

CONSIDERATIONS IN LICENSING SPIN-OFF TECHNOLOGY

C. K. Gunsalus

Ms Gunsalus is Associate Vice-Chancellor for Research and Assistant to the Chancellor, University of Illinois at Urbana-Champaign.

Increasingly, universities are considering entering into relationships with corporations formed by their employees. New perceptions of the missions of the university and its role in economic development, coupled with changing funding patterns for research, have created a fertile environment for arrangements that were prohibited—or at least frowned upon—in the past.

This change is one manifestation of a larger trend in which universities are revising their policies and practices in the area of university-industry relations. A spectrum of new models for interaction between universities and corporations has evolved over the last decade, ranging from an increased emphasis on corporate philanthropy to cooperative research ventures between universities and corporations. Research universities have come to view their intellectual property as a commodity to be exploited for more than its scientific value and prestige, and “technology transfer” has become a key buzzword in the 1980s. Corporate sponsorship of university-based research has increased dramatically, and entrepreneurial individuals are being lured to or urged to stay on university faculties.

One of the most complex models of university-corporate interaction involves the licensing of university-owned technology to a spin-off corporation founded, owned or operated by university employees. The process required for the evaluation, development, management, and monitoring of such relationships will vary within each institution’s setting, but important considerations should be common among them.

There are at least three stages in the development of these arrangements, although they may be difficult to separate. They are: 1) the decision-making stage: Should we do it? 2) the crafting stage: How do we structure the relationship? and 3) the implementation stage: How do we effect and then monitor this relationship?

Presented in part at the 22nd Annual Meeting of the Society of Research Administrators, Boston, Massachusetts, October 9–12, 1988.

The Decision-Making Stage

A proposal has been put forward for the institution to license some technology developed by university employees (and thus probably owned by the university) to its developers, who will form a company to commercialize the idea or innovation. The developers may or may not want to maintain a continuing affiliation with the university. If they do, how will the conflicts of interest be managed? If they don't, how will the university's research program continue? If the university is being offered equity in the company, how should it balance the potential benefits of participation against the drawbacks? How does the institution respond?

Particularly if an institution has not considered this subject before, it may not be practical to produce a comprehensive policy on licensing to spin-offs before some experience in the area has been gained. Even where a general approach is well-defined, variations presented by individual situations may require that decisions continue to be made largely on a case-by-case basis. Several general categories do exist, however, and thinking through the institution's general philosophy with respect to each may be a useful exercise. For the purposes of institutional analysis, two major approaches can be defined: arms-length licensing transactions and those in which conflicts of interest play a role. The variables within these categories that might affect the institutional decision include the structure of the licensing arrangements, equity participation by the university and/or the faculty principals, and whether the principals propose to maintain a joint affiliation with the university and the company.

Arms-length licensing transactions should represent a variation on a known theme. A number of institutions routinely require the principal to separate him or herself from the university before a license for university technology can be considered. This is clearly the cleanest approach, although one that has its own drawbacks, not the least of which is that the institution will be losing a faculty member it might otherwise wish to retain.

If the principals will be leaving the institution, there may be internal, programmatic considerations that require thought (e.g., how will the research program and/or continuing graduate students be maintained without these individuals?), but the licensing itself should not require breaking significant new ground. Most universities, by now, have some depth of experience to call upon in technology licensing. The standard approach to licensing, with a few modifications, should be adequate. Insulation of the individuals from the institution's internal business and legal considerations should be a prerequisite. Timing of the change from the university affiliation to a corporate one may need to be negotiated. The nature of remaining ties to the university should be considered: will the individuals resign, or take a leave? How much leave time will be permitted before the individual must make a choice? If the principals wish to maintain an option to return to the university, what conditions will be imposed before that can occur?

Whether to require or accept equity in the venture may present complications. How to manage an institutional block of stock, and when and how it can be liquidated, are difficult issues. Nonetheless, if the institution has much

licensing experience, the question of whether to accept stock in lieu of royalties probably has been considered before.

