

3361:10-17-09 Conduct and ethics: employee financial interests in private companies that are commercializing university discoveries, inventions or patents.

(A) Policy statement

The board of trustees has determined that the best interests of the university of Cincinnati will be served if employees who create new technology are afforded the opportunity to hold personal financial interests in companies that are engaged in commercializing their inventions. Employee participation with outside companies in technology development activities will facilitate the university's goal of making its research available for use in the private marketplace by giving researchers an incentive to develop inventions with commercial applications. The opportunity to participate in commercialization activities is also essential to the university's efforts to attract and retain highly qualified researchers. The procedures and guidelines set forth in this rule are intended to enable the university to realize the benefits of such entrepreneurial activities while protecting the integrity of its research and educational mission and to comply with university policies and with applicable federal and state laws.

(B) Applicability

(1) Scope and definitions.

- (a) This policy applies to any faculty, staff or student employee who is the creator of a discovery or invention that is owned by the university of Cincinnati through the operation of rule 3361:10-19-01 (Patents and copyrights: policy on inventions and discoveries) of the Administrative Code ("inventor") and who desires to acquire an equity or other financial interest ("financial interest") in a firm, corporation, or other association to which the university of Cincinnati has assigned, licensed, transferred or sold its interests in the discovery or invention made or created by that employee or in a patent issued to that employee ("technology development company").

(b) This policy deals only with the acquisition by an inventor of a financial interest in a company that is developing technology based on a discovery, invention or patent (“intellectual property”) that was created by that inventor; accordingly, the term “technology development company” refers only to such a company. For purposes of this policy, “inventor” includes the inventor’s spouse and members of his or her immediate family and any firm, corporation or other association controlled by the inventor; and “financial interest” includes any stock, bond, warrant, option, loan or other equity or debt interest in a technology development company, or promise of the same, as well as paid consulting or employment with a technology development company.

(2) Relation to the Ohio ethics laws.

(a) This policy creates an exception to chapter 102 and sections 2921.42 and 2921.43 of the Revised Code (collectively, the “Ohio ethics laws”). Among other things, these laws prohibit public officials from having an interest in the profits or benefits of a public contract entered into by or for the use of the governmental unit with which he/she is connected, or from soliciting or accepting anything of value that is of such character as to manifest a substantial and improper influence upon him/her with respect to the performance of his/her duties. Compliance with this policy will provide an inventor who acquires a financial interest in a technology development company with an exemption from these and other possibly applicable provisions of the Ohio ethics laws. A failure to comply with this policy could result in a violation of the Ohio ethics laws.

(b) This policy applies only to inventors, as defined. Consequently, employees other than inventors who acquire a financial interest in a company that is developing university-owned intellectual property should consult their own legal advisers to determine whether the transaction violates the Ohio ethics laws.

(3) Relation to other university rules.

Inventors seeking to comply with this policy should also consult other rules of the Administrative Code on related subjects, such as rules 3361:10-17-03 (Conduct and ethics: employee responsibilities); 3361:10-17-04 (Conduct and ethics: use of university resources); 3361:10-17-08 (Conduct and ethics: policy on conflicts of interest in the conduct of research at the university of Cincinnati); rule 3361:10-19-01 (Patents and copyrights: policy on inventions and discoveries); and rules 3361:30-21-02 (Employment: policy on collateral employment for faculty and librarians) and 3361:30-21-03 (Employment: collateral employment for employees other than faculty and librarians). It is the intent of this policy that it be administered consistently with all other university rules and policies that may apply to the same circumstances.

(4) Other matters not covered.

This policy does not deal with the terms and conditions under which the university will assign, license, transfer or sell intellectual property to a company that will become a technology development company upon acquisition of rights in the intellectual property, or with the terms and conditions upon which the university will require or accept an equity interest in a licensee company. These and all other terms and conditions of licensing agreements will be determined on a negotiated basis by the office of the vice president for research ("office of research") pursuant to the university's patent policies that are set forth in rule 3361:10-19-01 of the Administrative Code. Generally, such transfers and/or equity participations will not be made or entered into unless it is determined both that the proposed technology development company has the resources (or a reasonable plan to obtain the resources) necessary to development of the technology, and that it has a satisfactory business plan for such development.

(5) Effective date.

This policy shall apply only to acquisitions of financial interests that occur on or after the date of its initial adoption.

(C) Policy requirements.

- (1) An inventor may solicit or accept a financial interest in a technology development company if, but only if, he or she has first complied with the requirements of this rule.
 - (2) It should be noted that a company organized for the purpose of commercializing intellectual property will not become a technology development company until the university has assigned, licensed, transferred or sold its interest in the intellectual property to the company. Consequently, an inventor who is participating in the organization of a company that expects to license intellectual property from the university should comply with this policy before the intellectual property has been licensed to the company, or before soliciting or accepting a financial interest in the company if it already has acquired the license.
 - (3) The university will not knowingly license intellectual property to a company in which an inventor has a financial interest until there has been compliance with this policy. It may, however, grant an option to acquire the license conditioned on compliance with the policy. This will protect the company's interest in obtaining the necessary license while the inventor seeks approval for the proposed financial interest.
 - (4) Employees who wish to participate in a start-up company may discuss initial company formation with the office of research. However, negotiations between the university and a company seeking to license its intellectual property should to the extent possible be conducted by company representatives other than the inventor.
- (D) Approval process.
- (1) Compliance with collateral employment requirements.

