic asset allocation designed to meet the return goals set by the Investment Committee.

Asset Class	Target Exposure	Range
Equity Securities	65%	63% to 73%
Fixed Income Securities	30%	27% to 33%
Liquidity Portfolio	5%	2% to 8%

Equity Portfolio Structure

Investment Strategy	Target % of Equities	Range	Benchmark
Indexed Equities	33%	30% to 36%	Russell 1000 Index
Large Cap Indexed Equities	10%	5% to 15%	S & P 500

External Mid Cap Core Active	25%	23% to 27%	Russell Midcap Index
External Small Cap Core Active	12%	10% to 14%	Russell 2000
External International Equities	20%	18% to 22%	MSCI EAFE Index / MSCI ACWF exUS Index

The Investment Office will review the asset mix at least quarterly and, in the absence of unusual economic or market circumstances, will rebalance the portfolio mix at any time that an asset class or investment strategy reaches the minimum or maximum level of the exposure range specified above. In rebalancing, the Investment Office will allocate assets back to the target mix over a reasonable period of time. The Investment Office may allow asset class or investment strategies to exceed the target ranges during unusual economic or market circumstances. Such tactical decisions will be reported to the Investment Committee at the next meeting following such a decision. Benchmarks to be used for evaluating performance will be as follows, in the same weights as the asset allocation target exposure:

- Equity Securities
 - 33% Russell 1000
 - 10% S & P 500
 - 25% Russell Midcap
 - 12% Russell 2000
 - 10% MSCI EAFE Index
 - 10% MSCI ACWF exUS Index
- Fixed Income securities
 - Merrill Lynch Corp/Govt 1-5
- Liquidity Portfolio
 - One month U.S. Treasury Bill

EQUITY PORTFOLIO

The Investment Office may invest the equity portfolio in the common stock of companies traded in the U.S., including equities of U.S.-based companies, equities of foreign-based companies traded in the U.S., and in equity index mutual funds and exchange-traded funds (tracking stocks), subject to the following restrictions:

1. No more than 50% of the market value of the equity portfolio may be invested in index mutual funds or exchange-traded funds.
2. No more than 35% of the market value of the equity portfolio may be invested in funds representing a single index.

The following guidelines and restrictions shall apply to the portion of the portfolio invested in individual securities:

1. Equities with a market capitalization of less than \$100 million are not eligible for purchase.
2. Investments in companies with a market capitalization of less than \$500 million may not represent more than 20% of the portfolio.
3. The portfolio market value weighting of any individual Global Industry Classification System (GICS) sector may not exceed ten percentage points more than the sector weighting in the S&P 500 index.
4. No single investment may represent more than 5% of the market value of the portfolio.
5. No more of 20% of the market value of the portfolio may be invested in foreign-based companies. This restriction applies to foreign-based companies whose shares are traded either as common stocks or as American Depository Receipts (ADRs).

EXTERNALLY MANAGED EQUITY PORTFOLIO

The Investment Committee will hire external managers for portions of the equity portfolio.

General guidelines and restrictions for all external managers are provided here. If a manager believes these guidelines and restrictions would adversely impact their management of endowment assets, the manager may apply to the Investment Committee for an exemption. The following guidelines and restrictions will apply to external equity managers unless an exemption has been granted:

1. The portfolio market value weighting of any individual sector may not exceed ten percentage points more than the sector weighting in the benchmark index.
2. No single investment may represent more than 5% of the cost or market value of the portfolio.

3. No more than 20% of the market value of the portfolio may be invested in foreign-based companies. This restriction applies to foreign-based companies whose shares are traded either as common stocks or as American Depository Receipts (ADRs).
4. Mutual funds or other types of publicly traded funds may not be more than 10% of the portfolio (does not apply to REITs).

The following securities and transactions are prohibited:

1. Securities denominated in a currency other than U.S. dollars
2. Options on equity or debt securities or on indexes
3. Futures contracts or forward contracts
4. Short selling
5. Purchasing securities on margin
6. Non-publicly traded funds, such as limited partnership interests.

All external managers must notify the University of Arizona immediately of any material change in ownership or of any departures of key personnel, including portfolio managers and securities analysts. The managers are expected to provide an analysis of the impact of such changes on the company and on the management of our portfolio. Managers cannot fall below 5% of the chosen benchmark during any 6 month time period.

EXTERNALLY MANAGED INTERNATIONAL EQUITY PORTFOLIO

The Investment Committee will hire an external manager to invest approximately 20% of the equity portfolio in the International market.

The following guidelines and restrictions will apply to external international equity manager unless an exemption has been granted:

1. The fund will not utilize investment leverage through margin transactions, borrowing or otherwise. Accordingly, the fund's investment in equity securities of international issuers is limited to 100% of its net assets.
2. At the time of purchase, no more than 5% of the fund's total assets will be invested in the common stock of any single issuer at the time of purchase.
3. The fund will not engage in short sales.
4. The fund's use of derivative transactions will be limited as described below. In this regard, the fund may not use futures contracts, options on futures or swaps or similar arrangements.
5. The fund will not invest in commodities or other "hard assets" such as diamonds, gold, silver or platinum.
6. The fund will not invest in real estate, including pooled real estate investment vehicles such as "real estate investment trusts."
7. The fund may invest up to 20% of its assets in securities of issuers located in developing countries, often referred to as emerging markets.

8. The fund intends to invest in securities denominated in the currencies of a variety of countries. The fund may also invest in securities denominated in multinational currencies such as European Currency Units and the Euro. In an effort to protect the fund against a decline in the value of portfolio securities, in U.S. dollar terms, due to fluctuations in currency exchange rates, the Investment Adviser may enter into currency hedges which may decrease or offset any losses from such fluctuations.
9. The fund may invest in securities of non-U.S. issuers either directly or through "depository receipts."

All external managers must notify the University of Arizona immediately of any material change in ownership or of any departures of key personnel, including portfolio managers and securities analysts. The managers are expected to provide an analysis of the impact of such changes on the company and on the management of our portfolio. Managers cannot fall below 5% of the chosen benchmark during any 6 month time period.

EXTERNAL FIXED INCOME PORTFOLIO

The Investment Committee will hire external managers for portions of the equity portfolio.

The external fixed income managers may invest the fixed income portfolio in debt securities of the U.S. Government, U.S. Government agencies or sponsored corporations, mortgage-backed and asset-backed securities, debt securities issued by corporations, preferred stock of U.S. corporations, and in institutional fixed income mutual funds, subject to the following guidelines:

1. No more than 50% of the fixed income portfolio may be invested in institutional fixed income mutual funds.
2. Institutional fixed income funds should represent either a broad market (i.e. Lehman Aggregate Index, Lehman Intermediate Government/Credit Index), or a major subset of an index (i.e. Lehman Mortgage Index).
3. No more than 25% of the market value of the fixed income portfolio may be invested in funds representing any single index.

The following guidelines and restrictions shall apply to the portion of the portfolio invested in individual securities:

1. Corporate bonds and notes must be of investment grade quality (Baa/BBB or higher) at the time of purchase.
2. Securities of any one corporate issuer may not exceed 5% of the fixed income portfolio.

