

**NCURA Neighborhoods  
Interactive Learning Series**  
July 30, 2002

**Tectonics in the Partnership**  
Abbreviated Transcript

**Panelists**

Ben Dyer  
General Partner  
Cordova Intellimedia Ventures, LP and  
Chairman & CEO, Intellimedia Commerce, Inc.

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Associate Vice Provost for Research  
Georgia Institute of Technology and  
General Manager of GTRC

James Severson  
President  
Cornell Research Foundation

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**Administrator:** It's great to see so many guests and visitors this afternoon! For those who are not NCURA members, the Neighborhoods are sponsoring a two-week Open House from September 30 - October 11, 2002. The Open House will allow visitors to explore our user-friendly e-campus featuring six online communities for research administrators including Compliance, Departmental Administration, Financial Research Administration, PUIs, eRA, and Pre-Award. Each Neighborhood provides timely announcements, key resources, listservs, a discussion board, upcoming events, and much more!

Good afternoon! Welcome to the Interactive Learning Series! The topic is Tectonics in the Partnership. Jilda Garton, Ben Dyer, and James Severson are available online to answer your questions.

**Jane Youngers:** On behalf of NCURA and the Neighborhood Advisory Committee, I welcome you to today's program in NCURA's Interactive Learning Series. This is your opportunity to learn from your desktop. I hope you will find the session informative and useful and that you will participate freely. Any feedback or suggestions you may have for future programs will be appreciated. Thanks for joining us today.

**Administrator:** One of the most potentially volcanic areas in the University Industry Relationship is at the intersection of licensing new technologies to start up companies and the ongoing research within the institution. Start-up companies based on early-stage technologies developed by universities need two things to be successful: capital and research. Capital they get from angel investors and the venture capital community. For further research they often must turn to the university. It has become increasingly important for the university to understand the needs of the venture capital community in licensing new technologies, spinning out start-ups, and accepting research contracts from these new companies.

Before we begin, let me take a moment to introduce our panelists.

Ben Dyer is the chairman of the board of the Georgia Tech Research Corporation. He is a General Partner of Cordova Intellimedia Ventures, a \$42 million fund, which has invested in 24 early stage technology-based companies in the Southeast. He is also president of Innovations Publishing, which maintains an online database of investment worthy laboratory technologies and emerging ventures in the state of Georgia. Dyer is best known as the founding president of Peachtree Software and is a member on Georgia's Technology Hall of Fame. He is prepared to discuss aspects of venture formation, financing and growth.

**Ben Dyer:** I can also talk about golf, antique cars, shotguns, and digital trains, but those probably aren't relevant to this audience!

**Administrator:** Jim Severson is the President of Cornell Research Foundation where he has overall responsibility for technology transfer from Cornell's Ithaca campus and the Weill Medical College of Cornell

University in New York City. Prior to joining the CRF in 1999, Jim held technology transfer positions at the University of Minnesota, and positions in new technology assessment and market development at Amersham Corporation.

Jim is a Past President of the Association of University Technology Managers (AUTM), a national organization of university technology transfer professionals. Jim is currently a member of the Board of Directors of the Council on Governmental Relations (COGR), a Washington-based association of over 140 research universities that focuses on the policies and issues of federally sponsored research programs at universities.

**Participant:** Start-up companies that license university technology often need or want the inventor to continue to do research on the invention. Can universities accept research contracts from a start-up company that has licensed technology?

**Jilda Garton:** University policies differ but many, if not most, universities accept research contracts from the licensee. It is important that the Technology Transfer Office and the Sponsored Research Office understand the terms of the license and that the ownership of new inventions that result from the research be clear. Usually, universities will retain ownership of such intellectual property but the new company might have an option.

**Participant:** Routinely companies that sponsor research at our institution request delays in publications that can be for as long as one year. In your view, what are the legitimate reasons to delay a publication from an academic lab?

