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## Interest Invoicing: Show Licensees You Mean Business!

Welcoming remarks will begin at  
11:55 a.m. Eastern Time.

The formal presentation will begin at Noon Eastern

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## Interest Invoicing: Show Licensees You Mean Business!

**Speakers:**

Zineta Borogovac, *Massachusetts Institute of Technology*

Alex Butterworth, *UNSW Innovations*

Richard Chylla, *Michigan State University*

Gregory Neal, *University of Florida*

November 3, 2015



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- AUTM Licensing Activity Survey (currently for United States and Canada)
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**Zineta Borogovac,**  
*Massachusetts Institute of  
Technology*



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**Alex Butterworth,**  
*UNSW Innovations*





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*Michigan State University*



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**Gregory Neal,**  
*University of Florida*



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### Interest Invoicing: Show Licensees You Mean Business!

Richard Chylla, PhD CLP, Executive Director, Michigan State University

Alex Butterworth, Legal Counsel & Privacy Officer, UNSW Innovations

Zineta Borogovac, Financial Operations Manager, Technology Licensing  
Office, Massachusetts Institute of Technology

Gregory Neal, Accountant, Office of Research/University of Florida Research  
Foundation, Inc., University of Florida

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**The following presentation reflects the personal views and thoughts of Richard Chylla, Alex Butterworth, Zineta Borogovac, and Gregory Neal respectively, and is not to be construed as representing in any way the corporate views or advice of Michigan State University, UNSW Innovations, Massachusetts Institute of Technology or the University of Florida nor their Affiliates, Subsidiaries or Divisions, nor the views or advice of the Association of University Technology Managers (AUTM). The content is solely for purposes of discussion and illustration, and is not to be considered legal or financial advice.**





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### Why Charge Interest?

- Treat university invoices on the same basis as other vendors;
- Prevent startups from using university as a bank (0% interest loan);
- May be flagged in a university internal audit.

Richard Chylla, PhD CLP, Executive Director, Michigan State University



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### MSU History (1)

- Interest language in most agreements but not enforced;
- Financial records were insufficiently accurate to rely on for interest calculation;
- FY13-FY14 engaged in a project to audit and clean the financial records of nearly 900 agreements;
- Once complete I made the decision to implement interest.

Richard Chylla, PhD CLP, Executive Director, Michigan State University



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### MSU History (2)

- Decision to implement in FY15 (July '14 – June '15)
- Sent letter to all licensees in late April '14 announcing that interest will be charged commencing July 1, 2014 along with a statement of account;
- Interest computed monthly but statements sent quarterly.

Richard Chylla, PhD CLP, Executive Director, Michigan State University



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### Financial Resources Required

**Basis at MSU: \$550M USD in research expenditures**

**150 Invention disclosures/yr. 300 active licenses**

**July '14 7.75 hours for 277 receivables**



**June '15 3 hours for 116 receivables**

**Approximately 12-14 hours per quarter**

Richard Chylla, PhD CLP, Executive Director, Michigan State University



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### Results after 1 Year

**FY '15: \$103,027 interest accrued and applied**  
**\$ 67,464\* interest paid**

**Receivables end of FY'14: \$2,181,312**

**Receivables end of FY'15: \$1,026,614**

**Richard Chylla, PhD CLP, Executive Director, Michigan State University**



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**What happens when you don't have an interest  
invoicing clause?**

**Alex Butterworth, Legal Counsel & Privacy Officer, UNSW Innovations**

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### Key Elements

- When is interest payable?
- How is interest calculated?

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### Sample Clause

1. **If the Distributor fails to pay any moneys payable under this agreement by the due date, the Distributor must:**
  - a) Pay interest on the overdue moneys at the rate prescribed in clause 2 from the due date until the date of payment; and
  - b) reimburse the Supplier on demand for all expenses incurred by the Supplier in recovering or seeking to recover the overdue moneys.

Alex Butterworth, Legal Counsel & Privacy Officer, UNSW Innovations

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### Sample Clause (continued)

2. A rate 5% per annum above the interest rate quoted by the Supplier's bank on overdrafts greater than \$100,000 or, should such a rate cease to be published, the rate which the Supplier's bank designates as being an appropriate substitute for the rate that the bank has ceased to publish.

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### When MIT TLO charges interest

- Late payment for patent expenses (costs from law firms and govt. fees)
- Late payment for royalties and license fees
- We only charge interest in full months
  - ✓ We do it based on the interest in effect when the invoice is due
  - ✓ This is done so that the interest is the same every month on something that is past due for several months
- We never charge interest for the month in which the invoice is paid
  - ✓ In fact if is paid a day before final invoices are cut, say on April 3<sup>rd</sup>, there is no interest charge for the month of March

Zineta Borogovac, Financial Operations Manager, Technology Licensing Office, Massachusetts Institute of Technology

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### Exceptions for interest invoices

- Patent Expense Exception
  - ✓ The grace period for patent expense invoices is 2 months
  - ✓ This is because MIT – TLO processing of final invoices begins after the 2<sup>nd</sup> business day of the month but takes time to prepare and mail out. The Licensees are also allowed a generous amount of time to receive and process the invoices and to request the payment from their accounts payable.
- Royalty and Fee invoices exception:
  - ✓ The grace period on royalties and fees is only 1 month
  - ✓ Licensee does not need an invoice from us to know how much to pay
  - ✓ Licensees know the amount of their fees and royalties and are expected to send the payment on time with their report



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### License Agreement language for late payments

- **Late Payments.** Any payments by COMPANY that are not paid on or before the date such payments are due under this Agreement shall bear interest, to the extent permitted by law, at two percentage points above the Prime Rate of interest as reported by the Federal Reserve Bank of St. Louis on the last business day of the calendar quarterly reporting period to which such royalty payments relate

