

# Working with Outside Counsel: Selection, Engagement, Maintenance, and Termination

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## Introduction

Effective utilization of the specialized skills of outside counsel is essential to the success of a university technology transfer program. Besides providing services in the areas of patent, trademark, and copyright law, outside counsel can provide advice on licensing transactions, valuation, and new-company formation. Developing and maintaining an effective, long-term relationship with outside counsel is very important, especially when considering the amount of time necessary to commercialize the nascent-stage business opportunities created at most universities.

While there are many intellectual property firms available to choose from, their service strategies are designed to meet the needs of the most lucrative clients—industry. The needs of industry are distinct from those of universities. Industry focuses on maximizing business advantages and shareholder return. Implementing intellectual property strategies into the day-to-day operations of a company is viewed as a critical component of success at many companies. Companies employ resources in a concerted fashion to exploit new innovations in the marketplace.

Universities focus on the creation of new knowledge and the dissemination of research results, which can sometimes present challenges when attempting to maximize the value of their intellectual property. The importance of license revenue generation and new-venture development are certainly recognized, but usually not at the expense of the traditional core values of the university's mission.

Still, the services of outside counsel can be utilized in a variety of ways to maximize the effectiveness of a university technology transfer program. Most commonly, these services will be concentrated in the area of patent prosecution. While it is possible to commercialize unpatented technologies, few would question the benefits patent protection provides in most circumstances. While these are universally recognized, securing such rights is not without the associated cost of investing financial resources in early-stage, high-risk investments. In fact, for most university technology transfer offices, such legal expenses exceed all other expense categories. Given the limited financial resources available to support university technology transfer efforts, it is essential to employ these resources as effectively and efficiently as possible.

A relationship with outside counsel can be divided into four basic stages: selection, engagement, maintenance, and termination. This chapter will discuss some important factors a university should consider in each stage to create a reliable partnership with outside counsel. The chapter will also discuss what to do when things go sour and how to terminate a relationship.

## Selection

Certainly, the selection of appropriate outside counsel is a very important first step in determining the potential for success of a university technology transfer program. Upon initial review, the expertise and abilities of potential service providers may appear indistinguishable, but, in fact, the services available and professional expertise may vary greatly from firm to firm. As there are a variety of potential service providers, from large law firms to individual practitioners, there are also a wide variety of practice areas and specialized services. The goal is to select the most capable service providers for the university's intellectual property needs. Identifying those firms most likely to fit the university's needs can be quite complex, even for seasoned professionals.

Each class of service providers has certain advantages and disadvantages. Large law firms, for example, typically offer a wide range of services. Many have experienced professionals available in a number of fields and, therefore, have the resources to respond to urgent filing needs or other unanticipated situations. When specific situations are

encountered requiring specialized services (such as litigation consultation, etc.), specialized resources may be readily available within the firm to assist as needed.

Of course, this advantage can be offset somewhat by the increased overhead costs for maintaining these specialized resources. With the larger support staffs and higher rents, large firms will feel pressure to control costs through other means. One popular strategy is to assign the drafting of cases to junior associates and scientific advisers (individuals with advanced technical degrees who also may be patent agents). Although these junior members of the firm will be working under the guidance of a more senior attorney, it is important to ensure adequate guidance is being provided and quality is not compromised. Like it or not, most universities will usually not be considered bread-and-butter clients at large law firms. Corporate clients with deeper pockets are usually viewed as being more desirable. These clients will typically engage in more litigation, which is the lifeblood of many large law firms. A large law firm with a corporate client base should not be considered a disadvantage. Working with outside counsel having such experience with corporate clients can be a valuable source of information and contacts for the university.

In contrast to larger firms, medium-sized law firms will usually provide services in a boutique environment with more specialized expertise. If these areas of specialization overlap with the university's needs, this can be a tremendous asset. Depending on the size of the firm, overhead rates may be more modest, thereby reducing expenses. At many medium-sized firms, senior professionals may be more readily available to university clients and less dependent upon junior associates and scientific advisers. Many medium-sized firms pride themselves on their ability to provide more personal service to their clients. They may actively seek university clients, which can result in the development of very beneficial long-term relationships. For this reason, universities often find medium-sized law firms very desirable.

