THE UNIVERSITY OF MICHIGAN

STANDARD PRACTICE GUIDE

SECTION:	Research	**Number:**	303.4
		Revised:	3/24/03
SUBJECT:	Revised Policy on Intellectual Properties*: including their Disclosure, Commercialization, and Distribution of Revenues from Royalties and Sale of Equity Interests	**Date Issued:**	3/18/97
		Date Reviewed:	3/24/05
		Attachment(s)	0
APPLIES TO:	All Faculty and Staff		
ISSUED BY:	Office of the Vice President for Research		

The following is the University's Policy on Intellectual Properties, approved and adopted by the Regents, April 1996. Reference also: Sec. 3.10 of the University Bylaws.

The University of Michigan is a public institution devoted to teaching, research, and service. One aspect of its mission is the application of knowledge to problems of general public interest. Technology transfer, as a beneficial outcome of teaching and research, is an application of knowledge that responds to many societal needs. The University recognizes and supports technology transfer and intellectual property development activities as an integral component of its mission, and asserts that the guiding principle governing the conduct of these activities shall be the service of its mission.

The objectives of the technology transfer and intellectual property development activities of the University shall be: to facilitate the efficient transfer of knowledge and technology from the University to the private sector in service of the public interest; to support the discovery of new knowledge and technology and to attract resources for the support of University programs; to provide services to the University faculty and staff to facilitate their efforts to carry out the University's mission; and, to promote local and national economic development.

I. Disclosure

University employees have an obligation to disclose promptly and completely to the Technology Management Office any intellectual property developed or discovered as described in Regents' Bylaw 3.10.

The Technology Management Office has been organized to assist the University in achieving the technology transfer and intellectual property development objectives noted above. The Technology Management Office will provide prompt assistance to University employees, including a review of requirements of sponsorship agreements, if any, a preliminary market and proprietary status analysis, and an explanation of options for commercialization.

* For ownership information with regard to scholarly works, textbooks, software, and works specifically commissioned by the University, see SPG section 601.3-2.

II. Options for Commercialization

Three options for the commercialization of a technology are noted below. The option will be chosen by inventor(s) and the Technology Management Office jointly, prior to the expenditure of substantial University resources. The option chosen should be that which best serves the mission of the University, including the objectives of this policy, and which is consistent with the available technology transfer resources of the University. Preferences expressed by faculty and staff inventors will be given strongest consideration. In the event a joint decision is not reached, the Vice President for Research may be requested to make a final determination.

The following options for commercialization are available:

(a) *Licensing Third Parties*

The University may license University-generated intellectual properties to external entities for further development and commercialization in exchange for a return on resulting revenues. The University will bear the costs of licensing the intellectual property.

If the University decides not to protect or license the intellectual property, it may be reassigned to the inventor(s)* upon request, in accordance with option (c) below.

(b) *Licensing Business Entities in Which an Inventor Holds an Ownership or Management Interest*

The University may enter into license agreements with business entities in which the inventor holds an ownership interest. Such licenses will be comparable to those negotiated with unrelated third party licensees. The terms may include royalty payment, equity interest, or a combination thereof, as consideration to the University for the license. The emphasis in structuring license agreements with start-up companies will be on helping the company become viable. Where the inventor-employee chooses to accept the expense and risk of protecting and marketing the technology in lieu of using the University's resources and services to do so, terms which reflect the inventor's increased acceptance of responsibility can be accepted by the University.

(c) *Reassignment of Ownership to Inventors*

Subject to the provisions described in Section III below, the University may reassign its ownership of an intellectual property to inventor(s) who elect to market, protect, and license it on their own with minimal University involvement. Normally, where the intellectual property is to be commercialized via a business in which the inventor holds a financial or management interest, the option described in (b) above would be used.

* In this policy the term inventor shall mean inventor, developer or author.

The return to the University for a reassignment of ownership will consist of recovery of any University patent and licensing expenses plus 15% of royalties, equity, or other value received by the inventor(s) through subsequent licensing or reassignment.

In exceptional cases, in order to benefit the University, the Vice President for Research in consultation with the appropriate school or college may make modifications in this rate of return for reassignment of ownership.*

NOTE: After reassignment in accordance with section II(c), any costs associated with protection, marketing, or licensing of the intellectual property will not normally be borne by the University.

III. Conflict of Interest Management Under State Law and University Policy

License and assignment agreements between the University and employee(s) or between the University and a company in which University employee(s) hold a financial or management interest fall under the State of Michigan Conflict of Interest Statute. This Statute permits such agreements if certain disclosure, approval, and reporting requirements are met.