3. Securities of any single U.S. agency may not exceed 25% of the market value of the fixed income portfolio.
4. Private placements are not eligible for purchase.
5. Preferred securities may not exceed 15% of the portfolio.
6. Investments in securitized loan securities shall not exceed 40% of the market value of the portfolio. Further, investments in asset-backed securities, CMO's and CBO's shall not exceed 10% of the market value of the portfolio.
7. The duration of the portfolio will at all times be maintained within +/- 25% of the duration of the benchmark

The Fixed Income Portfolio will be managed by an external investment manager. This manager must follow the same guidelines listed above for internally managed portfolio.

EXTERNALLY MANAGED INTERNATIONAL FIXED INCOME PORTFOLIO

The Investment Committee will hire an external manager to invest approximately 20% of the fixed income portfolio in the International market. The following guidelines and restrictions will apply to external international fixed income managers unless an exemption has been granted:

1. Emerging market debt shall be limited to 15% of the portfolio at time of purchase. Holdings of individual emerging market countries shall not be greater than 5% of the portfolio at time of purchase.
2. The portfolio shall have an average weighted rating of A or better by a Nationally recognized statistical rating organization (NRSRO)
3. Below investment-grade non-sovereign debt, as determined by a NRSRO, shall be limited to 15% of the portfolio at time of purchase. The debt of individual below investment-grade credits is limited to 3% of the portfolio at time of purchase. Holdings of the debt of any single investment-grade issuer, as determined by a NRSRO, will be limited to 5% of the portfolio at time of purchase.
4. Fixed income securities of companies of any one industry will not exceed 25% of the portfolio.
5. Portfolio duration shall be limited to a range of 1-10 years.
6. At its discretion, the Investment Manager may hedge all, some or none of the portfolio's currency exposure. The Investment Manager may also cross hedge currency positions, but may not be net short any currency, or long more than 100% of the portfolio.
7. The Investment Manager may utilize derivatives including forwards, futures, options, mortgage derivatives, structures notes and swaps. Use of derivatives shall not modify the portfolio characteristics, such that the account would be in violation of guidelines.

Managers cannot fall below 5% of the chosen benchmark during any 6 month time period.

INFLATION - PROTECTED PORTFOLIO

To protect a portion of the fixed income investments against an unexpected surge in inflation, the Investment Office will invest 5% to 15% of the Fixed Income Portfolio in U.S. Treasury Inflation Protected Securities (TIPS). The portfolio may be constructed using individual securities, an exchange-traded fund, or a combination.

LIQUIDITY PORTFOLIO

The Liquidity Portfolio is established to facilitate withdrawals/distributions from the Growth Income Pool without having to liquidate securities. This allocation has been increased to insure that the funds will be available for the endowment payouts. Externally managed portfolios may require additional time to liquefy assets in order to transfer cash to the University for distribution.

The Liquidity Portfolio will be invested in highly liquid securities with maturities of six months or less. Generally, the Liquidity Portfolio will be invested in a short-term investment fund (money market fund) offered by the custodial bank.

RESTRICTED SECURITIES / TRANSACTIONS

The following transactions and securities are not eligible for investment:

- Inverse Floater, Interest Only, Principal Only, or Z-Bond tranches of CMOS
- Options on equity or debt securities or on indexes (note)
- Futures contracts or forward contracts (note)
- Debt securities rated Ba/BB or below by Moody's Investor Service / Standard & Poor's Company
- Short selling
- Purchasing securities on margin
- Illiquid and non-publicly traded funds, such as limited partnership interests

Note: Options and futures are useful for managing portfolio risk. Strategies and procedures for using options and futures strategies will be developed by the Investment Office for consideration by the Investment Committee. However, until such strategies are adopted by the Investment Committee, use of options and futures will not be part of the investment strategy.

SECURITIES LENDING

The Investment Committee has authorized the endowment funds to engage in securities lending through the master custodian for the funds. In administering the securities lending program, the master custodian has full discretion in managing the reinvestment of cash collateral received for securities loaned.

SECTION 4 – Setting Payout Ratio

The asset allocation policy and long-term return goals are directly related to the establishment of the payout ratio.

In setting the asset allocation policy, the Investment Committee has used the following facts and assumptions for the endowments:

- The current payout rate is 4.0%.
- The administrative fee will be about 0.80% over time.
- There will be very little, if any, growth from new money being added to the endowments.
- The higher education inflation rate will be approximately 3.50%.

Considering these assumptions, the Investment Committee supports an investment structure that will provide a **long-term return** of approximately 8.5%.

In determining the appropriate investment structure, certain assumptions must also be made about long-term rates of return on the asset classes to be considered. The Investment Committee has adopted the following assumptions for long-term returns on various asset classes:

- One Month Treasury Bills 3.00% to 4.00%
- US Fixed Income 5.00% to 5.50%
- US Equities 9.00% to 9.50%

Using the foregoing assumptions, the following mix could be reasonably expected produce a long-term return of approximately 8.5%:

Asset Class	Allocation	Range of Returns		Range of Portfolio Returns	
		Low	High	Low	High
Equities	68%	9.00%	9.50%	6.12%	6.46%
Fixed Income	30%	5.00%	5.50%	1.50%	1.65%
Cash	2%	3.00%	4.00%	0.06%	0.08%
Total	100%			7.68%	8.19%

The Investment Committee has stated that the current goals and assumptions are preliminary, with the understanding that the Committee will examine other asset classes to enhance returns and/or lower volatility, and that the assumptions used are subject to revision.

Attachment A

**Endowment Gift Agreement
between
McKnight Brain Research Foundation
and
The University of Arizona**

This endowment gift agreement made this 17th day of October, 2006, sets forth the entire understanding between **McKnight Brain Research Foundation** (the "Donor") and The Arizona Board of Regents, a body corporate, for and on behalf of The University of Arizona (the "University"), with respect to the University's administration of the **Evelyn F. McKnight Chair for Learning and Memory in Aging** (the "Endowment"). The University is an agency of the State of Arizona and, as such, is exempt from income tax under Section 115 of the Internal Revenue Code. Deductions for contributions to the University are allowed by Section 170(c) (1) of the Code.

1. **Purpose of the Endowment:** The Endowment has been established to promote research and investigation of the brain and the fundamental mechanisms that underlie the neurobiology of memory with clinical relevance to problems of age related memory loss. Research emphasis shall be placed on the memory loss associated with the normal aging process, rather than disease-associated cognitive changes that can occur during aging, as further described in the Gift Agreement to which this Endowment is attached as Attachment "A".
2. **Source of the Endowment:** The Endowment will be established with an initial gift of \$1,000,000, as further described in the Gift Agreement. The Donor or any interested individual, corporation or foundation may make additional gifts to the Endowment at any time.
3. **Duration of the Endowment:** The Donors intend for the Endowment, including all realized and unrealized capital appreciation and depreciation generated by the Endowment, to exist in perpetuity with the accumulated "Payout" being made available to support the "Purpose of the Endowment" as described in Paragraph 1 above. The "Payout," a percentage of the fair market value of the Endowment as determined from time to time by the University's Investment Committee, prior to its expenditure, will be maintained in a separate University Account solely for the benefit of the Purpose of the Endowment. The "Payout," which may from time to time exceed the "net income" (interest, dividend, and any other current income less applicable expenses) generated by the Endowment, will be distributed monthly, and will be so distributed in full even if the fair market value of the Endowment falls below its historic dollar value (the value of the gift) unless the University makes a determination to the contrary.