On the other hand, medium-sized law firms may not be able to provide the specialized services available from larger law firms. Furthermore, the information technology resources necessary to support the university's information requirements may not be as robust or flexible as those available at larger law firms.

Initially, universities may view very small law firms and individual practitioners unfavorably. It is true that these service providers may have limited capabilities and may not have the more flexible resources usually available from larger firms to respond to emergency situations. As an example, many may be totally incapable of handling litigation or be unable to respond to last-minute filing requests due to limited staffing. Once the limitations of these firms are identified, they may still be able to play an extremely valuable role, especially when their specialized skills overlap in strong areas of need. With fewer people involved in the process, communication is usually simplified and direct, which may result in strong bonds forming between inventors and outside counsel. This can prove to be very beneficial when working with challenging inventors.

When evaluating potential service providers, it is easy to fall into the trap of simply listening to the presentations, comparing their relative capabilities, and selecting the firm or firms that appear to be best for the university. Rather than initially approaching the selection process in this way, it is better to first determine what services the university may require. Consider viewing service providers as tools, with the use of some tools having certain advantages over the use of others.

For example, while a rock or a hammer may be suitable alternatives when considering a need to drive a nail, one will typically yield a better outcome than the other. However, a particular type of hammer may not be suited to the task at hand. Have you ever tried to drive a railroad spike with a tack hammer?

Assess the university's needs as objectively as possible. The areas of need most universities should assess include:

- *Technical:* Identifying needs from a technical standpoint is always a good place to start. Looking at the content of past disclosures will provide important insights into your needs. Temper your evaluation of these needs based on past license performance. If you have had more success licensing technologies from some areas and little success in other areas, then this difference is important to recognize. Assessment of past disclosures will not always predict the future, however. Speak with institutional

planning and selected executives to identify new research areas being developed at the university. Also, certain sectors of the research effort within the university may have higher performance expectations than others. Use this information to anticipate what types of technologies may be disclosed in the future.

- *Search and opinions:* If the university technology transfer office is limited in its ability to assess the patentability of new technologies, then patentability search and opinions rendered by outside counsel will be very important. This information must be as accurate and complete as reasonably possible to allow the university decision maker to triage the opportunities presented and only invest in those technologies with the most potential.
- *Patent prosecution:* Not only is it important to know the types of technologies developed on campus, it is also important to characterize the types of patents the university has selected to prosecute in the past. Past patent filings provide an accurate indication of the types of technologies the institution has found to have the most promise. If the objectives of the university technology transfer program change, it may be necessary to re-assess the capabilities of the service providers currently being used. If this assessment leads to concerns regarding the ongoing prosecution of existing cases, identify deficiencies and evaluate alternative service providers. Let experience be your guide.
- *Licensing:* Given the increased resources dedicated to providing licensing capabilities within universities over the years, most basic licensing needs can be met internally. However, the university may need to seek the consultation and assistance of outside counsel in handling more advanced and complex licensing situations. For example, while the internal licensing staff may be able to handle most licensing issues arising from the creation of a startup company, the complexity of issues surrounding the equity portion of such transactions may require accessing the specific expertise of outside counsel.

- *Litigation:* Most institutions do not view the possibility of litigation favorably. Nevertheless, the potential of having to settle a dispute via litigation remains real. While many universities maintain internal legal counsel, this staff will usually have little to no expertise in intellectual property litigation, which is considered a boutique area of the law. If you anticipate a need to possibly initiate litigation or respond to a threat of litigation, this should be factored into your selection process.
- *Trademark and copyright:* When evaluating the intellectual property needs of a university technology transfer program, it is natural to focus on patenting. This should not come at the expense of an evaluation of the university's potential needs in the areas of copyright and trademark law. Not only can the faculty's needs be served, the licensing of such properties can generate significant revenue without a heavy investment of financial resources in outside counsel fees. Seeking assistance with the unique needs of filing for such protection is highly suggested, since it is so rarely pursued.