Licensing transactions in which conflict-of-interest considerations must be weighed are more difficult. Weighing a request to license university technology to a spin-off founded by university staff members where the principals propose to maintain a continuing university affiliation may be a lengthy and troubling process. How should the institution evaluate the request? What will a decision either way say about the university? Does the university take an equity position in the company if offered? If so, as consideration for what, and with what level of university participation? Is the university willing to grant an exclusive license to the company? How can the principals be properly insulated from the decision-making process while the institution still takes advantage of their expertise and perspectives? Although it may easily be argued that equity participation by the institution does not, in and of itself, present insurmountable conflicts, many institutions have been wary of such participation. Whatever the philosophical inclinations of the university's decision-makers, the practical reality that institutional equity participation adds one more layer to an already complex situation should not be underestimated.

Another possible variation is for the university to take the initiative to form a spin-off company based on university technology. The process of entering into such an arrangement is not addressed by these comments because it is sufficiently different from the process in which the initiative is taken by faculty members seeking various approvals for a venture they wish to start—or join. Some considerations may overlap, such as whether the inventor will be involved (either through an equity position or in an operating role) and what relationship the company might have to the university, but the focus of such a process is likely to be completely different.

In analyzing a spin-off licensing request, a broad perspective is helpful. The institution needs to know its own mind, consult widely, consider a breadth of issues, and document the whole process.

The Institution Needs to Know Its Own Mind

Articulation of rationale and goals should be the first internal step. The institution, through the key administrators responsible for approving the relationship with the spin-off corporation, must have a clear understanding and internal consensus about why it might be willing to enter into the proposed relationship and what its goals in doing so would be. This understanding may need to be reviewed and approved by the governing board and must be communicated to those responsible for shaping and monitoring the relationship.

Is the goal to keep a key faculty member affiliated with the institution? To assure the best commercialization of the university's technology? By what standard? To make money? To demonstrate the institution's commitment to economic development in its state? To create jobs? Some combination of these factors? An incomplete or unclear view of the goals of the institution can have a devastating effect on the entire enterprise, from the design of monitoring procedures to the negotiation of the necessary contractual documents, and will vastly complicate resolution of the problems that will arise in the lifetime of the relationship.

At most institutions, the efficient transfer of university-owned technology to public use is the primary motivation for licensing efforts. In many cases, licensing to the original developer of a technology can be integral to its successful commercialization. The counterbalancing factors that should be considered include the resources of both the start-up venture and the institution. Does the start-up have sufficient expertise and funding to do what it proposes to do? How much university administrative time and effort will be required to evaluate, negotiate and monitor a relationship with a spin-off company? Even when these factors represent significant obstacles to the licensing, however, economic development imperatives may outweigh them. If an institution is committed to supporting the economic development of its state or region, offering support and assistance to start-up companies may be important; the devotion of resources out of proportion to the potential benefits in any given situation may be justified when looking at the larger context in which the institution operates. Careful documentation of the mission of the institution in that situation will be particularly important.

At other institutions, a mandate to generate income to support other university programs may exist. In such cases, licensing to a start-up venture may represent an opportunity to maximize institutional income. Although some percentage of ventures will never succeed, those that do may produce a far higher return on investment for the institution than typical licensing arrangements.

Whatever the considerations may be, they should be clearly understood by those involved in making the final decision. If the need arises—as it likely will—it is essential to be able to explain clearly the basis for the decision.

Who Are the Players in the Decision-Making Process?

The final decision must always be made by the top policy-makers of the institution (whether administrative, governing board, or some combination of the two). But because the decision-making and crafting stages tend to run together, and because the policy issues affect so many areas central to the university, a broader set of people than might normally be consulted should be involved as the institution's response is being developed. At the same time, it is critical that the locus of authority for making decisions and, later, negotiating on behalf of and/or committing the university is well understood, both internally and externally.