**Jim Severson:** This can be a difficult negotiation. Typically there are three reasons that are cited for a delay in the publication of research results by an academic lab, 1. Review to ensure that confidential provided by the company is not included in the manuscript, 2. Review for patent-able subject matter, and 3. Preparation of a patent application.

**Participant:** What is an acceptable period of time to delay publication?

**Jim Severson:** This period may vary from university to university. However, a total of 180 days delay for both the review and patent submission is typical for many universities. Many universities feel that delays longer than that might infringe on the researchers academic freedom.

**Herb Winfield, University of Central Florida:** How do you handle potential conflict of interest when a professor is also a principle in a start up?

**Ben Dyer:** The investor looks for undivided attention to the mission of the start-up whenever possible. There are many twists and turns in all start-ups, and the brain trust needs to stay focused. However, we understand the risks. Continuing... risks to the professor in leaving the predictability of the university environment. In the right set of circumstances there always seems to be a way to sort this out.

**Participant:** Are inventors permitted to serve as Principal Investigators even though they might benefit from royalties paid by the company? Don't they have conflicts of interest?

**Jilda Garton:** Again, university policies vary. Some universities do not permit the inventor to be PI but some do. The situation does pose at least the appearance of a conflict of interest, which most universities would control or manage through their conflict of interest policies.

**Mark Ament, University of Louisville:** In cases where a university wants equity in the start-up in lieu of some (or all) of its license fee, what is the most common percentage of equity you have seen awarded?

**Ben Dyer:** Maybe 2-10%. Our upside is better if there remains plenty of equity for the entrepreneurs and venture investors.

**Jilda Garton:** Each University considers how it treats equity. Most do not want a controlling interest in the new company and most expect a future royalty stream in addition to the equity.

**Participant:** How much control can a company that has sponsored research have over a publication from an academic lab?

**Jim Severson:** Usually universities try to limit the input that a company can have on a publication to the identification and removal of company confidential information. Many universities are concerned that if the influence of the company has extends beyond this point that the company might veto the publication of results that the company feels do not cast a potential product in the best light.

**Participant:** What if the university and/or the inventor own equity in the new company; can they still accept the research?

**Jilda Garton:** The ownership of equity by the inventor is generally regulated through a university's Conflict of Interest Policy. A management plan may have to be developed if the university permits the inventor/equity holder to be the Principal Investigator. The university needs to take steps to manage "institutional conflict of interest".

**Ben Dyer:** It would seem impractical to fund a company if the inventor can't continue inventing.

**Jack G. Sams, Florida State University:** The absence of product development skills, as distinct from research products, seems to present a severe hurdle to commercialization programs. Any magic in your bag of tricks?

**Ben Dyer:** Companies are formed around teams that cover all the skills required -- from product development to finance to sales, etc.

**Participant:** What circumstances suggest that it might be better to forego a start-up and transfer the technology to market through industry via a royalty-bearing license?

**Ben Dyer:** Some ideas are worthy of founding companies, but many are products or perhaps just features of products that need to be licensed.

**Jim Severson:** Usually we think that ideas that merit a company start are broader in scope with applications in several areas. Licensable inventions usually are product extensions.

**Participant:** What is the best way to handle jointly owned IP between industry and universities? How are the issues of ownership, administration, warranty, indemnification handled?

**Jim Severson:** If the company that is a co-owner wishes to develop the invention, then a license from the university for its portion of the invention solves any problems regarding the co-ownership.

**Ben Dyer:** Early stage companies become concerned about "clear title" to IP when they become later stage and are candidates for M&A or IPO (terms from the late 90's)

**Participant:** What factors make a start-up company successful?

**Jilda Garton:** Factors that lead to success for start-up companies: -- Good technology with good intellectual property protection. -- A professional management team for the new company. -- Access to capital for further research and to launch the new product or service (or develop it to the point where the company is attractive to an entity that might acquire it.)

**Participant:** What role do you think state, local, and federal agencies are playing in the tech transfer process? Should they be more or less involved?