When the assessment of the university's needs is complete, it is important to identify which needs are the most important given the experience of the technology transfer program. As part of this process, it may be necessary to separate wants from needs. Concentrate on the top three or four requirements and document the specific characteristics of each. It will be important to be able to refer to these in the future when assessing the capabilities of potential service providers.

It is important to document the performance guidelines for potential service providers. Detailing these expectations in an outside counsel agreement executed by both parties is highly recommended. If there are certain practices the university either requires or prefers, document them for potential inclusion in the outside counsel agreement. If there are specific practices or procedures the institution wishes to avoid, document those as well. Rely on your experience when constructing your guidelines and do not compromise. Harmonizing the university's performance guidelines with the established procedures of service providers may lead to some challenges.

However, the university is the client, and outside counsel should be able to reasonably accommodate university requirements. Important points to consider include, but are not

limited to, the field of services to be provided, docketing requirements and reporting, billing rates and procedures, and procedures for communicating patent correspondence and authorizations.

After identifying the university's needs and basic performance guidelines, you can now begin to identify potential service providers. Contacting other university technology transfer professionals may be the best place to start, as they will lead you to firms accustomed to working with universities and university-based inventors. Besides suggesting individual firms, colleagues may be willing to comment on the performance of various firms. They can also share specific contact names and numbers. If possible, use these discussions to identify potential client managers at the desirable firms and which other universities may use these firms. These contacts can be used to confirm information from various sources, particularly when overly positive or negative comments are received. Additionally, inquire about the performance guidelines these universities have incorporated into their outside counsel agreements with specific service providers. Any unique guidelines identified through this process may be helpful in refining your institution's performance guidelines.

There are many other sources of information regarding potential service providers. For example, contacting companies (either existing licensees or potential licensees), can be particularly helpful. Several different types of searches on the Web site of the U.S. Patent and Trademark Office can also yield valuable information. By searching for particular attorneys, agents, or firms on this Web site, you can gauge the prosecution expertise of a law firm in particular technical areas. A search of this same Web site using technical terms resulting from the university's assessment of needs will also identify service providers. If specific areas of overlap are identified with university assignees, individuals at that university may be contacted to confirm whether the patent was licensed and how the service provider performed. Special attention may be paid to potential service providers in proximity. Besides the advantage of increasing the ease and frequency of face-to-face meetings with inventors, travel costs are minimized when local firms are engaged. At the conclusion of this process, create an initial list of potential service providers that may best fit the university's needs and comply with the performance

guidelines. Share the list with the legal services department of the university. In some cases, there may be conflicts precluding the use of certain service providers.

It is desirable to establish contact with the individual who may serve as the university's client manager. Most of the time, these first contacts are made via telephone, but it is best to meet face to face. This will provide an immediate assessment of the responsiveness of the service provider. Concentrate the discussion on the needs of the university, its performance guidelines, and the mission and goals of your university's technology transfer program. Seek to determine how flexibly the service provider can respond to your needs.

A suggested questionnaire is provided below:

- What are your firm's areas of technical expertise?
- Who would serve as the university's client manager?
- What is the size of your firm?
- Where are your offices?
- Which individuals at the firm will most likely work with the university and where are they located?
- What qualifications do they possess?
- To what extent are patent attorney extenders used, such as patent agents and scientific advisers?
- What is your firm's experience working with university clients?
- What problems have you experienced with university clients?
- Are there any particular practices certain university clients use that you like?
- What is your firm's philosophy on patentability search and opinions?
- Does your firm provide estimates for work before authorization?
- What are the typical charges for patents filed by the firm?
- What is the typical timeline for the filing of an application?
- What is the reporting capability of your docketing system?
- Are your clients charged for docket reports?
- Are there any special billing programs available? If so, describe.
- How are charges for overhead services handled?
- What information is included in your bills and what level of detail is used to describe the services rendered?

