

CONFLICTS OF INTERESTS & ENTREPRENEURSHIP: WHAT NEW RULES MEAN FOR INVENTORS

A conflict of interest exists if financial interests or other opportunities for tangible personal benefit may exert a substantial influence upon a faculty member or administrator's personal judgment in exercising any university duty or responsibility, including designing, conducting or reporting research. For example, an inventor starts a small company to develop technology he began at the University. He begins work on several compounds and begins testing them himself. A conflict of interest arises: Inventor as stockholder, who has an interest in the value of the stock on the open market conflicts with Inventor as researcher, who has an interest in the outcome of the research.

When Inventor is both stockholder and researcher, it is impossible for the objective observer to tell if the research results have been affected by the stockholder's interest in increasing the value of stock. Likewise, if a University employee negotiates a contract with an organization in which a family member has a substantial financial interest, it is impossible to tell whether the negotiation is based on the best interest of the University or on the family relationship. Conflict of interest law is about appearances.

A conflict of interest is the appearance of impropriety, and avoiding such appearances can be burdensome for inventors who merely want to continue University research in their own start up, or to work on their own inventions at the company which licensed the invention. To this end, the University of Cincinnati has developed a new set of rules which create an exception to the current regulations against conflict of interest for "entrepreneurs." This exception is very narrow, and is only for ***Inventors*** who have a ***Financial Interest*** based on a ***Discovery created by the Inventor***.

The reason for the new rule is simple: the University wants to remove obstacles from the path of inventors who have ideas that could be better developed in technology development companies.

Essentially, this rule boils down to two possible scenarios: 1) an Inventor who founds a start-up to develop technology licensed from the University or 2) an Inventor who wishes to acquire interest in a company that has already licensed his technology. For each scenario, the requirements of the rule differ slightly.

The most important aspect of the new Entrepreneurship Rule is the reporting requirement. After an invention is disclosed to the Intellectual Property Office, and the invention has been evaluated for marketability and patentability, the entrepreneurial inventor must file a series of forms with his department. These forms keep the University on notice of a possible conflict and prevent the laws against conflict of interest from becoming an obstacle to the further development of the invention.

START-UPS

“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 policy.”

For the purposes of an inventor who wishes to found a company, the timing of reports to be filed with the University are incumbent upon when the inventor needs Intellectual Property licensed. All reports must be made before the University licenses any Intellectual Property out to a company.

Chronologically, a collateral employment form must be filed first. Secondly, a Supplemental Report must be filed. The Supplemental Report contains 1) complete disclosures of the Inventor’s financial interest; 2) the conflicts management plan, which explains how the Inventor will handle his University duties with the duties at his new company, and 3) a student employment plan, if necessary. The conflicts management plan should include 1) the inventor’s proposed management position in the company; 2) proposed decrease in the inventor’s equity ownership over time, with milestones and a goal of not more than 25% equity interest; 3) use of university facilities, if any; and 4) any proposed student employment.

In the case of a start-up, an inventor will most likely want to have completed the tasks of investment seeking, incorporation or other structural formation before completing the step of filing the conflicts management plan.

After the collateral employment form and the supplemental report are approved, it will be forwarded to the Office of Research with the conflicts management plan for final approval by the Vice President for Research and the University Dean for Advanced Studies. Then, the Intellectual Property Office determines whether the new company would be able to support the development of the new technology. Finally, an officer of the new company would negotiate a license with the University for the transfer of the new technology.

The terms of the conflicts management plan are enforced by the department head. A review is annually conducted by the Office of Research to be certain that University resources are being appropriately handled and that the conflict management plan is being carried out in keeping with the conflicts management plan.

INVENTOR ACQUIRES STOCK IN TECHNOLOGY DEVELOPMENT COMPANY

In the case of the Inventor who buys stock or begins work at a technology development company, the procedure is a little different. In order to proceed to work for a company that has already licensed the inventor’s technology, the inventor must file a collateral employment forms and supplemental report before he goes to work for the company. Again, the conflicts development plan must account for the inventor’s duties at the University, make an accounting of his financial interest in the company, and create a plan

that will minimize unnecessary conflicts. For the inventor who acquires stock in a company, the same issues should be discussed in the conflicts management plan.

The relevant report and forms should be filed before the inventor starts work and/or acquires stock in the company.

ADDITIONAL ISSUES OF CONFLICT

Sponsored Research Agreements

An additional issue with faculty members participating in the management of technology development companies is sponsored research agreements. It is not uncommon that such companies fund university research. However, when the inventor who owns the company conducts the research pursuant to the agreement, the appearance of impropriety lingers.

For this reason, it is recommended that a third party be asked to review the results of experiments conducted under the terms of a sponsored research agreement. In the alternative, the researcher could include provisions for how sponsored research agreements will be carried out in the future in the initial conflicts management program.

WHAT TO FILE

i. Collateral Employment forms

ii. “Supplemental Report”

A. *Complete Disclosure of Financial Interests in Technology Development Plan*

B. *Conflicts Management Plan*: addressing the following issues

1. *Management of University Obligations*: (i.e., teaching loads, committee assignments.) Must show how Inventor will continue in his or her full capacity as a university employee.

2. *Proposed Participation in the Technology Development Company*: How Inventor’s participation will decrease as company develops.

3. *Limitation of Equity ownership*: How Inventor’s debt interest will decrease as he or she seeks additional investors.

4. *Use of University facilities*. Not permitted unless pursuant to a sponsored research agreement or other contractual arrangement.

C. *Employment Plan (optional)*: Required for hiring students. Must be approved by department chair of student’s department. Student may not be employed if 1) enrolled in course taught by the Inventor; 2) the Inventor is a member of the student’s dissertation committee; 3) the Inventor is student’s advisor or director of thesis or dissertation. Plan must describe the proposed use of the students in order to further the business interests of the University.