Zineta Borogovac, Financial Operations Manager, Technology  
Licensing Office, Massachusetts Institute of Technology

## Sample of interest invoice

- Example of Interest calculation:

The interest is for late payment on fee invoice for \$20,000

The monthly calculation is:

$\$20,000 \times (3.25\% \text{ prime rate} + 2\%) / 12$

Equals \$87.50 per month until invoice is paid

**Zineta Borogovac, Financial Operations Manager, Technology Licensing Office, Massachusetts Institute of Technology**

Interest Invoice Page 1 of 1

Massachusetts Institute of Technology  
77 Building, Learning Center  
250 Main St., Level 6 Center, HE16-801  
Cambridge, MA 02139-4301  
Phone 617-253-8900 Fax 617-256-6790

To: [Redacted]  
[Redacted] 00142

Invoice # 012015010200  
TLO  
Agreement # [Redacted]  
Agreement Effective Date: 10/17/2014  
Description PO #689276

Description of Charge	Amount
Interest on 89136837 598.00	\$87.50
<b>Balance</b>	<b>\$87.50</b>

**Due upon receipt of invoice.**

For use in the US:  
United States of America, USA  
100 Federal Street  
Boston, MA 02115

WIRE Routing # 026 839 030  
ACH Routing # 0261 000 100  
Bank Account # 02602 243684  
Swift # BULF33  
Bank Contact: Christine Brundard (609)  
201-988-1275  
Reference: MIT TLO & Invoice or Agreement #

or  
Make checks payable in US Dollars, drawn on a U.S. bank, and payable to MIT Technology Licensing Office. Please specify the MIT TLO address above. Please reference your agreement or invoice number.

For questions regarding this invoice contact Leahy Foster at the above MIT TLO address or send email to [toinvoice@mit.edu](mailto:toinvoice@mit.edu)

## MIT – TLO Interest Invoicing Results and Distribution

- Average amount collected per fiscal year is between \$150K-\$200K on a total of over \$40 million/year: thus <0.5%
  - ✓ But, one very large payment when we had to threaten suit to get the payment of over \$10 million
- Leverage in collection process
  - ✓ Potential interest charges motivate prompt behavior
  - ✓ Can offer to waive interest charges if having trouble collecting a (very) late payment; “If we get your payment by XXX then we will waive the interest.”
- The interest received by MIT is distributed the same as royalty income according to the MIT Royalty Distribution Policy



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### How to set up interest invoicing

- UFRF's interest invoices are ran monthly
- Ran separately from legal reimbursement invoices
- Any invoices created under \$20 are deleted
- Remaining invoices sent to OTL for review by Case Manager
- OTL approves/denies whether to send
- Approved interest invoices sent to past due licenses
- Denied ones are voided or deleted

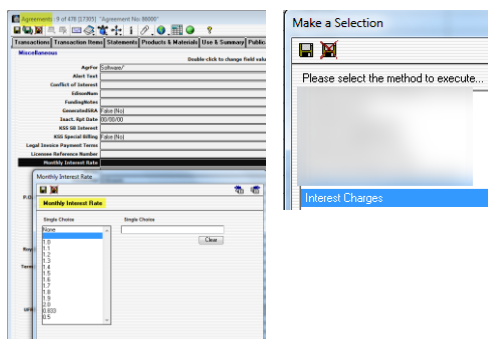
Gregory Neal, Accountant, Office of Research/University of Florida Research Foundation, Inc., University of Florida



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### How we set up interest invoicing



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# Sample interest invoice

		<b>Invoice</b> Invoice No.: 13423 Invoice Date: 06/12/2012 Due Date: 06/12/2012 Agreement No.: AI-12345 Customer PO:			
<b>Bill to:</b> C.S. Inc. Attention: [Redacted] 818 N. 7th Suite 210 [Redacted] Park, FL 32707 United States					
<b>Make Check Payable to:</b> UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC. 218 Greater Hall P.O. Box 14000 Gainesville, FL 32614-0000 (352) 392-8123 FAX (352) 844-0880					
<b>Invoice Summary:</b>					
Case #	Lead Law Firm	Title	Total Amount Due		
AI2327	[Redacted] Inc.		\$13.56		
			<b>Total Amount Due</b>		
			\$13.56		
<b>Invoice Details:</b>					
Case #	DO #	Am Ref No	Description	Charge	Billed
AI2327	06/12/12		Interest Due	\$13.56	\$13.56
				<b>Total Amount Due</b>	\$13.56
				\$13.56	
<p>The user for each invoice is DUE within 30 DAYS of the invoice date.          To ensure proper crediting of your account, please refer to invoice number.          Billing Questions call the UFRF at 352-392-0900, THANK YOU!          Licensee is responsible for any and all visa bank fee associated with payment.          Wiring Instructions: <a href="http://www.research.ufl.edu/offering.html">www.research.ufl.edu/offering.html</a></p>					
UFRF Primary Contact: The Foundation for The Gator Nation at the University of Florida					
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### UFRF Interest Invoicing Results

- Separate invoicing for interest on past due legal since 2002
- Amount collected to date – over \$800K!



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### How the extra income is used/distributed at UF

- UFRF pays legal, then bills licensee/co-owner for reimbursement
- We use interest income to help support further research???
- We keep the money????!!!

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# Questions? Comments?





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Philadelphia, PA

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Interested? Please contact  
Melinda Briggs – [mbriggs@autm.net](mailto:mbriggs@autm.net)





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**Feb. 14 – 17**  
**San Diego, CA USA**



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