4. **Investment Authority:** The Endowment shall be invested in accordance with the investment policies of the University, (current investment policy is attached as exhibit 1), as established from time to time by the University's Investment Committee. For purposes of investment only, the monies of this Endowment may be pooled/commingled with other endowment funds held by the University. At all times, the Endowment shall be separately accounted for in the University's books and records.
5. **Administration of the Endowment:** The Endowment will be administered by the University, acting in accordance with Title 10, Chapter 41, Article 1 of the Arizona Revised Statutes. Additionally, any distributions to be made from the Endowment will be made so long as they do not violate this Agreement, any rules, policies, or procedures promulgated by the University from time to time, nor any of the rules and resolutions of the State of Arizona and the Arizona Revised Statutes. In the event that any payment required of the University hereunder would violate the same, the University may refrain from said action and may take other action to accomplish the intent of the Donor as expressed herein.
6. **Administrative Service Fee:** To defray its expenses related to the holding, safeguarding, investing and maintaining of the assets in the Endowment and with respect to the monitoring and disbursement of the Payout, the University will charge an administrative service fee in accordance with the policy established from time to time by the University's Investment Committee. The Endowment will be charged the entire administrative service fee even if the fair market value of the Endowment falls below its historic dollar value.
7. **Contingent Use of the Endowment:** Should it become clear in future years that the above-stated purpose for this Endowment is no longer necessary, practical, desirable or possible to perform, the University's Board of Directors shall, after consultation with the Donor, if the Donor is still in existence, designate the Endowment for a substitute purpose that is reasonably consistent with and similar to the original intention of the Donor at the time this Agreement was executed. In any such alternate application of the accumulated Payout, the funding source shall be clearly identified as the Endowment. If the designated substitute purpose for the Endowment is not consistent with the Purpose, as defined in paragraph number one, and is not acceptable to the Donor, then the initial gift in the amount of \$1,000,000 shall be returned to the Donor in accordance with University policy (FRS Departmental Manual, Section 8.12, Paragraph 9.b).
8. **Announcement of the Endowment:** Announcement of the Endowment, including amount, descriptions of contributions and pertinent details, may be made in any University of Arizona or University of Arizona Foundation publication with prior approval of the Donor, which approval will not be unreasonably withheld.
9. **Modification of Agreement:** The terms and conditions of this Agreement may not be orally amended, modified, or altered but may be amended, modified, or altered only in writing signed by the Donor and the University.

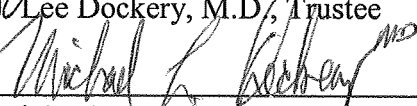
10. **Representatives and Successors Bound:** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their lawful successors.


11. **Governing Law:** This Agreement shall be governed by and interpreted in accordance with the laws of the State of Arizona.


Signed this 17th day of October, 2006.

McKNIGHT BRAIN RESEARCH FOUNDATION


By: 
Lee Dockery, M.D., Trustee

By: 
Michael L. Dockery, M.D., Trustee

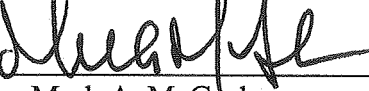
By: 
Nina Ellenbogen Raim, M.D., J.D., Trustee

By: 
John G. Clarkson, M.D., Trustee

SUNTRUST BANK

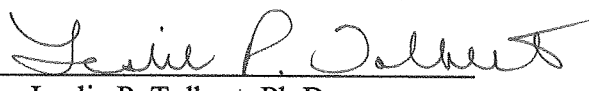
By: 
Teresa Borcheck, Senior Vice President, Corporate Trustee

THE ARIZONA BOARD OF REGENTS, a body corporate, for an on behalf of THE UNIVERSITY OF ARIZONA

By: 
Mark A. McGurk
Comptroller, University of Arizona

Date: 9/15/06

THE UNIVERSITY OF ARIZONA

By: 
Leslie P. Tolbert, Ph.D.
Vice President for Research, University of Arizona

Date: 9/19/06

Exhibit #2

THE UNIVERSITY OF ARIZONA
INTELLECTUAL PROPERTY POLICY
Approved by the Faculty Senate, February 14, 2005)

A. PURPOSE

B. GENERAL STATEMENT

C. DEFINITIONS

1. IP Official
2. Employee
3. Fund for Promotion of Research
4. Intellectual Property
5. Intellectual Property Committee
6. Discovery and Invention
7. Net Income
8. Works and Printed Works
9. Software and Electronic/Digital Works
10. Tangible Research Property
11. Trademarks and other Identifiers
12. Commissioned Works

D. OWNERSHIP AND USE OF INTELLECTUAL PROPERTY

1. Board-Owned Intellectual Property
2. Individual-Owned Intellectual Property
3. Sponsor-Supported Projects
4. Student-Owned Intellectual Property
5. Visiting Faculty, Researchers, and Scientists
6. Employee-Excluded Works
7. Employee Use of Software and Electronic/Digital Works
8. Employee Consulting

E. PROCEDURES

1. Disclosure of Intellectual Property and Duties of Disclosers
2. Ownership Determination
3. Dispute Resolution
4. Intellectual Property Net Income Distribution
5. Patent, Trademark, Copyright Application
6. Assignment of Title to Research Sponsor in Sponsor-supported Projects
7. Employee Conflict of Interest and Employee Financial Interest in Private Organization

EXHIBIT A: IP Net Income Distribution Policy

EXHIBIT B: Supplemental Definitions

Exhibit #2

A. PURPOSE

This Policy supplements the Intellectual Property Policy of the Arizona Board of Regents (Board) as applied to the University of Arizona (University), and guides the management of Intellectual Property at the University. In the event of any inconsistency between this Policy and Board Intellectual Property Policy (Board IP Policy) or applicable State or federal laws, the provisions of the Board Policy and of the laws prevail.

B. GENERAL STATEMENT

The Arizona Board of Regents encourages University faculty and staff members to undertake creative and scholarly works and to develop new and useful materials, devices, processes, and other intellectual property, some of which may have potential commercial value. The University is dedicated to teaching, research, and dissemination of knowledge for the benefit of the public. These activities contribute to the public welfare, provide educational opportunities for students, contribute to the professional development of the individuals involved, and enhance the reputation of the University. Scholarship may be manifest through teaching and publications, and in disclosures of Intellectual Property to the Office of Technology Transfer for formal protection.

