

Technology Transfer Tactics™



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'Re-engineering' contracting process speeds deals for Drexel TTO

When he joined the Drexel University tech transfer operations in December 2005, **Robert B. McGrath**, PhD, associate vice provost and executive director of entrepreneurship & technology commercialization, says that deals were taking between six and nine months to complete. Now, he says, "if it takes more than three and a half months I'm shocked."

This improved efficiency is one of a number of benefits that were realized through a 're-engineering' of the contracting process that McGrath and **Christopher F. Wright**, a shareholder in the Radnor, PA-based law firm of McCausland Keen & Buckman, shared with attendees of the AUTM Eastern Regional Meeting in Atlanta. As a result of the re-engineering process, the school streamlined its disclosure forms, slashed its standard license agreement language from 25 pages to a dozen, and created a standard two-page term sheet that licensees can easily digest, rather than wading through a thick stack of legalese.

A different environment

McGrath told the attendees that upon his arrival at Drexel, he quickly realized he was in a different environment than the one he had left at the University of Pennsylvania. "The thing that struck me the most was that with such a rich history in engineering and engineers having been the primary drivers for so long, they really had an engineer kind of culture," McGrath told *TTT* in a follow-up interview. "It was a very entrepreneurial culture -- 'give us a problem and we can solve it.' The faculty was incredibly receptive to commercializing technology because it was something they had been doing and wanted to continue to do."

To tap into that culture, his first goal was to streamline the disclosure process and make things as easy as possible for faculty innovators. "No one has enough time," he notes. "All TTOs have forms that go along with disclosures, but we wanted to distill ours down to the bare minimum." That "minimal" information, he explains, should include the following:

- The source of funding for the work;
 - Making sure there are no outstanding contractual obligations to companies;
 - Who contributed to the work;
 - Several basic questions about who the inventor thinks would be an appropriate licensee;
 - A summary of the end product envisioned.
- "Sometimes we get too much information," says McGrath. "We just need them to orient us to really make sure we understand and 'get it.' To appreciate the commercial opportunities, we need to understand what they have in mind."

Revising key documents

One of reasons it had been taking so long to complete contracts, McGrath continues, was because "we used very much of the 'old' mode of tech transfer licenses; sometimes the first document our licensees would see was a 25-page license." Working with Wright, he says, "we got them down to a licensee-friendly 10 to 12 pages; we took out all of the legalese and wrote them in plain language."

However, he notes, before the licensees even saw that streamlined form, "we did all of our negotiating on the term sheet first."

"In drafting it, I cleared my screen; my goal was not to put in any extra words," Wright told the AUTM audience. "We used plain English, with no 'BS.' If you're careful, you force yourself to justify literally every single word."

By taking such a ruthlessly concise approach, the term sheet was winnowed down to a two-page, easily understood document. "Because it is written in a style the TTO can understand, it makes it easier for them to negotiate," Wright added.

"We stepped back and asked ourselves what we absolutely had to have from a financial standpoint, and once we figured that out it sped things up," McGrath reports. "For example, we knew we wanted to have some sort of initiation fee, be it cash or equity. We wanted there to be a royalty upon product sale, and that it would be comparable to

industry standards. We wanted to build in at least one cash payment tied to a developmental milestone; we wanted to share in the proceeds of sublicensing so we received a percentage; and we wanted to make sure historical patent costs were reimbursed after the license was done."

Once you have agreement on all of those, he continues, other issues can be addressed in the license. "The two documents go hand in hand, so that when you have the term sheet agreed to and signed you take the numbers out of one and drop them into the other. You literally have the first draft of licenses in a day or less after getting an agreement on the term sheet," he says.

Once the new term sheet model was finalized, "we went through it with the licensing staff, explaining exactly how to use it, what the role of the term sheet is, and how all the pieces fit together," McGrath explains. "In a lot of places attorneys do all the drafting, but we have very simple blanks to be filled in and instructions we give out, so any licensing person who comes in can understand and use this standard form every time."

Deal flow more than doubles

McGrath conceded that when you pare down the terms so significantly, you may be in danger of leaving some money on the table. However, he tells *TTT*, "I think what we've done is come up with investor- and management-friendly deals that are simple and straightforward, reasonable in terms of what the licensee will have to pay, and at the same time provide real near-term returns to the university. In addition, because you can negotiate so quickly, you are actually able get more deals done in the same period of time than you could before." McGrath notes that before his arrival, the Drexel TTO was doing between five and eight deals a year. "In the last couple of years, once we implemented the new documents, we've actually been doing closer to 20," he reports.

In keeping with this licensee-friendly approach, Wright urged session attendees, "there's no reason not to put the form license on the web, basically saying, 'Here is our standard license agreement and here are all our standard terms; here it is, there are no surprises.'"

If the licensee has more specific issues to discuss, such as indemnification, "those get flushed out," he added, noting that in such cases the earlier you 'blow it up,' the better. "You find this approach lets licensees become a catalyst for review of the approval process; they can flow it up the ladder and get sign-offs early," Wright continued. "It's a huge timesaver for everyone."

McGrath is careful to involve all concerned parties in negotiations. For example, he says, "the term

sheet is sent out to the General Counsel so he knows what's going on. We try to get him aware and involved very early on because sometimes the licensee will focus on some of the liability issues at the term sheet stage; it's rare, but this way the counsel knows it is happening."

On the licensee side, he adds, "we know we are going to have a frank and open discussion of the value and price of the technology and discussions about things like liability, but we are prepared; we know how far we are willing to go and what to do," says McGrath. "As we sit down with the licensee for the first time, we will lay out exactly what our process is so that in the first value and pricing discussion they know what went into it. We share what our market research found, which allows them, if they disagree, to have a discussion with us on value."

The same holds true for faculty inventors, McGrath continues. "We meet with them, show them the term sheet, and talk about what's happening during the process. This gives them to chance to point out when something is wrong; it gives them a sense of ownership," he explains. "At the end of the term sheet process, everyone knows what the deal looks like, and we're ready to go to licensing."

Faculty involvement begins very early on, notes McGrath. "From the time the disclosure comes in we try to engage them actively to [help us] really understand what the technology is, what the product is, and how it competes with what's out there and other types of licensees that might be involved. When we get to the point where a company does express interest, we let them know because their immediate involvement can be critical; licensees do due diligence and there is not a better expert on the technology than the inventor."

Before the first term sheet is ever sent out, says McGrath, his team works with the inventor to try and determine what the invention's value is, establish some rough rules of thumb, and then build that into the term sheet.

"As we go back and forth with the term sheet we update them, and by the time we sign they have a very clear idea of what the financial terms are going to be," McGrath emphasizes. "We try to be as transparent as possible so they feel they can share their concerns with us and thus avoid anything that might have some negative impact on the deal, because for us it's not just about one deal."

This approach, he asserts, helps avoid 'points of friction' found at many TTOs. "Often the faculty feel they are in the dark," he observes. "We try to hit that issue up front."

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