Also, all license and assignment agreements entered into by the University pursuant to the options described under II(b) and II(c) above are subject to disclosure, review and approval under the University's Conflict of Interest Policy in Sponsored Projects and Technology Transfer. In accordance with that Policy, inventors must report any significant financial interest in any business entity involved in such transactions to the Technology Management Office.

When such a license or assignment agreement is entered into by the University, any continuing development of the intellectual property with the use of University funds, facilities, or funds administered by the University presents potential conflicts of interest, and may only proceed if reviewed and approved as described herein. Where appropriate to the commercialization option chosen, the University will work with inventors to manage conflicts of interest through appropriate disclosure, review, approval and management under the processes set out in the University's Conflict of Interest Policy, thereby allowing continued development of an intellectual property at the University to proceed.

Such review and approval of the continued development of an intellectual property at the University may be requested by an inventor at the time that review and approval of the license or reassignment is sought from the inventor's conflict of interest committee.

The Vice President for Research will provide the conflict of interest committees with guidelines for reviewing inventor involvement with business entities and inventor requests for continued development of intellectual properties at the University. The conflict of interest committees will follow these guidelines in their review of such arrangements, and may also assess other relevant

* The Vice President for Research shall record a description of the exceptional circumstances.

factors, with input from the Technology Management Office and the Vice President for Research as appropriate. Committee approval for continued development of an intellectual property will require the successful design of conflict of interest controls appropriate to the specific situation.

IV. Provisions in Assignment and License Agreements

Assignment and license agreements entered into by the University will include provisions, as appropriate, regarding due diligence in patent or copyright protection and commercialization of the technology, reports on efforts and success in commercialization, access to records to assure compliance with the terms of the agreement, retention of University rights to practice the technology and extent of authority for subsequent licensing or reassignment. The University's license and assignment agreements must permit compliance with applicable laws, regulations, University policies, and the terms of agreements with sponsors.

Assignment and license agreements with University employee-inventor(s) will normally include a provision that any continuing development of the intellectual property with the use of University funds, facilities, or funds administered by the University may only proceed if reviewed and approved in accordance with the conflict of interest procedures described in III above.

V. Distribution of Revenue from Royalties or Sale of Equity Interest

(a) *Applicability*

The following revised revenue distribution plan will apply only to licenses and assignments that are granted after this revised plan is approved by the Regents.[*] Inventors, developers and authors of intellectual properties whose contributions result from specifically assigned tasks will normally not participate in the royalty/equity revenue distribution plan described herein.

[*] This revised distribution plan may be applied to existing licenses and assignments by agreement between the Vice President for Research and the relevant responsibility center providing that the inventor's share will not thereby be disadvantaged.

(b) *Revenue Distribution Plan*

The goals of this revenue distribution plan include: creating a strong incentive for faculty participation in technology transfer activity by providing revenues for the continued support of inventor(s)' research; supporting further investment in research and educational activities generally; sharing revenues directly with inventors; and fulfilling the obligations of federal regulations. Responsibility centers and originating units shall use all revenues resulting from this plan for research and educational purposes.

After recovery of University expenses, including but not limited to those for patent protection, marketing, and licensing, aggregate revenues resulting from royalties and sale of equity interests will be shared as follows:

Up to $200,000	50% to the inventor(s) 25% to the originating unit(s) 25% to the originating school, college, division or other responsibility center(s)*
Over $200,000 (and up to $2,000,000)	33 1/3% to the inventor(s) 33 1/3% to the originating unit(s) 33 1/3% to the originating school, college, division or other responsibility center(s)
Over $2 ,000,000	33 1/3% to the inventor(s) 66 2/3% to the originating school, college, division or other responsibility center(s)

The originating unit may be specified as the department, institute, or center, or a laboratory or other subunit of any of these. The originating unit's share of revenues may also be apportioned among the originating unit and subunits therein.

The Regents strongly support the allocation of revenues resulting from this plan for continued support of the inventor(s)' research. It is expected that no less than one-half of the originating unit share shall be allocated for this purpose.

NOTE: In cases of licensing to business entities in which inventors hold ownership or management interests, and in cases of reassignment to University employees, the resulting revenues to the University will be distributed only to the originating unit(s) and the

* In this policy the term responsibility center shall include any financial system equivalents which may be created by the University. Distributions to responsibility centers will come into effect when and remain in effect while a value-centered management budgeting system is implemented at the University. Otherwise, such distributions shall be made to central administration according to the Policy on Intellectual Properties as approved by the Regents on July 16, 1987.

responsibility centers and will normally be split evenly between them. The inventor(s)' potential for revenue under the University's standard distribution plan outlined above is exchanged for the potential rewards from the license or assignment.

(c) In exceptional cases, in order to benefit the University, the Vice President for Research, in consultation with the relevant responsibility center(s), may make modifications in this distribution plan.*

* The Vice President for Research shall record a description of the exceptional circumstances.