There are two aspects to the process: one includes the basic policy decisions, particularly if the institution has never licensed to a spin-off corporation before, and the other includes reaching a decision that is consistent with the facts in the situation. The consultation process described here is designed primarily to aid the latter process, although the issues that arise in the consultation process should be a subset of those considered in the policy development process. Participants in this consultation process should include:

The top administration. The decision to enter into a spin-off licensing venture will touch on issues central to the university and its mission. The values and integrity of the institution will be at stake. If this is the first time such a relationship has been contemplated, appropriate involvement by the governing board is essential to assure that its members concur with the direction

being taken. At a public institution, the political environment in which it operates must be considered. Periodic reviews of the status of the proposal should be conducted, because a cumulation of small changes can result in a major deviation from the policy perspective that may have supported the original inclination of the policy-makers.

The people who will be responsible for negotiating and monitoring any relationships that may be developed. The decision on whether to participate in a particular proposed relationship will probably turn on the feasibility of structuring and managing the relationship if it is permitted. The office, and preferably the person, that will be primarily responsible for overseeing the relationship after it is established, should be included. A clear understanding on their part of the factors weighed in the decision-making process will help assure that the final relationship is consistent with the context in which the decision was made.

Someone who understands the technology. A person who understands the technology will be invaluable in raising pivotal issues that might not otherwise surface until very late in the process—and at that point, they may well be unpleasant surprises. The importance of this cannot be overstated; an understanding of the unique aspects of the technology that cause it to have commercial potential, how those aspects compare to other available technologies and how they should affect contractual terms are necessary ingredients for effective licensing. A clean and elegant conceptual relationship that is not congruent with the technical realities will be of little use. This person should be familiar (or become so) with the funding sources underlying the innovation's development; these sources must be reviewed to determine whether they impose any restrictions on the proposed licensing and/or relationship.

The legal staff. What is the legal environment in which the institution operates? Any governmental regulations that might affect the relationship should be reviewed and analyzed before the decision-making process is too far advanced. If the institution is public, are there conflict-of-interest regulations at the state level that must be considered? Statutes governing use of public resources? Public disclosure requirements that might affect the start-up company's capitalization process?

The faculty. Depending upon the institution's culture, some faculty participation might be useful or wise. A short consultative process with a faculty committee familiar with intellectual property or technology licensing issues can sometimes be a useful mechanism for getting faculty input without extensive delay. If the decision is to be made under existing policies that were put in place following full consultation, that may serve the same purpose. If no such policies or procedures exist, or this is a first-time effort, some thought might be given to the formation of an *ad hoc* faculty committee to review the policy implications of the decision or, alternatively, to some mechanism for informing the faculty of the policy position under which actions were taken.

Miscellaneous others. *The institution's financial advisors/experts:* do the financial aspects of the proposal for the spin-off make sense? If the technological base is sound, does the business plan inspire confidence that the vision of the future of the entrepreneurs project has a basis in reality? *The institution's*

public and governmental relations experts: are there considerations in the area/s that would affect a relationship, if approved? *The institution's internal auditors:* are there aspects of the plan that signal danger in their view? Can these aspects be protected against or avoided?

Considerations in Making the Decision

As these factors are weighed against one another, the direction the decision is heading will begin to become evident. The decision may even have been mandated from the top of the institution, with the process intended to improve the odds for success of any resulting venture, or to explore and expose any fatal flaws. If that is the case, making sure that the following questions have been considered may be helpful. Many of the general institutional considerations that will be key to the final decision will have been exposed by this point. Considerations more specifically tied to the proposed license transaction are conflict-of-interest and equity participation issues.

Conflict-of-Interest Issues

Just as the conflicts of interest or commitment posed by the proposed spin-off will be particular to each situation, so too will be the information necessary to evaluate them. A careful listing of all the conflicts that can be foreseen in the situation, along with a list of the information needed to evaluate and protect against each conflict, will be necessary. The purpose in generating such a list at this point in the process is to consider whether it will be possible to protect against the anticipated conflicts, and whether the costs associated with doing so are within the institution's ability to assume. Imagine every aspect of the proposed arrangements as it might appear in the press. Imagine how aspects taken out of context might appear. Are the explanations and rationale which the institution is assembling adequate to support the university's decision? Has sufficient information been gathered to provide a solid basis for decision-making?