**Jim Severson:** States are becoming more involved with tech. transfer because they see it as a way to create jobs. The usual approach is through directed funding of projects and through programs that support company formation in the state.

**Jilda Garton:** State agencies have an increasing interest in "economic development" and are turning to universities as sources of new companies. Some of the pressure from the state might encourage faculty entrepreneurship but might also encourage bad deals. Federal agencies, on the other hand, are looking to build their portfolios of IP and are thinking about how they might earn some revenue from research results.

**Participant:** In faculty start-ups, at what point does the role of the inventor cross over from serving his university to best serving the interest of the company.

**Ben Dyer:** back to start-up success -- never underestimate the importance of luck

**Jim Severson:** That's a tough call, and why so many universities worry about conflicts of interest.

**Ben Dyer:** If the company is creating jobs and opportunity in the university's region, especially if a state U, then interests coincide ultimately.

**Jilda Garton:** The faculty member may "cross-over" when his/her commitment to the company becomes detrimental to faculty duties such as supervision of students, publishing research results, assisting in university committees and the like.

**Participant:** My University tries to have corporate sponsors pay full federally negotiated F&A rates, but this can be a problem. Is there a good counter to the argument that a company should not pay full F&A?

**Jim Severson:** F&A costs represent the real cost of doing research in a university laboratory, and in some universities, the federally negotiated rate does not fully cover the costs of research. That seems to be a strong argument that the university should maintain a full F&A rate on the research; why should it do the research at a loss. There is also an issue of fairness at play. In many cases the university has invested significant sums to build a lab and other sponsors have invested in the intellectual development of the labs, and it is unfair for other sponsors, including the government, to subsidize the company's research.

**Jilda Garton:** Even when they pay the "full overhead", with the various caps and state subsidies and tax exempt status of most universities, the company isn't really paying the "full cost" of the research.

**Participant:** Does the argument for full F&A hold up for state universities that have a significant state economic development mission?

**Jim Severson:** In some cases state universities have decided to have different F&A rates for local companies to support economic development within the state.

**Ben Dyer:** The Corporation may feel that it is supporting the university's mission (again, especially a state U) by providing work to be done, and it may feel entitled to overhead relief because it pays taxes that support education

**Participant:** If a university licenses a technology to a company in which the lead investigator (faculty) has an equity stake, when does the technology transfer process terminate? And, how does a university manage this?

**Ben Dyer:** I have heard many entrepreneur presentations where the inventor talked about what he dreamed up in the shower or while commuting as being more valuable IP than what occurred to him in the lab.

**Jim Severson:** With a significant on going role of the lead investigator, there tech. transfer process is continuous, there is a need for monitoring of developments supported by good conflict policies and review.

**Jilda Garton:** Depending upon the terms of the license, it might not end for decades.

**Ben Dyer:** continuing, I think this is a question of both when and where; I agree that when may be decades; but where is the demarcation between the underlying IP and the never-ending enhancements?

**Participant:** What about human subjects?

**Jilda Garton:** Conflict of Interest in human subjects research is a very sensitive topic and such conflicts can create serious questions about the objectivity of research and the protections for volunteers who participate. A university's Institutional Review Board (IRB) is required to review conflicts of interest in research that involves human subject. Many universities also have a Conflict of Interest Committee that reviews potential conflicts and management plans.

Some universities prohibit an inventor from performing clinical research on their own inventions although some that strongly discourage such research will permit it if justified scientifically, e.g. the inventor is the only one who can perform the early stage testing. Some universities do not accept such research contracts from licensee companies at all, which limits the potential institutional conflict of interest.

**Ben Dyer:** I know this isn't the intent of the question, but any entrepreneur who is attempting to raise early stage money in the current climate is a human subject for some pretty painful processes.

**Jilda Garton:** IRB's and Conflict of Interest Committees often require, at a minimum, that the conflict of interest be disclosed to volunteers that participate in the clinical research as well as in publications.