- Does your firm handle the payment of maintenance fees and foreign annuities?
- What kind of licensing support services are available?
- What kind of litigation experience does the firm have? How would your litigation experience potentially overlap with the needs of the university?
- What additional services are available from your firm of potential interest to the university?
- Does your firm provide newsletters or offer seminars or other educational sessions to keep their clients aware of changes in intellectual property laws, recent court decisions, and licensing practices?
- Why should my university select your firm?

While meeting with the potential client manager is essential, there are other principals you should also meet. In most law firms, client managers are selected from the more senior staff at the firm. As a result, they usually will have some of the highest billing rates. They typically recognize the financial limitations of their university clients and will, therefore, play more of a role in developing strategy and overseeing the quality of the final product. Once the claiming strategy has been finalized, most of the actual drafting will be completed by less senior staff, associates, patent agents, or scientific advisers. It is important that you also meet these individuals and assess their capabilities, since it is likely they will be the primary contacts for the inventors during the drafting process. Although their billing rates may be more modest, they are not necessarily less qualified. In many cases, these individuals have concentrated solely on the drafting and prosecution of patent applications for years, avoiding the administrative burdens of more senior partners.

During your meeting with the potential client manager, be sure to ask about how charges for overhead services are handled (expenses such as long-distance phone charges, copy fees, fax charges, etc.). These charges can add significant expenses. In the early years of university technology transfer, charges for overhead services were routinely billed as their own line items. Increasingly, firms are no longer billing their university clients for such overhead services, preferring simply to adjust the hourly rates of their professionals to recover these costs. It is not uncommon for service providers to seek fixed rates for accomplishing certain tasks, such as filing required documents, etc.

It is also highly advisable to meet the primary support staff of the firm. For example, if the university has a sizable foreign portfolio, meeting with those individuals responsible for day-to-day responsibilities in this area is recommended. This is a complex area of responsibility, so gauging the level of experience handling foreign matters is very important. It is also important to get to know the support staff reporting to the potential client manager. In many cases, contacting support staff directly will yield quicker results at much less cost than working with a patent attorney or patent agent. Beware any service providers that do not showcase the capabilities and accessibility of their support staff. This may be an indication of a lack of resources or skills or a tendency to be too controlling.

Use the responses to these questions, the results of your interview and the reviews of the firms provided by trusted peers to assess the fit of the service provider. It is unlikely a single service provider will meet all of the university's needs, so anticipate using multiple service providers. It is best to limit the initial evaluation to no more than three or four best fits initially. If any of the university's primary needs are not met, consider adding specialized firms for these needs. Of course, if none of the firms seem to fit the university's needs, performing a reality check on the university's basic performance guidelines may be in order.

## Engagement

At some point in the review process, it will become relatively obvious which service providers will best meet the needs of the university. Many universities use an outside counsel agreement, or similar agreement, to document their relationship with service providers. Do not assume that outside counsels' experience with other universities and their performance expectations will translate into knowing what they should do in their relationship with your university. The outside counsel agreement should clearly include the service guidelines desired by your university. Any important distinctions, key capabilities, or assurances made by a service provider which may have led to the selection of one service provider over another should be detailed in the outside counsel agreement. If, upon negotiation of the outside counsel agreement, these distinctive elements disappear, or if there is any equivocation of assurances made, you should question your service provider selection.

Typically, determining the term of engagement is a balance between the need of the university to lock in rates to be able to predict and manage expenses and the service provider's need to adjust the rates (upwards, of course) to meet future requirements. Most service providers will agree to a two-year term without much resistance, but some may insist on annual contracts. Alternately, it may be advantageous under limited circumstances to engage outside counsel on a case-by-case basis. This strategy can be particularly effective when working on resource intensive special cases like litigation, patent interferences, and license consultations. Expenses associated with such boutique services can exceed those of normal cases, so negotiating an outside counsel contract to fit the specific nature of the relationship can make it easier to manage the relationship and monitor expenses.