Although Intellectual Property developed by Employees in the course and scope of their employment is presumed to belong to the Board, this Policy provides for the close participation by the Employee in protecting and enhancing the value of the intellectual property, and in sharing in its dissemination and rewards. The IP Official and the Office of Technology Transfer will have the necessary discretion in implementing this Policy, consistent with the terms and provisions of the Board Intellectual Property Policy (Board IP Policy), for the greatest benefit of the public, the University and its creative Employees.

C. DEFINITIONS

1. **IP Official:** The IP Official is the Vice President for Research who is appointed by the University President to be in charge of Intellectual Property matters. Certain Intellectual Property management responsibilities may be delegated, including to the Director of the Office of Technology Transfer (OTT) by the IP Official or by this Policy. The Office of Trademark & Licensing handles trademark licensing for the University regarding University identifiers for retail products and services associated with its athletic or other similar programs.
2. **Employee:** For purposes of this Policy, the term Employee includes all University faculty; classified staff; academic, administrative, and service professionals (both part-time and full-time); student employees, graduate assistants and associates. Persons with adjunct, emeritus or "no salary" appointments; visiting faculty, scholars, artists, and engineers (see Section D.5 for exceptions); and other individuals not normally considered employees, academic or otherwise, will be considered Employees for the purposes of this Policy if, as a condition of access to University resources, they are obligated to contractually agree to this Policy and the Board IP Policy.

Exhibit #2

3. **Fund for Promotion of Research:** The Fund for Promotion of Research is a University account administered by the Vice President for Research to promote research, develop intellectual property, and directly enable its technology transfer (Board IP Policy paragraph D.3.b). It is funded by a portion of the University share of Net Income received from the licensing or sale of Board-owned intellectual properties, except trademarks or identifiers licensed by The Office of Trademark and Licensing. A separate account for the general and administrative support of technology transfer activities, including patenting, (Operations Fund) will be established and will be funded by the 15% University administrative fee specified in Paragraph C.7 below.
4. **Intellectual Property:** Intellectual Property for the purposes of this Policy includes data, technical and other information, identifiers, works of authorship, inventions and discoveries subject to protection by any or all forms of patents, copyrights, trademarks, and trade secrets whether or not they were, are or will be so protected under state or federal statutory and common law, or corresponding international law. For purposes of this Policy, Tangible Research Property (defined below) is included in the definition of Intellectual Property. As defined here, Intellectual Property also includes any new forms of Intellectual Property receiving legal protection that maybe added to the above categories during the time this Policy is in effect.
5. **Intellectual Property Committee (IP Committee):** The IP Committee is a University committee of not fewer than five persons and composed of faculty and staff. The IP Official appoints the members, with at least half of the appointments based on recommendations made by the Chair of the Faculty, and will include one member of the Research Policy Committee. The Committee hears appeals by Employees as outlined in ABOR IP Policy (paragraph D.3.c). The Committee also considers changes in Intellectual Property Policy proposed by the Faculty Senate and makes recommendations to the President through the IP official. The IP Committee may recommend changes in the Intellectual Property Policy to the Faculty Senate through the Research Policy Committee.
6. **Discovery and Invention:** A discovery is the result of conceiving and reducing to practice some innovation that can be described, defined, and reproduced. Not all discoveries are patentable; some may be obvious, some may be unintentional copies of others' inventions or discoveries, and some may be intentionally withheld from the patent system to prevent the required publication of the discovery that constitutes an invention that necessarily accompanies the prosecution or the issuance of a patent. An Invention is a discovery meeting the requirements of the United States Patent and Trademark Office derived from Title 35 U.S. Code or the corresponding requirements of a foreign patent office.
7. **Net Income:** Net Income means the net revenue remaining from gross revenues, including fees and royalties, received from the commercialization of given Intellectual Property less a 15% University administrative fee for the Operations Fund and then less all unreimbursed costs incurred by the University in engaging in the technology transfer leading to commercialization including obtaining, licensing, protecting or maintaining Intellectual Property protection, domestic or foreign.
8. **Works and Printed Works:** Works means all works of authorship as defined by the U.S. Copyright Act of 1978 Title 17 U.S.Code. Printed Works includes all Works, in all media of expression, other than Software and Electronic/ Digital Works and Commissioned Works defined below.

Exhibit #2

9. **Software and Electronic/Digital Works:** Are Works that include software and other technologies used to support the capture, storage, retrieval, transformation, and presentation of electronic or digital data and information or to interface between electronic or digital forms and other communications and information media. Examples include, but are not limited to, software; course lecture video or audiotapes; electronic publications; electronic textbooks and interactive textbook supplements; Internet-based and on-line courses; web pages; multimedia works; and distance learning materials. As used herein, software means a set of statements or instructions -- lines of code -- used directly or indirectly in a computer to bring about a certain result.
10. **Tangible Research Property:** Tangible Research Property (TRP) means tangible materials including but not limited to research tools, prototypes, and records used or produced in the course of University research projects, examples of which include (1) hybridoma or clonal cell lines that produce monoclonal antibodies or recombinant proteins, (2) plants protected by the Plant Variety Protection Act, (3) non-patented drugs protected by the Orphan Drug Act, (4) prototype instrumentation or devices and (5) research records and documentation, regardless of form or media used to capture or create such records. Certain types of TRP may be licensed by the University in a fashion similar to Intellectual Property or as part of an Intellectual Property licensing transaction. For purposes of this Policy, TRP is included in the definition of Intellectual Property and is subject to the provisions of this Policy. Whether TRP is to be treated under this Policy similar to a Commissioned Work or an Employee-created discovery will be determined by the IP Official, or their designee, taking into account the nature and purpose of the licensing or assignment, and in consultation the unit head and the Dean. The same TRP may be treated differently if the nature and purpose of the licensing or assignment differs in different cases.
11. **Trademarks and other Identifiers:** An Identifier is a word, phrase, logo or other marking used to uniquely identify the origin of any Intellectual Property, artifacts or services, programs or other activities. Trademarks are specific types of Identifiers perfected and/or used in accordance with the requirements of state or federal statutory and common law or corresponding international law.
12. **Commissioned Works:** Commissioned Works are Works made by University Employees or independent contractors within the scope of their employment or work responsibilities and whose creation was specifically directed or authorized by a University administrator and where University funds or University administered funds were provided for their development. Commissioned Works, and any other Intellectual Property associated or arising from their creation, are owned by the Board and managed by the University. For the purpose of this Policy, the creator of the work is the University unit that authorized or directed the Commissioned Works.
13. **Examples:** Examples throughout this Policy are to be read as examples only and not to be construed as limiting or amending the operative content of this policy.