Conflict-of-interest considerations that do not arise in any other circumstance become pivotal in these relationships. Institutions that are accustomed to the traditional faculty consulting privilege as the measure of outside activity will need a new mind-set for evaluating spin-off licensing. The conflicts of the entrepreneurs are likely to be the center of the process and must be carefully examined. Not to be overlooked, however, are those of the institution—an objective assessment of the institution's own conflicts of interest must be considered and put on the table. What does the university stand to gain? To lose? How will these factors make the decision look to the institution's critical constituencies? In what political climates (both internal and external) does the institution operate?

Personal Conflicts of Interest or Commitment

Two types of conflict can be present for the individuals involved in a spin-off licensing venture: conflicts of interest, usually thought of as financial, and conflicts of commitment, which are focused on time. While more processes focus on the financial conflicts of interest, a realistic appraisal of the conflicts of commitment that might arise is also necessary. Will the individual be able

to continue fulfilling his or her university obligations? Is there a palatable way to verify that they are met on a continuing basis? Are there any steps that can be taken to help assure that these obligations are met?

Full disclosure of potential and apparent conflicts of interest is often seen as the key to defusing those conflicts. While disclosure is the first step, it does not solve all problems by itself. Furthermore, how much disclosure to require is often a thorny problem. For example, is it enough to know what the faculty member's participation in the company will be in terms of operational control and/or stock participation, or is complete information on all financial partners and capitalization required? What about disclosure of contractual arrangements the company is going to make or may already have made? Does the institution know (or have a mechanism for finding out) whether the company will be entering into relationships with organizations that may be sponsoring on-going research at the university? With vendors supplying equipment to the university laboratory?

In public institutions, the acquisition of sufficient information to evaluate fully the financial conflicts of interest may jeopardize the capitalization or trade position of the venture if the received information is subject to public disclosure through a freedom-of-information request. Coming to a reasonable and appropriate balance on these issues is often a delicate problem, the resolution of which will depend on the facts of the situation. Understanding the institution's rationale for entering into the licensing arrangement and the conflicts foreseen in it are the best ways to assure that the required disclosure is appropriate.

If the principals or backers of the venture resist disclosure, remind them that the protection afforded by clear advance agreements will be at least as much (and probably more) to their benefit as to the institution's. In the event of later disagreements, the individuals are more likely to suffer long-term damage than the university. The most effective protective measure that can be implemented is a document showing that the institution's decision to participate in or approve the proposed venture was based on full and accurate understanding of how the venture was to be structured, financed, and operated.

Once disclosure has been achieved, mechanisms for protecting against the revealed conflicts will be necessary. Can practical procedures be designed and implemented in this situation? The purpose of the safeguards is to insulate institutional or program decisions from influences in favor of the company or the individuals as opposed to the university. While the interests of the two organizations may well be congruent in many circumstances, decisions must be made or endorsed by disinterested parties. Some aspects of the protective mechanisms may need to be built into the agreements between the company and the university while others will take the form of internal checks and balances. While actual implementation will come later, enough thought should be given to this topic in the decision-making process to know what might and might not be feasible later. If conflicts exist for which no sensible measures can be developed, that should be known before the final decision on licensing is made.

Institutional Conflicts of Interest

How might the institution's conflicts of interest shape or distort the decision now and in the future? If the institution is considering taking equity in

the venture or having representation on the board, how might the commercial status of the venture affect internal programmatic decisions? For example, what is the danger of causing or allowing an ongoing internal program to deviate from its mission in support of the institution's involvement (financial, conceptual, or anticipated) in the venture? Will the spin-off company be permitted to sponsor research at the university? Under what conditions? Under what circumstances might an equity holding be terminated? Who will decide? To what extent does institutional participation create a risk of liability for the institution? What parts of the institution might share in any commercial success? What might be affected by the resulting revenue? What parts of the institution will be affected by commercial success or failure—or the threat of either? What decisions might that affect?