Use the outside counsel agreement to describe the university's needs and its performance guidelines in detail and how they will be implemented. Some basic components may include required liability coverage, records retention, established institutional limits for reimbursement of expenses (travel, hotel, etc.), and guidelines for reporting potential conflicts.

Universities may also find it advantageous to include very specific terms, many of which are the result of past experience. For example, in addition to specifying who the university has empowered to authorize actions, it is recommended the agreement clearly state any actions taken by outside counsel that were not authorized by such individuals cannot be billed to the university. The university should also consider the advantages of describing an acceptable invoice format in detail and specifically show what information will be required. To aid in monitoring the financial status of individual files, the university may find it helpful to require the inclusion of other specific information, such as expenses incurred on the file for the current fiscal year and the total expenses incurred since inception of the file.

Of course, outside counsel will also seek to include provisions of its own. Many firms will request that all-important authorizations be made in writing (letter or e-mail) or that oral instructions be confirmed in writing within a specified time period. This is not an unrea-

sonable request given the increased exposure to risk associated with oral authorizations. Outside counsel may also require a certain level of timeliness in responding to outstanding actions or deadlines. Again, this is not unreasonable, especially from smaller firms or solo practitioners. Given the time-sensitive nature of patent prosecution, it can be difficult to re-task their resources to meet last minute deadlines.

## Maintenance

The key to maintaining a good relationship with your service providers is just like maintaining any other relationship. In all cases, effective communication is necessary for success. Effective communication starts by understanding the specific needs of your service provider and following the communication requirements described in the outside counsel agreement. Besides certain authorizations associated with the prosecution of specific cases, it is also necessary to provide other written instructions to outside counsel, such as a request to copy patent-related correspondence to a co-owner or licensee or a request to transfer files from one service provider to another.

Most communications with outside counsel will be more informal, such as discussing options available in responding to a particular obviousness rejection. Often, these informal discussions will provide the basic framework of the relationship, with this framework strengthened by candid and frank discussions of various issues. Both parties will be better informed about the intent of the other party, leading to increased predictability and trust. All of this enhances the basic goal of working as partners to build a valuable patent portfolio.

Communications with outside counsel, whether formal or informal, should be clear and concise, but most importantly, they should be delivered in a timely manner. One of the most common concerns voiced by outside counsel about their university clients is the lack of the timeliness in receiving authorizations. Typically, outside counsel will promptly deliver patent-related communications and documents, providing their clients with sufficient time to decide what to do. Many will even request their clients provide instructions by specific dates in advance of deadlines to provide them with sufficient time to prepare and file a timely response. Despite this, universities will sometimes wait until the last

minute to provide authorizations. While outside counsel is a service provider hired to meet the needs of the university, this does not mean the university should abuse the relationship by not responding to requests for instructions promptly.

Another key to success is working as a facilitator between the outside counsel and your inventors. Simply exchanging contact information between outside counsel and your inventors and expecting them to work together effectively is not adequate. Outside counsel is often unaware of the inventor's personality. Absent this awareness, he or she may not be comfortable dealing with certain issues directly with the inventor or he or she may ask inappropriate questions. This may lead to incorrect assumptions about the inventor's familiarity with patent law, potentially leading to confusion.

Under extreme circumstances, outside counsel may seek to communicate with inventors directly without the involvement of the technology transfer office. Not only can this drive up costs, but also inventors may feel that repeated contacts from outside counsel are distracting or too intrusive on their time, resulting in a loss of cooperation. An inventor may feel more comfortable if a university representative is also involved and serving as a steward of the inventor's and university's interests. The inventor may be willing to ask more questions and less likely to hold back information. One of the most important reasons to participate in such communications is to educate both the inventors and outside counsel about the role of the technology transfer office.