**Participant:** What persons or groups in the university should be responsible for identifying and managing conflicts of interest and other ethical conflicts within the technology transfer process?

**Jilda Garton:** The Institutional Review Board, by law, has to review conflicts of interest in human subjects research.

**Ben Dyer:** I'm not sure there are any venture deals these days that are free of conflicts. The Internet has interconnected so many businesses in so many ways that it's hard to cleanly partition any idea.

**Jilda Garton:** Many universities have a conflict of interest committee. No conflict, no interest...

**Diane Ambrose, Rutgers University:** If a University accepts sponsored research dollars from one of its start-up licensees and the licensee defaults, it is acceptable for the University to take equity in the company as "payment". If the University insists on payment, the company may fold and the U may never get its payment, and any University-owned equity in the company could be worthless if that happens. Does this represent a conflict of interest at the University level?

**Jilda Garton:** This touches a nerve for some of us. The answer is that it can be done but must be done with great care. Most universities will need outside counsel. The decision must be made at the highest levels of the institution. A decision must be made about who is going to manage the equity.

**Ben Dyer:** The U has to take what it can get in some cases. Doing research for early stage companies is very risky. "Getting the money up front" is not always possible, even if it is the best alternative.

**Jim Severson:** This is a scenario that happens with some frequency. I think that the university needs to make a business decision about the long-term viability of the company and the likelihood that the equity will ever be worth anything. Otherwise, the university is just giving the company a low interest loan.

**Participant:** I work for a company, and we have real problems getting research materials from the universities that we work with. Why is this a problem?

**Jim Severson:** While there are guidelines for the transfer of biological materials from academic lab to academic lab, there is not a similar set of guidelines for transfers from academic labs to industry. Delays in obtaining appropriate approvals stem from several sources. A first consideration is that universities want to make sure that the terms that they give out materials under do not conflict with the terms of other funded research projects in the lab.

In some cases with well-funded investigators, this may take time to sort out. It is also often the case that the university and the company need to sort out what the material will be used for. Often intellectual property rights and the negotiation of acceptable terms can delay the completion of these agreements.

**Participant:** What are some of the things that might be covered in a management plan?

**Jilda Garton:** That's a conflict of interest management plan for a faculty member who is accepting research from a company in which s/he has an interest.

Most universities are concerned about the following (among other things): -- How will objectivity in the research be ensured? -- Will this affect the choice of research to be done by the university? -- What process will ensure that university resources are not impermissibly used by the company or for the company? -- Will students participate in the research? How will their interests be protected? How will the university ensure that students' progress toward degrees will not be delayed and that they will be free to publish their theses/dissertations? -- What steps will ensure that other research projects, including Federally funded projects, are not co-opted to do research that may be too closely aligned with company interests? -- How will new inventions that result from the research be treated? Usually, the university will own such inventions. What options, if any, will the company have to license the technology? -- Will human subjects be used in the research? What steps will ensure that the IRB has reviewed the conflict of interest.

**Ben Dyer:** more on equity -- Universities should not try to be venture investors by choosing among speculative deals, but they should not walk away from situations where equity is the best way to get some value for work done, particularly if the work is relevant.

**Participant:** How do you see university affiliated research corporations/foundations changing? What role do you see for these types of organizations in the future?

**Ben Dyer:** An important part of the mission has to be presenting university research to industry in a coherent and easily accessible way.

**Jilda Garton:** There seems to be a great deal of interest in forming such entities to support technology transfer - some are new business incubators.

**Jim Severson:** University affiliated funds have become a popular way of insuring investment in university technologies. These funds seem to pop up in regions that have a lack of venture capital.

**Administrator:** That was our last question for the day. Thank you for participating in the Tectonics in the Partnership ILS session! On behalf of the audience and the NCURA staff, I would like to thank Jilda, Ben, and James for serving as guest speakers for today's session. Thank you for joining us. We look forward to seeing you in Keystone!