One factor that seems to make a difference in institutional participation is whether the entrepreneur will be continuing in an active university role as well as in the company. The conflicts are much more complex when the faculty or staff member proposes to continue on the university's staff while simultaneously maintaining a role in the start-up company. Many of the same reasons that led the university to consider permitting the spin-off licensing may also encourage continued participation of the individual in both the research and commercialization of the technology. In situations where a fairly clear line can be drawn between the on-going research program at the university and the efforts to "productize" and market the technology, the participation of the faculty member in both aspects can be appropriate, although complicated to establish and monitor. To add yet another layer of complexity through institutional equity participation in the venture is a decision that should be carefully evaluated. How will it appear to faculty members not involved in the venture? How will it look to external constituencies?

Institutional Equity Participation

A key consideration in a university's decision to decline an opportunity for equity participation in spin-off companies may be the specter of favoritism for certain faculty members and the possibility of compromising the evaluation of faculty members for tenure and promotion. If the institution is to take equity in one faculty spin-off company, but not another, what criteria will be used for making these determinations? Does institutional equity participation carry any message of endorsement of the company (or its products) by the university? What if another faculty member wishes to start a company that might compete with the first in which the institution has equity? If a faculty member has a company in which the university has equity and is financially successful, what role will that play in internal evaluations of that faculty member? (This may have different ramifications if the faculty member does not already have tenure.)

Whether or not the institution is considering accepting equity in the venture, the issue of how to discriminate among proposals, which will be permitted and which will not, is one that should be faced. This goes back to the central recommendation of articulating the rationale for entering into the relationship: why this one, and not another? Why this faculty member? Would the considerations that apply in this instance apply across the board,

or is there something special about this situation that applies to the result? Would this same proposal, but with a different faculty member requesting it, be approved or denied? What is the difference? How can that be factored into the overall process? Very often, the sense of the administration about the personal integrity of the individuals involved is a determining factor, but that is difficult to quantify. Whatever the final result, the factors involved should be analyzed and recognized.

Documentation of the Decision

Once a decision emerges, it needs to be written down. The act of documenting the decision is broader than just recording the final answer, although that is obviously the key aspect.

The statement should explain how the decision, positive or negative, relates to the institution's mission.

The statement should include some summary of the background of the decision or the assumptions involved in it. For example, have any prior efforts been made to commercialize this technology? How have their successes or failures contributed to the current decision? What sort of commercial prospects would there be for licensing this technology if an arms-length arrangement with an established company were being sought? Why does a start-up venture seem most appropriate in this circumstance? What special qualities do the faculty members involved bring to the venture that would not be present in an arms-length arrangement? Is the proposed arrangement more advantageous to the university (whether financially or otherwise) than other licensing opportunities would be? How?

The statement should include a summary of the deliberation process employed to arrive at the conclusion to go forward with or abandon the effort. This is most important if the decision is to go forward. Turnover occurs at all levels of institutions, and a clear statement of the number and names of people consulted and the decision-making process employed can help minimize second-guessing by late entrants to the process or institution. It has the added benefit of recording understandings developed through the process. If events unfold in a manner that had not been anticipated (which is practically certain), it provides a basis for revisiting the arrangements in the most constructive manner.

The Crafting Stage

By the time a decision on whether to proceed has been reached, it is likely that much of the "how to proceed" will also be in place. Even if the following steps repeat points already considered, it is worth reviewing them as the arrangement is being structured and the implementing documents are being developed.

Again, the issues of who the players are should be carefully considered and the locus of authority identified. Although the products of this stage are legal documents, this process should not be run by the lawyers, unless they are in a position to make policy decisions throughout. Similarly, the negotiations should probably not be conducted by the institution's leader. Involvement by the university's licensing staff or advisors is crucial, as is access by

those who are conducting the negotiations and the policy makers who will be responsible for approving the overall arrangements. There must be involvement by someone who understands the technology but is disinterested in the final outcome. (This requirement is often a hard one to fill.) To protect all the individuals involved, entrepreneurs as well as administrators, anticipated conflicts of interest should be documented. This simple step, in conjunction with a description of the consultative process employed, is perhaps the most important safeguard that can be implemented.