To help minimize expenses, inventors should be encouraged to initially contact the technology transfer office with any questions they might have about patenting or licensing issues. Besides helping to control costs, providing helpful and informative responses to inventor's questions will help build trust between the inventors and the technology transfer office.

Finally, be sure to continuously monitor compliance with your outside counsel agreement. Beware of any drift away from its terms. Often, only a few individuals at larger law firms are aware of the terms of the outside counsel agreement and the performance expectations of the university. When you work with others in the firm, they may continue

to perform as usual for them, but not within the terms of the outside counsel agreement. To avoid this, as you begin to work with others in the firm, suggest that they contact your client manager to familiarize themselves with the terms of the outside counsel agreement. Alternately, you may supply them with a copy of the agreement yourself. Pay special attention to routine operations, such as billing procedures, invoice content, and document management, since small deviations can lead to big problems that can be difficult to resolve.

Despite investing your best efforts into maintaining a good relationship, things may not always go according to plan. Sometimes, one party's performance does not meet the other party's expectations. This is usually a sign of a lack of effective communication. By increasing your efforts to communicate more effectively, many of these problems can be easily solved. When problems are encountered, be sure to communicate potential concerns promptly and work constructively toward a solution.

## Termination

Performance expectations, service requirements, and relationships change with time. Obviously, if the law firm decides to discontinue services essential to meeting the university's service requirements, then the relationship should be terminated with the agreement of both parties. Sometimes, the university may only utilize a single attorney or small group of attorneys in a law firm. If this individual or group decides to move to a different firm, you may wish to terminate your relationship with their original firm.

Alternately, a law firm may also independently decide to terminate its relationship with the university. If a law firm decides to discontinue providing services essential to the university's service requirements, or if it determines a conflict exists between its clients, the decision to terminate the relationship may be out of the university's hands. This type of termination rarely causes problems.

If the university becomes dissatisfied with the performance of outside counsel, it is only reasonable to seek to correct any deficiencies. Ultimately, it may become necessary to sever the university's relationship with outside counsel. Under such circumstances, it is

important to remain objective and dispassionately communicate the reasons why outside counsel's services will not longer be required. Most of the time, previous attempts to work through problem situations will make it unnecessary to communicate this decision in great detail. It is usually easiest to simply re-assign the cases to new outside counsel rather than terminating the outside counsel agreement altogether.

If it becomes necessary to terminate the relationship between outside counsel and the university, the primary concern is determining how active cases will be transferred upon termination without jeopardizing the cases. If the outside counsel firm has elected to terminate the relationship, it should provide a high degree of cooperation to make sure the university's files are transferred promptly to a new firm (or firms). In most cases, it has considered the possible termination of the relationship for some time and may already have its plans in place to make sure the files are transferred with minimal risk.

If the university decides to terminate its relationship with outside counsel, there are several important steps to be taken. First, determine what files are assigned to the law firm. Second, identify those cases having time-sensitive issues pending, such as an upcoming response deadline or maintenance fee due, so deadlines are not missed during the transition. Third, select a new law firm capable of handling the transfer of files and contact them to verify their willingness to accept the files. This discussion should include plans for handling any time-sensitive cases as well as contact information at the law firm responsible for forwarding the files. Last, when written notice of termination is supplied to outside counsel, the notice should include a complete list of files and a list of time-sensitive actions necessary. Ask outside counsel to verify this information. Contact information for the client manager at the new law firm should also be included to facilitate transfer of the files.

## Conclusion

Considering the pendency of patent applications in the U.S. Patent and Trademark Office, evaluating the performance and overall effectiveness of outside counsel may take years. This highlights the importance of implementing an effective outside-counsel selection process, engaging outside counsel on the most favorable terms to the university, and pro-

moting relationships based on well-defined expectations, reliability, and effective communication. The relationship between the university and outside counsel is not static. Effective communication techniques must be used to build trust between the parties, which is very important when cooperating in an uncertain and changing environment with unpredictable outcomes.