Proposed Campus License Income Distribution Plan for Unpatented Software

Plan Summary

Option A: when the software developer keeps his/her share of the income, the net income is distributed as follows:

i) 35% to developer(s) as personal (taxable) income
ii) 25% to developer’s Department
iii) 25% to developer’s School
iv) 15% to Office of Technology Management

Option B: when the software developer donates some or all of the developer’s income share to the lab, the net income is distributed as follows:

The Department and School (or Chancellor’s Office for developers with no School affiliation) will match dollar-for-dollar from their shares the developer’s donation to the lab that generated the software. In the limiting case in which the developer donates all personal income to the lab the distribution would be:

70% to developer’s lab
7.5% to developer’s Department
7.5% to developer’s School (or Chancellor’s office for developers with no School Affiliation)
15% to Office of Technology Management

Background and Rationale

For uniformity and ease of administration, UCSF has historically distributed all IP license income using the same distribution plan the UC system established for patent license income. The rationale for this practice was that intellectual property is intellectual property regardless of whether the income results from patent, copyright, trademark or property rights licensing, and beneficiaries of this license income should not be advantaged or disadvantaged depending on the specific kind of IP involved. Consequently, the systemwide income distribution plan that has served the system well under the UC Patent Policy (http://www.ucop.edu/ott/genresources/pat-pol_97.html) has also been UCSF’s default plan for non-patented types of IP, including software. Net license income under the current UC patent license income distribution policy is distributed by UCSF to: a) the inventors/developers as personal income (taxed as long-term capital gain), b) the School, and c) the UC General Fund. There is no direct distribution to the Department and/or the inventor's/developer’s lab.

Under federal statute, software comprises both copyrightable and patentable subject matter. For licensed software for which no patent rights are available, or for which no patent rights are deemed necessary or desirable for licensing purposes, the resulting
license income derives from the copyrights in the software source code as an original work of authorship. In contrast to UC’s Patent Policy that applies systemwide, the UC policy for copyrights (http://www.otm.ucsf.edu/Pol/otmUCpol.asp#Long) grants the campuses responsibility for managing their copyrights and copyright license income as best suits their needs. Over the years, UCSF has occasionally invoked this flexibility by allowing software developers or their departments to propose an alternative license income distribution plan for a specific piece of software. In these instances, the campus has required developers to submit a request for exception to policy that must be approved by the Dean and Chancellor. In the last 15 years, the campus has approved non-standard license income distributions for about six non-patented software applications. However, the volume of software development at UCSF is increasing and there will likely be more requests for exceptions to policy that will impose a growing administrative burden on the Deans, Chancellor, and Office of Technology Management.

There are also other reasons for distributing license income from unpatented software and patents differently, which stem from differences between these types of intellectual property and the demands they place on the campus:

- Software demands upkeep, documentation, end-user training and support, and ongoing development. A typical software application post-license requires 10-20% of its code to be rewritten or augmented annually and can require the developers to respond to user requests and concerns as much as their UCSF duties allow. To generate interest in academic software, developers support the software for years and possibly decades, which can trigger significant costs for the developer's lab that are not offset by grants or university overhead.

- Software code enjoys automatic copyright protection at no cost to the university, while prosecuting and defending patent rights for UCSF technology can incur considerable campus expense often offset by the patent license income.

- Due to the necessary support licensed software requires, distributing unpatented software license income according to the patent license plan has sometimes caused faculty to contribute beyond their own limited internal resources; sometimes to the extent of donating their personal share of license income to maintain and evolve the software. In these instances, they do not enjoy the same financial reward as their peers who benefit from a patent license. Likewise, Departments and Schools may contribute as well from discretionary funds to support the software program.

- Each software release generates substantial administrative costs in several different ways. The campus technology transfer office (Office of Technology Management) negotiates, drafts, and administers software licenses and collects and distributes the income annually, yet preparing and posting a new software release on disk or the web is the responsibility of the developer which takes significant time. In some instances, the new software must be mailed to users on disks, which causes the developers and their departments to incur additional labor and cost. Each new
software release invariably spurs a flurry of new orders that must be processed in a timely manner which can burden the developer’s lab and departmental administrators.

- Because software applications evolve over periods of years through the efforts of many different people including students and post-docs who “come and go” throughout the evolution of the application, the list of developers and contributors changes constantly and impose significant administrative burden and challenge to annual income distribution. Some UCSF labs require, as a condition for participation in a software development project, that developers contribute their share of income for research purposes to support further development.

Other UC campuses have schools of engineering that generate a larger volume of software development, and those campuses have already developed their own plans for distributing unpatented software license income that each feels addresses the specific needs of software development and maintenance on its campus. Thus, rather than rely on individual exceptions to campus policy to meet the needs of software development, these campuses enacted a separate, uniform campus-wide plan for distributing unpatented software license income from all unpatented software. Although they differ in their details, they all seek to provide a direct source of funding to support and maintain the software and cover administrative costs developers and their departments incur when distributing software directly to end-users under licenses granted by their technology transfer offices.

**Examples from Other Institutions and UC Campuses**

The UCSF School of Pharmacy (“UCSF School of Pharmacy, Proposed Software Policy” report May 23, 2007; edited May 1, 2010), surveyed software license income distribution practices in the UC system and other universities and cite 10 examples:

(a) UCSD, copyrights and software: 1/3 to author, 1/3 to department, and 1/3 to the campus fund, but by mutual agreement of authors and department (a common arrangement), it becomes 85% to the research program from which the software arose and 15% to the campus fund.

(b) UC Berkeley, Chemistry: The first $10K per year of the school's share goes to an unrestricted account for use by the PI. After the first $10K, the rest of the 40% school component is divided 50-50 between the school and PI.

(c) Michigan State University software: 50% to inventors, 50% to the university, up to the first $100,000 of license fees. A sliding scale makes it less favorable for the inventors after that. However, there is a provision whereby if the inventors donate a portion of their income back to the laboratory, MSU will match them dollar-for-dollar.

(d) Imperial College, London: 50% to inventor, and 50% to the college but the college also contributes to many of the entrepreneurial costs.
(e) Stanford patents: 1/3 to inventor, 1/3 to the school, 1/3 to department.

(f) University of Utah: 1/3 to authors, 1/3 to department, 1/3 to a campus fund.

(g) University of North Carolina: 20% to Office of Technology Management, 40% to department, 40% to authors.

(h) Baylor College of Medicine: 50% goes to the college, 25% goes to the department, 25% to the authors.

(i) Rockefeller University: inventors receive 1/3, but if they redirect any of their part back to their research lab, the University will automatically match it dollar-for-dollar, leading to a maximum to the lab of 66%.

(j) Northwestern University: inventors receive 35% of income for any invention or software. However, if the inventors donate back to their own laboratory research, the institution will match it dollar-for-dollar, thus a maximum of 70% to the PI’s lab.

**Recommendation**

Although the foregoing plans differ in detail, typically among our comparable institutions software developers receive about 30 - 40% of the software income as personal income but by donating that income to their lab, the lab can grow its share to 50 – 85%. This committee felt the recently amended proposal the School of Pharmacy developed would, with minor modification, serve the campus well and to that end, is proposing the campus adopt the structure the report presented at the outset. The committee believes this two-part software license income distribution plan is a sensible and equitable proposal for a campus-wide policy that recognizes the true cost burden of software to the developers, their departments, and Schools while also incentivizing software developers to innovate applications for public use and benefit.

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