D. OWNERSHIP AND USE OF INTELLECTUAL PROPERTY

1. **Board-Owned Intellectual Property:** In accordance with the Board IP Policy, the University of Arizona manages all Board-owned Intellectual Property developed at the University or by its Employees (as defined herein). Board-owned Intellectual Property includes the following categories:
 - a. Intellectual Property resulting from research carried on by or under direction of any Employee and having all or part of the attendant costs paid from University funds or from funds under the control of or administered by the University or the Board, including Sponsor-Supported Projects (see Board IP Policy, Paragraph C.1); or
 - b. Intellectual Property made by any Employee as a direct result of his or her duties with the University or in the course and scope of employment (see Board IP Policy, Paragraph C.2); or
 - c. Intellectual Property developed in whole or in part by an Employee through an effort that makes significant use of University resources or facilities unless such resources or facilities are available without charge to the public or the applicable use fee (not including tuition) has been paid. The University does not consider the ordinary use of University resources such as the libraries, one's office, or desktop computer, to be significant use of University resources for purposes of vesting the Board with ownership in Intellectual Property (see Board IP Policy, Paragraph C.3). Significant use of university resources includes but is not limited to: use of research funding; use of funding allocated for asynchronous or distance learning programs; use of university-paid time within the employment period; assistance of support staff; use of telecommunication services; use of university central computing resources; use of instructional design or media production services; access to and use of research equipment and facilities, or production facilities.

Discussion: Determining initial ownership of Intellectual Property does not depend on the person's physical location rather it depends upon the scope of one's employment and contractual relations.

Example: an Employee in the School of Music and Dance who develops software to track little league players and document their capability/performance would own the copyrights to those materials. In contrast, if the Employee had been instructed to create software to recruit music students the property belongs to the Board.

Example: if a chemist is working on a new chemical structure and a related idea comes to him/her while showering at home, the Intellectual Property is owned by the Board. But a chemist working in a home workshop, creating a new wooden toy, is the owner of that Intellectual Property, although such Intellectual Property should be disclosed to the IP Official for the purpose of establishing that the Board is not the owner of the rights.

Simply stated, if the Employee's discovery or Work was made outside the scope of employment or contract at the University, without significant use of, or special access to, University resources, then ownership is the Employee's; otherwise, it is owned by the Board.

2. **Individual-Owned Intellectual Property:** The University acknowledges that the Board releases to the Employee ownership of Intellectual Property that is not within the scope of Paragraph D.1 above. Individual-Owned Intellectual Property in general may not be used in activities involving the University and when allowed must conform to the University Policy on Conflict-of-Interest and Commitment, Board Policy and may require prior written agreement with the University

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signed by the IP Official or OTT.

3. **Sponsor-Supported Projects:** Intellectual property produced by Employees as a result of work supported partially or fully by an external agency and for which a contract is on file with the Vice President for Research is owned by the Board in accordance to Paragraph D.1a. and the further disposition of those rights in Intellectual Property will be determined by the terms of the specific contract. If no contract is on file, rights to Intellectual Property created as a result of sponsored research will reside in the Board.
4. **Student-Owned Intellectual Property:** Students own the Intellectual Property they develop as a result of class work provided such work is not otherwise within the scope of Paragraph D.1 above. Students own the copyrights for their theses and dissertations, but ownership of other Intellectual Property described in these publications, including software and patentable Discoveries, will be determined according to this Policy and the Board IP Policy. Students may be requested to grant rights in Student-Owned Intellectual Property to the Board or others, as a condition of access to certain class projects, independent research projects or other programs in the University in accordance to Paragraph D.1.
5. **Visiting Faculty, Researchers and Scientists:** As a condition of access to the resources of the University and on-going projects within it, the Board owns Intellectual Property created by visiting faculty, researchers, and scientists, including scholars, artists and engineers, and requires written agreement with them or their employers to abide by this Policy and the Board IP Policy prior to access to the University. The IP Official may, however, make exceptions on a case-by-case basis consistent with this Policy (see Paragraph E.2 below) and the Board IP Policy (Board IP Policy, Paragraph C.7). The IP Official shall act expeditiously in deciding these cases.
6. **Employee excluded works:** Under Policy, the Board is considered the owner of Works and Inventions created by Employees within the course of their employment, in Sponsor-Supported Projects, or with significant use of university resources (see Board IP Policy 6-908C.6). However, it is not necessarily in the interests of the University's academic mission for the Board to own the intellectual property in all such Works. For that reason the Board IP Policy releases to the individual creator certain intellectual property rights in the following categories of "Employee excluded works" (defined in Board IP Policy 6-908C. 4), subject in all cases to Sponsors' contractual rights and the Board's retention of a non-exclusive, paid-up license to use the intellectual property in the University's educational, research and public service mission.

It is the intention of this policy to clarify employees' rights with respect to the following categories of Employee-Excluded Works, and to establish procedures for confirming the employees' rights therein.

- a. **Printed Works:** The Board shall release to the individual creator(s) print publication rights for scholarly works in academia, including without limitation, course notes, textbooks and other scholarly works authored by the Employee. Upon request by the individual creator(s) of Printed Works, the IP Official shall confirm in writing expeditiously (not later than thirty [30] days after such request), the Employee(s)'s scholarly, print publication rights in her/his Printed Works. In the absence of written confirmation, the scholarly, print publication rights shall be deemed to have vested in the Employee upon creation of his/her scholarly Work.

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- b. Artistic Works. The Board shall release to the individual creator(s) copyright ownership of Artistic Works other than Commissioned Works (as used herein, "Artistic Works" means Works of visual arts and performing arts as defined in the U.S. Copyright Act 17 U.S.C. § 102(a), including musical works, dramatic works, pantomimes and choreographic works, motion picture and other audiovisual works, pictorial, graphic, sculptural and architectural works, in any medium of expression other than Software and Electronic/Digital Works (which will be handled as set forth in section D.6.c below). Upon request by the individual creator(s) of Artistic Works, the IP Official shall confirm in writing expeditiously (not later than thirty [30] days after such request), the Employee(s)'s copyright interest in his/her Artistic Works, *provided that* in the absence of written confirmation, the copyright in an Artistic Work shall be deemed to have vested in the individual creator(s) immediately upon the Work's expression in a tangible medium.
- c. Software and Electronic/Digital Works.
- i. Electronic Publication of Scholarly Works: Where an Employee's Work would qualify for release under section D.6.a. of this Policy but for the Work's electronic or digital format, the Board shall release to the individual creator(s) the right to publish his/her scholarly Work in electronic or digital format, *provided that* such publication shall be restricted to non-profit, scholarly publications in academia, and the released rights shall not include the rights to use or license the Software or Electronic/Digital Works for Commercial Applications (as defined in section 6.c.(2) below). The Employee may seek written confirmation of the reversion of the non-profit, scholarly electronic publication rights from the IP Official. After receipt of such request accompanied by the information required under section D.6.e below, the IP Official shall issue such confirmation expeditiously (not later than thirty [30] days after such request).
- ii. Commercial Applications of Software and Electronic/Digital Works. Commercial Applications of the Intellectual Property rights in Software and Electronic/Digital Works are managed by the University in accordance with this Policy and Board IP Policy. As used in this Policy, a "Commercial Application" means that the Employee intends to obtain, or is likely to receive, personal economic gain from the use or disposition of the Software or Electronic/Digital Work (other than through traditional fees, royalties or other compensation typically received by an author in connection with the publication of a non-profit, scholarly work in academia), *or* to use her/his unique knowledge of, or other preferential position with respect to the availability of, the Software or Electronic/Digital Work for personal economic gain.

