

Morgan Lewis

AUTM STARTUP COURSE  
Ongoing Institutional Due Diligence

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# Overview

- **Session Goals and Objectives**
  - Identify and characterize the risks associated with startups once the deal is done, and describe means of managing the risk through reporting, oversight and other monitoring.
- **Session Outline**
  - What Can Go Wrong After the Deal is Done?
  - Provisions in Deal Structuring to Mitigate

# ISSUE:

## Failure to Diligently Pursue Commercialization

- Well Developed Performance Milestones
  - Best Efforts or Due Diligence Clauses
- Clear Definition of Terms for Default and Reversion
- Requirement to Report Regularly
- Board Seat or Board Observer

# ISSUE:

## Granting of Sublicenses

- University Approval for All Sublicenses
  - Or, consent - not unreasonably withheld
- Any Sublicense Requires Passthrough of Defined Critical Terms

# ISSUE: Patent Management

- No Indemnification, No Warranties, or Representations
- University Manages, Licensee Advises and Consents (and pays)
- Licensee Handles Infringement
  - Unless otherwise agreed
  - Split of Cost/Proceeds to be negotiated

# ISSUE:

## Technology Flow Through Under License

- Licensee Sponsored Research
  - Right of First Refusal for royalty bearing, exclusive license
  - CIPs, divisionals, etc. flow through under license terms
- Government Sponsored Research
  - No pipeline
  - Carve out first look right
  - Related inventions in field by inventor team?

# ISSUE:

## Change in Business Model

(Financial Impact on University)

- Agree Upon Business Plan Up Front and Require University Approval of Material Changes to BP/Model

# ISSUE: Liquidity Issues

- Sale of Company/IPO
  - Pro Rata Co-Investment Rights
- Issuance of New Stock
  - Right of Co Sale
  - Registration Rights
  - Anti-Dilution Preference/Warrants
- Bankruptcy of Company
  - Liquidation Preference
  - License Reversion



# ISSUE: Change of Management

- CEO Acceptable to University
- Certain Board Seats Acceptable to University
- Time or financial milestone limitations

# ISSUE: Default for Non-Payment

- Termination and Reversion of License
- Short cure period

# ISSUE: Use of Name/Logo

- No use for promotional purposes
- Prior approval required for use of name
- No use of logo

# ISSUE: Disputes

- Dispute Resolution Language to Be Negotiated

# ISSUE:

## Loss of Interest of Faculty with Company and vice versa

- Hire a good psychologist!
- Requirement to continue “managing the interaction”