Consider separating the license from other agreements. The technology involved will dictate the form and number of the licensing agreement(s), and whether there will be one or more. If any special arrangements are being made with the company as a result of the conflicts of interest in the situation, it is worth considering whether they should be embodied in a separate memorandum of understanding or other contractual document. Such special arrangements are not intrinsically related to the licensing aspects, and may need to exist separately from those obligations. Guidelines for on-going participation in a university research program or graduate student advising do not have an obvious connection to royalty terms and license restrictions. In case a company ends up licensing more than one item of technology, or is acquired by another corporation, it is desirable to have a method for defining those obligations which arose from the conditions under which the university consented to the original relationship.

Don't assume that the development of the license agreements should follow "standard procedure." Standard licensing issues, such as the nature, scope, and duration of the license, will need to be addressed, and the institution's normal process for the development and negotiation of licenses should be followed. However, the policy makers should be kept informed of the process much more closely than usual. Even small changes in the proposals can lead to inconsistencies with the institution's underlying policy rationale, and thus, it is best to monitor the process on a continuing basis. If the licensing staff typically relies on the inventor for advice about markets and value of inventions, it may be necessary to procure outside advice on the technological aspects, including license rates.

If it is typical for university staff to assist in the technology transfer process when entering into licenses, this is one aspect of licensing to a spin-off corporation that will require special arrangements. For the protection of both the faculty member and the institution, explicit agreements about what sorts of assistance will be available and ongoing from the university should be stipulated, as well as a process for designating how and when the transfer of information from the university to the company will occur. The faculty entrepreneur should not be the only person involved in transferring information; it should go through an appropriate administrative process as well.

If an exclusive license is requested by the company, consider that an extra layer of conflict of interest. Review the institution's policy on granting exclusive licenses. Does this request fit? If special requirements are imposed for such licenses (e.g., increased consideration, due diligence or march-in provisions), also consider the request in light of the institution's rationale and

goals for entering into the relationship. Does it further the university's goals? How? If it does, document it. The exclusive or non-exclusive nature of the license may affect the ability of the venture to attract investors; while not necessarily something that should be categorically prohibited, neither should an exclusive license be granted automatically. If there is a way to achieve the goals of the company without exclusivity, it is worth considering, as an exclusive license will add another layer of complexity to the potential conflicts of interest inherent in the situation. Is the potential for conflict-of-interest problems outweighed by the benefits to be gained?

The Implementation Stage

Although the first two stages are likely to be long and complex, the job will be only begun when the licenses are signed and the technology is transferred to the company. Implementing an effective monitoring system to protect both the institution and its faculty will be key to how successful the resulting relationship can be. If the company founders have any continuing role at the university, an on-going review system is particularly critical. Although recriminations are always a possibility when expectations have not been met, it is far more likely that the relationship will be subject to scrutiny if it produces a commercial "hit." Since that is at least one of the objects in establishing these relationships, some advance planning for that circumstance is warranted.

Try to develop a mechanism for protecting against each of the potential conflicts of interest foreseen in the situation. Pay particular attention to those cases in which university resources (financial, physical/equipment, or personnel) might conceivably be diverted to company benefit.