An inventor seeking approval to hold a financial interest in an existing or proposed technology development company shall first comply with rule 3361:30-21-02 or 3361:30-21-03 of the Administrative Code, as applicable, relating to consulting and collateral employment. This requirement applies regardless of the nature of the financial interest involved, and thus must be met even

in cases where no consulting will occur and the only financial interest is a passive equity interest in the company. In addition to the collateral employment forms that are required by the applicable rule, the inventor shall submit a supplemental report containing:

- (a) A complete disclosure of the inventor's proposed financial interest in the technology development company; and
- (b) A conflicts management plan that addresses the following issues:
 - (i) Management of university obligations. The conflicts management plan shall describe the inventor's university duties (e.g., teaching loads, committee assignments, etc.) and explain how potential conflicts of commitment will be managed so that these university duties can continue to be fully performed. Inventors who are unable to perform the full range of their university duties must request a reduction of appointment or other approved leave. Professional improvement leave authorized under section 3345.28 of the Revised Code may not be used for private business purposes.
 - (ii) Proposed participation in management of the technology development company. Inventors may hold temporary management positions in a technology development company that is in the start-up phase. However, it is expected that the company will obtain professional management as soon as this is practical, and that the inventor's participation in the company's management will decrease as the company develops. The conflicts management plan must describe the contemplated participation in management and provide enforceable milestones for the reduction of the participation. Inventors may not hold management positions in established technology development companies.

- (iii) Limitation of equity ownership. Although an inventor may hold a significant equity interest or debt position in a technology development company in its initial stages of development, it is expected that the inventor's percentage of ownership will decrease as the company develops and attracts additional investment. The conflicts management plan must describe the inventor's contemplated initial equity and/or debt participation in the technology development company and provide enforceable milestones for reduction of that interest to not more than twenty-five per cent of the company's total equity or debt, as the case may be.
- (iv) Use of university facilities. The conflicts management plan shall describe any proposed use of university facilities, equipment or other resources to further the business interests of the technology development company. No such use will be permitted except pursuant to a sponsored research agreement, facilities use agreement or other appropriate contractual arrangement with the technology development company that is approved by the office of research and processed in accordance with the university's contracting procedures.
- (v) Student employment. The conflicts management plan shall describe any proposed use of university students to further the business interests of the technology development company. The inventor may not use university students for this purpose as part of a student's assigned academic work, but the technology development company may employ students pursuant to an employment plan that has been approved by the chair of the student's department and, if applicable, the chair of the graduate studies committee. A student may not be employed by the technology development company if:

- (a) The student is enrolled in a course taught by the inventor,
- (b) The inventor is a member of the student's thesis or dissertation committee, or
- (c) The inventor is the student's advisor or the director of his or her thesis or dissertation research.

However, such students may perform research that benefits the technology development company when the work is being performed pursuant to a sponsored research agreement or a formal internship agreement between the technology development company and the university.

(2) Approval by research office.

Upon compliance with the applicable collateral employment procedures, the approved collateral employment form and conflicts management plan shall be forwarded to the office of research for final approval by the vice president for research. In granting such approval, the vice president for research may consult with the senior vice president for academic affairs and provost, the vice president for health affairs and the office of general counsel and may make such additional conflict management requirements as are deemed necessary to approval of the inventor's proposed financial interest in the technology development company.

(3) Enforcement.

Enforcement of an approved conflicts management plan shall be the responsibility of the inventor's academic unit head and dean or staff supervisor, as the case may be, in consultation with the office of research. Violations of the conflicts management plan may subject the inventor to university discipline, or deprive the inventor of the exception of the Ohio ethics laws that would otherwise be applicable. In addition, the university's license agreement, facilities use agreement, sponsored research agreement or other agreement with the technology development company may provide

for termination or other remedy if the inventor fails to comply with the conflicts management plan.

(4) Annual review.

To assure continued compliance with the plan, the office of research shall annually conduct an assessment of the inventor's performance under the conflicts management plan. Such assessment shall include a report from the inventor's academic unit head and dean or staff supervisor respecting the adequacy of the inventor's performance of his or her assigned university duties and a review by the office of research of the extent to which the milestones that are contained in the conflicts management plan have been met. Any deficiencies that are noted shall be discussed with the inventor with a view to achieving compliance or modifying the plan or the related agreements with the technology development company. A failure to reach agreement on compliance can result in one or more of the consequences described in paragraph (D)(3) of this rule.

(5) Freedom from conflicts in the administration of this rule.

University officers and employees who participate in the approval process or in the administration or enforcement of this rule may not have a financial interest in the technology development company. If such an interest exists, the person with the conflicted interest shall be replaced with a person who does not have such an interest.

Effective: April 7, 2008

Certification:



Cathy L. Hiles

Associate to the Senior Associate Vice President for Administration
and Finance and Interim Assistant to the Board of Trustees

Date: March 18, 2008

Promulgated under: R.C. Section 111.15
Statutory authority: R.C. 3361.
Rule amplifies: R.C. 3361.03;
R.C. 3345.14.
Prior effective date: October 17, 2001
March 21, 2005