The IP Official shall be the official responsible for the determination of whether or not proposed uses or disposition of Software and Electronic / Digital Works is likely to involve "Commercial Applications."

If an Employee takes steps toward Commercial Applications of Software or Electronic/Digital Works without the prior written approval of the University's IP Official, the Board shall be entitled to obtain injunctive relief and to take any other actions reasonably required to confirm the Board's ownership of intellectual property rights in the Software and Digital/Electronic Works (including but not limited to notification of third parties, and other legal and equitable remedies).

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- d. Limitations on Reversion of Rights. Any reversion of rights to the individual creators of Employee Excluded Works shall in all cases be subject to the contractual rights of research sponsors, and to the Board's retention of a paid-up, non-exclusive license to use the intellectual property rights that are the subject of such reversion for the University's education, research and public service mission. Commissioned Works are not eligible for reversion of rights to the individual creator(s) pursuant to this section D.6.
- e. Procedures for Confirming Reversion of Rights. The rest of this clause describes the procedure for confirming the reversion of certain intellectual property rights in Employee Excluded Works from the Board to Employee creators as contemplated by this Section D.6.:
- (i.) An Employee may, at any time, apply to the IP Official for a written confirmation of the Employee's print publication rights or other copyright interests in Employee Excluded Works as contemplated by this Section D.6. Such an application may be made before beginning to create a Work. In the application, the Employee shall fully describe the Employee Excluded Work and the nature of the intended use, and shall provide information about the following:
 - (a) any university facilities or resources significantly involved in the creation of the Employee Excluded Work;
 - (b) the interest, if any, of any other party in the Employee Excluded Work, such as co-authors, research sponsors and commissioning parties;
 - (c) how the creation of the Employee Excluded Work was, or will be, funded;
 - (d) the nature of the Employee Excluded Work and the contemplated use by the individual creator; and
 - (e) any other information reasonably relevant to the University's interest in the ownership or the Employee's intended use or disposition of the Employee Excluded Works, including additional information that may be requested by the IP Official after receipt of the application.
 - (ii) Within 30 days of receiving an application accompanied by all additional information reasonably required for such determination, the IP Official shall either:
 - (a) confirm that the Board transfers the rights in Employee Excluded Works to the Employee as contemplated by this Section D.6, and expeditiously execute or arrange to have executed all instruments required to effect the transfer of the applicable rights to the employee (subject to sponsors' and Board rights); or
 - (b) decline to transfer to the Employee the requested rights and provide the Employee with written reasons, specific to the Work that is the subject of the application.
 - (iii) If the IP Official does not act in accordance with this clause or if an Employee objects to the IP Official's determination, an Employee may within 90 days of making an application described in clause D.6 e. apply to the IP Committee for review of the IP Official's actions.

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7. Employee Use of Software and Electronic/Digital Works Excluding Commissioned Works:
Employees may make limited use of Software and Electronic/Digital Works excluding Commissioned Works, independent of copyright ownership determination, as follows:

- a. Use at the University - An Employee may use Software and Electronic/Digital Works he or she develops or creates in the normal course of employment at the University, including the right to make changes to the Software and Electronic/Digital Works and to distribute the Software and Electronic/Digital Works to students, faculty, and other personnel at the University for teaching, research and other noncommercial University purposes.
- b. Academic use outside the University - Subject to receiving any necessary approval, an Employee may use Software and Electronic/Digital Works at other academic or not-for-profit research institutions for noncommercial purposes as part of ordinary scholarly exchanges, including visiting professorships and guest lectures, as long as the activities comply with University and Board policies on conflict of interest and conflict of commitment (including provisions requiring approval by the appropriate dean or department head), and as long as the activities do not include or allow commercializing the Software and Electronic/Digital Work.

The appropriate department head or dean must approve in advance the use of any Board-owned Software and Electronic/Digital Works by an Employee teaching or creating any course or courseware outside the University. For Software and Electronic/Digital Works released to the Employee by the University, the University's name may not be used in connection with such Software and Electronic/Digital Works other than to identify the Employee as an Employee at the University.

- c. Commercial use outside the University - For Board-owned Software and Electronic/Digital Works not released to the Employee, the Employee must obtain prior approval from the appropriate department head or dean before teaching or creating any course or courseware using the Software and Electronic/Digital Works for any commercial enterprise, and must obtain prior approval from OTT or the IP Official before commercializing Software and Electronic/Digital Works created or used at the University. Any such use must be consistent with University and Board policies on conflict of interest, conflict of commitment, and use of the University's name. For Software and Electronic/Digital Works released to an Employee, that Employee may commercialize the works outside the University without permission of the University as long as the University's name is not used in connection with the works other than to identify the Employee as an Employee at the University and the release included permission from the University for such commercial use. The University will not commercialize Software and Electronic/Digital Works without the knowledge and input of the Employee(s) who created the Software and Electronic/Digital Works in question so long as they remain at the University.
- d. Use after departing the University - An Employee who leaves the University may use any Software and Electronic/Digital Works that he or she created while at the University as long as the use is at another academic or not-for-profit research institution, and limited to teaching, research, and other noncommercial purposes. With respect to Software and Electronic/Digital Works released to a former Employee, that Employee may make commercial use of and create new works based the Software and Electronic/Digital Works as long as the Employee does not use the University's name in connection with the works other than to identify himself or herself as a former Employee.

8. Employee Consulting: The Board will not claim ownership to Intellectual Property that is the product of Employee consulting where the consulting was performed:

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- a. In accordance with college and University consulting policies that have been pre-approved by the IP Official and in accordance with this Policy and the Conflict of Interest and Commitment Policy;
- b. Within the scope of the consulting activity documented to the University for which the Employee sought, and was granted, permission by the University to engage in; and
- c. Does not overlap or conflict with other contractual obligations of the University including but not limited to Sponsor-supported Projects in which the Employee is involved or has access to.

If the Employee's obligations with respect to Intellectual Property under this Policy or the Board IP Policy conflict with an Employee's obligations to the consulting entity, the obligations under University and Board Policies shall take Precedence. (See Board IP Policy, Paragraph C.5, University of Arizona Conflict of Interest and Commitment Policy 6.D and University Handbook for Appointed Personnel 2.06.06.)

E. PROCEDURES

1. Disclosure of Intellectual Property and Duties of Disclosers:

- a. Employees who create Intellectual Property falling within Section D above. shall promptly disclose any Invention or Copyrightable Work in which the Board or a Sponsor may have an interest. Employee Excluded Works (see D.6 above) in which the Board or a Sponsor does not hold an interest need not be disclosed. Disclosure must occur:
 - i. Upon request by the IP Official or their designee;
 - ii. Prior to any discussions or actions involving commercialization activity; or
 - iii. Prior to any non confidential presentation or other public release of Intellectual Property resulting from sponsor-supported projects; or
 - iv. As required by any sponsored research contract applicable to such Intellectual Property.