In trying to develop such a list, consider the grey areas that might develop. What university resources, other than the licensed technology, might be used (or appear to be used) for the benefit of the company? If it is common practice in a university laboratory to share resources with researchers outside their own group (such as special instrumentation or facilities), guidelines spelling out who gets access under what circumstances and who owns the results might prevent any appearance of improper use to private advantage. If the entrepreneurs will be jointly affiliated with both the university and the spin-off company, travel and other expenditure approval procedures should be re-examined to assure that persons without an interest in the company are responsible for oversight. If it is proposed that university associates or graduate students of the entrepreneur will be involved with the company, try to envision the problems/conflicts that their involvement will give rise to (e.g., time, diversion of effort, improper pressures, confidentiality) and develop a mechanism for safeguarding against them. If the spin-off company may have relationships with entities sponsoring research in the originating laboratory or with vendors providing equipment to that laboratory, real or apparent conflicts might arise. How will it be assured that the principals continue to meet their obligations, if any, to the university? What use of the university's name will be permitted? The list of possible conflicts is almost endless; time spent brainstorming on possible conflicts, in order to list them and

then try to develop reasonable methods of protecting against them, will be time well spent.

Implement the mechanisms. Neither fatigue nor pride of accomplishment should prevent the institution from putting into place the safeguards the brainstorming process has produced. The excitement of having brought the process to closure and the expectations on both sides as the new venture starts to take shape can cause trouble if they prevent the third part of the process from being pursued. Neglecting to follow through on the implementation, or brushing aside some of the protective mechanisms to facilitate the early days of the venture, are false economies. A system of checks and balances that complements the careful analysis the establishment of the relationship underwent is critical for protecting both the entrepreneur and the institution.

Review the oversight mechanisms periodically to determine whether they are providing the protection that they were designed to give. The process of implementation may reveal that some of the procedures are ineffective or overly burdensome in light of their intended benefit. Revise the procedures when that occurs—but don't drop them!

Regularly review the arrangements. Take advantage of the clarity of hindsight in the absence of pressing problems; are there aspects of the arrangements that need refinement? If additional technology is to be licensed, or some amendment of the contracts is necessary, take a comprehensive look at the arrangement at that time. If there are grey areas which can be clarified, take the time to do so. Review the institution's original rationale for entering into the relationship: are the proposed changes consistent with that? The stakes are so high—in the event of either a significant success or failure—that the devotion of extra effort to anticipate and correct shortcomings should be maintained as a priority.

Nothing can protect an institution against personal relationships that sour, environmental changes (whether external or internal), or determined subterfuge. But when good intentions and a desire to make everything succeed are shared among all the participants, these precautions can serve as an insurance policy. The waters for these new kinds of relationships between spin-off companies and universities are uncharted. The risks are high, but so are the potential gains. The odds of success increase with care, flexibility and a willingness to experiment.

Spin-off Licensing Checklist

Making the decision

Is there a good reason for licensing the technology to a spin-off corporation instead of arms-length licensing to an established corporation?

What level of authority will be needed for each of the decisions to be made (policy, licensing, oversight, etc.)?

Who should be consulted or informed? Have each of the following been considered?

- legal counsel
- internal auditors

technology expert
licensing staff
public relations officer
governmental relations officer
governing board
faculty senate
business affairs

If approved, how will the proposed relationship be monitored? Who will do it?

What will be the relationship of the proposed company and its principals to the university?

How will the technology-related issues (i.e., ownership, pre-existing rights, intellectual property protection, licensing) be evaluated and factored into the process?

Have all possible conflicts of interest, real and apparent, been considered? How will disclosed information be handled?

Has the decision been documented for the files?

Establishing contractual relationships

Is the locus of authority for speaking for and/or committing the university understood?

Have licensing issues been separated from other contractual understandings with the company?

Is there adequate insulation from conflicts of interest in the negotiation process?

How will the policy-makers of the institution be kept informed as the negotiations proceed?

Have the following issues been addressed:

- ownership of new or derivative technologies?
- involvement of university personnel and/or students?
- use of university name or resources?
- on-going disclosure or reporting requirements?

Who gives final approval? Who is informed of the outcome?

Monitoring the relationship

How will internal coordination and sharing of information on various aspects (financial, programmatic, contract) of the relationship occur?

How will the policy-makers be kept informed?

Who is responsible for assuring that obligations to the university are met?

Is any special oversight for formerly routine transactions (travel, acquisitions, use of facilities) now required?

How will information be gathered? Recorded?

How will the relationship be monitored and re-evaluated?