The creator(s) will file an Invention or Copyrightable Work Disclosure form (available from OTT) with the head of his or her department. The department head will transmit the disclosure to OTT within 10 days and send an information copy to the dean of the college or other appropriate unit head. The department head will append to the disclosure a statement setting forth his or her opinion concerning the scientific, technical and economic merit of such intellectual property; the desirability of obtaining patent, copyright or trade secret protection; an estimate of the commercial potential; and a general description of the University facilities or resources used in the development of the Intellectual Property.

- b. The principal investigator is responsible for notifying all persons who may be involved in creating and developing Intellectual Property in advance of their participation in a project when the terms of a contract grants a sponsor the rights to technology resulting from the sponsored-supported effort. When an individual is not a paid employee of the University, such as a Visiting Faculty member, a written agreement between the IP official (in behalf of the University) and the individual is required prior to participation in the Sponsor-Supported Project.
- c. The Employee who submits a disclosure is responsible for including all persons involved in

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creating and developing the Intellectual Property in a disclosure and of notifying them of the disclosure and ensuing events, especially those events related to further development (i.e., the protection and subsequent licensing or sale of the property).

- d. Each Employee involved in creating and developing Intellectual Property subject to disclosure under this Policy, Board IP Policy or law will cooperate with the University and execute any and all documents necessary to assign ownership and/or secure protection of Intellectual Property owned by the Board, in all countries designated by the IP Official or their designee.
2. **Ownership Determination:** The IP Official, in consultation with OTT, will determine the ownership of Intellectual Property within 10 days of OTT receiving a complete disclosure. If the Board is deemed to own the property, OTT, or its designated agent, will have 120 days to decide whether to attempt to commercialize the disclosed Intellectual Property and an additional 10 days thereafter to inform the creator of the property of this decision.
- a. At the request of the Employee, if the Board is not deemed to own the Intellectual Property, OTT will acknowledge in writing that the Board holds no interest in Intellectual Property determined to be Individual-Owned Intellectual Property. On mutually agreed upon terms, the Employee may assign Individual-Owned Intellectual Property to the University for commercialization.
 - b. At the request of the Employee and the concurrence of the unit head and dean, OTT may release to the Employee Intellectual Property determined not to merit or warrant exploitation by the University at that time, with certain rights retained by the University and certain restrictions on further development imposed on the Employee (see e.g., Board IP Policy, Paragraph D.2.a and f).
 - c. Intellectual property obligated to a sponsor pursuant to the terms of the research contract will be made available to the sponsor in accordance with that contract.
 - d. Intellectual Property owned by the Board may be patented, copyrighted or otherwise legally protected by the University in all countries designated by the IP Official or their designee. The University may commercialize Intellectual Property rights using its own resources or it may make an agreement with one or more outside entities or Intellectual Property management organizations to undertake such activities. If the University has not taken steps to commercialize the Intellectual Property within two years of the determination of ownership, an Employee who created the intellectual property, with the concurrence of the unit head and dean, as well as other Employees involved in the disclosure, may thereafter request a release or license agreement for such Intellectual Property from OTT with certain rights retained by the University and certain restrictions on further development imposed on the Employee (Board IP Policy, Paragraph 2.D.a).
 - e. OTT will inform the creators on a regular basis of the progress of protection efforts and commercialization of Intellectual Property disclosed by them.
3. **Dispute Resolution:** When disputes arise under this IP Policy and its implementation involving University Employees or individuals accepting and receiving benefit under the IP Policy, the IP Committee shall be the authority delegated to review such disputes and make recommendations to the IP Official or the President as appropriate to the nature of the dispute. Any employee involved in the dispute, the Director of OTT or the IP Official, or the President may bring a

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disputed matter before the IP Committee under this IP Policy. If requested, the IP Committee will review the interpretation or decision of the IP Official as required by the Board Policy (Board IP Policy, Paragraph I.) or review the matter brought before it in accordance with Board Policy Technology Transfer Policy 6-909.10 H.

4. Intellectual Property Net Income Distribution:

Net Income earned from the licensing of Commissioned Works and associated Intellectual Property, or University Trademarks or Identifiers that are not licensed by OTT, are not subject to Net Income Distribution under this Policy.

Employees who create Intellectual Property that is disclosed pursuant to this Policy and that is determined to be owned by the Board are entitled to share in the Net Income earned from the commercialization of that Intellectual Property according to the Income Distribution Policy, attached hereto as Exhibit A, unless provided otherwise by contract with that Employee.

If multiple Employees are entitled to share in the distribution, the IP Official will not release any Employee distribution income until all entitled Employees have provided the IP Official with a written agreement signed by all such Employees, indicating the distribution shares for each Employee. Such agreements may include Employees contributing to the research or the technology transfer surrounding the Intellectual Property, but must contain the signature of all Employees who would be rights holders in the licensed or assigned Intellectual Property but for their employment status or their duty to assign to the Board.

Where the University assigns its Intellectual Property to a research sponsor or outside organization (see Paragraph E6), the assignee will pay the University the fully burdened overhead expenses related to the assigned intellectual property. The Office of Vice President for Research receives that portion of the overhead rate normally associated with agreements that do not assign Intellectual Property for distribution according to the handling of indirect costs received from sponsored projects while the remainder distributed pursuant to the Invention Income Distribution Policy attached hereto as Exhibit A. If the University assigns its Intellectual Property to an Arizona state agency, the assignee will pay the University 50% of their Net Income after direct expenses related to the assigned intellectual property, with the payment to the University to be distributed pursuant Exhibit A.

- 5. Patent, Trademark, Copyright Application:** The Employee who creates Intellectual Property owned by the Board is required to cooperate fully with the University in the application for legal protection of Intellectual Property when requested to do so by OTT or the IP Official. All direct costs involved in obtaining and maintaining legal protection, domestic and foreign, will be borne by the University, a sponsor or licensee, or a contracted management agent.
- 6. Assignment of Title to Research Sponsor in Sponsor-Supported Projects:** The University may accept a grant or contract from an organization with title to resulting Intellectual Property assigned to the sponsor or that gives the sponsor an exclusive option for a limited period of time in to negotiate a license. The terms and conditions of such a license must be consistent with the Board IP Policy. OTT will negotiate the license on behalf of the University and must approve any such agreement in advance. The IP Official will use his or her best efforts to consult with the creator and principal investigator in the negotiation process, including, among other things, providing a copy of the negotiated agreement before its final execution. The principal investigators are responsible for notifying everyone involved in work supported by the grant or

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contract of the terms of any such agreement prior to their involvement.

- 7. Employee Conflict of Interest and Employee Financial Interest in Private Organization:** Employees are subject to and will abide by the University Conflict of Interest and Commitment Policy. Notwithstanding any other provisions of this section, a grant, contract or any other form of agreement between the University and any organization containing a provision assigning title is subject to final approvals as required by the University's Conflict of Interest Policy if the Employee has any substantial proprietary or financial interest in the contracting organization or any entity engaged in a business relationship with the contracting organization as set forth in the University's Conflict of Interest and Commitment Policy . In addition to complying with the Conflict of Interest and Commitment Policy, any time an Employee establishes or maintains a proprietary or financial interest in a private entity that contracts with the University for research or that desires to obtain a license from the University for University technology, that Employee must prior to that entity entering into a contract or license with the University (i) submit a Conflict of Interest and Commitment disclosure form to the Institutional Review Committee for approval and (ii) submit an Enabling Disclosure form (<http://www.ott.arizona.edu/enabling.htm>) to OTT for review, approval, and submission to the Board for Board approval. Approval by the Board for the creation of any organization or any substantial interest in an organization under applicable Arizona law does not exempt any agreement between the University and that organization from the provisions of this paragraph, nor from other applicable conflict of interest or commitment rules or policies. In the event of any inconsistency with the provisions of this Policy, the University's Conflict of Interest and Commitment Policy and the Board's Conflict of Interest Policy shall control with respect to rules and procedures applicable to conflicts of interest and commitment.

In those cases where the Employee holds a financial interest in a company that licenses from the University technology developed by that Employee, that Employee will not receive a creator's share of the licensing income received by the University from that company for that technology, but that Employee's share will instead be distributed among the other University accounts designated in the Income Distribution Policy.

Policies Cited:

Arizona Board of Regents' Policy Manual, Chapter VI, 6-908 Intellectual Property Policy and 6-909.10 Technology Transfer Policy, revised 9/99

University of Arizona Conflict of Interest and Commitment Policy, 1998.

University Handbook for Appointed Personnel, 2000

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**EXHIBIT A TO THE UNIVERSITY OF ARIZONA INTELLECTUAL PROPERTY POLICY
IP NET INCOME DISTRIBUTION POLICY**

Under the Arizona Board of Regents (Board) Intellectual Property Policy, Employees and students or others who conceive and/or develop Intellectual Property subject to the Board IP Policy must disclose that intellectual property. If the Board retains title to the Intellectual Property and income is created by license or assignment of the Intellectual Property, the Board IP Policy provides that the creator(s) entitled to receive income under Paragraph E.4. of this Policy will receive a minimum of 50 percent (50%) of the first \$10,000 of Net Income to the University and a minimum of 25 percent (25%) of Net Income to the University beyond the first \$10,000.

The University of Arizona Intellectual Property income distribution schedule outlined below exceeds the Board's minimums. Income listed below is "Net Income" as defined in this Policy.

For the purposes of this Policy, an Investigator is a current paid or emeritus employee of the University who is normally authorized by the University to conduct independent research and expend University funds and who is entitled to receive an income distribution under the Intellectual Property Policy Paragraph E.4. Investigator Discretionary Accounts are an apportionment of the University's income. When an Investigator leaves University employment, income that would normally go to their Investigator Discretionary Account will be divided among the remaining Investigator Discretionary Accounts. In the event no discretionary accounts remain, the income will be divided among the remaining University accounts.

Distribution of Net Income

Step	Income \$	Distributed to	Percent
1	First 10,000	Creator	100
2	Next 40,000	Creator	50
	Total 50,000	Investigator Discretionary Account	30
		Fund for Promotion of Research	20
3	Next 450,000	Creator	40
	Total 500,000	Investigator Discretionary Account	25
		Fund for Promotion of Research	25
		Department Account	5
		Dean's Account	5
4	Next 500,000	Creator	35
	Total 1,000,000	Investigator Discretionary Account	20
		Fund for Promotion of Research	30
		Department Account	10
		Dean's Account	5
5	1,000,000 and Beyond	Creator	25
		Investigator Discretionary Account	20
		Fund for Promotion of Research	40
		Department Account	10
		Dean's Account	5

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EXHIBIT B TO THE UNIVERSITY OF ARIZONA INTELLECTUAL PROPERTY POLICY SUPPLEMENTAL DEFINITIONS

This supplement provides additional definitions to aid in the understanding and use of the University's Intellectual Property Policy. The information below is a generalized summary for information purposes only and does not create new legal rights or responsibilities nor does it supercede any provisions of this Policy or that of the Board of Regents.

1. Copyright: See 17 USC § 101, et seq. For general information on US and international copyright laws and treaties, see the Copyright Office Information Page, <www.loc.gov/copyright> Consistent with 17 U.S. Code, copyright protects an original work of authorship fixed in any tangible medium of expression from reproduction, distribution, display, performance or the creation of derivative works without the permission of the owner. Copyrighted material may include, but is not limited to, website content and format, lecture and class notes, exams, computer software, mask works, artwork, music, technical articles, books and other literary works. Copyright protects the expression of an idea, but not the idea itself. For example, a copyrighted set of plans for building a solar device provides exclusionary rights regarding the reproduction and sale of the plans, but the purchaser of the plans may build and sell the solar device, assuming that the device is not protected by a patent and is not subject to contract restrictions. In addition, copyright does not protect raw data or facts, though it may protect the creative presentation of data and facts.
2. Data: Data includes, but is not limited to, lab notes, results of analyses, research notes, research data reports, and research notebooks.
3. Mask Work: A type of Intellectual Property protected under federal law that consists of a series of related images representing the three-dimensional pattern of metallic, insulating, and semiconductor materials in a semiconductor chip product. Mask works are protected under the Semi-Conductor Chip Protection Act of 1984, which is incorporated into the U.S. copyright law, 17 U.S.C. § 901 *et seq.*
4. Patent: Consistent with 35 U.S. Code, a U.S. patent is an instructional document obtained through application to the U.S. Patent and Trademark Office, and provides negative exclusionary rights in the United States. The owner of a patent can prevent others, for a period of years, from making, using or selling the Invention. An issued patent must teach one who is familiar with the field the best means for producing, constructing or using the patented product or process. Requirements for obtaining patents in other countries vary with each country, see www.uspto.gov for further information.
5. Trade Secret: Consistent with the Uniform Trade Secrets Act, codified in Arizona at A.R.S. §. 44-401, certain technology, information, formulas, patterns, methods, techniques, etc., may be protected as trade secrets, provided that reasonable efforts are undertaken to maintain secrecy. The University's records are considered to be public records, and open to inspection by any person at all times: A.R.S. § 39-121. The University is authorized to maintain trade secret protection only to the extent permitted under Arizona law (A.R.S. § 15-1640) for example, if the trade secret belongs to and is disclosed by an outside sponsor (see Board IP Policy, Paragraph B.4). When public disclosure would inhibit a company's willingness to invest the necessary funds for product development and commercialization, OTT, in consultation with the Employee and the IP Official, may license Intellectual Property as a trade secret, to the extent permitted under State law. Knowledge formalized as a trade secret cannot be disclosed in any open forum as long as it is intended to be maintained as a trade secret. For purposes of this Policy, trade secrets will be treated as patented and copyrighted technologies with respect to licensing and royalty distribution.
6. Trademark: Consistent with federal and state statutory and common law, trademarks and service marks identify an organization as the source of a product or service. The University name, symbols and logos of the University are trademarks and service marks belonging to the Board, for example, and may not be used by third parties without a proper license and specific approval of the IP Official or the University's Office of Trademarks & Licensing, and in a manner consistent with applicable University and Board of Regents policies.