

# University of Central Lancashire

## **IP Spin-Out Formation Policy**

### **1. Introduction**

The University of Central Lancashire actively encourages the commercial development of its intellectual property (IP), including know-how, and recognises that the creation of a spin-out company is one method of achieving this.

A spin-out company is a company whose core purpose is the development and exploitation of university owned(wholly or jointly) IP.

This policy is supplemental to UCLan's staff policy on intellectual property ('**IP Policy**') and terms defined therein have the same meaning in this policy, save where expressly stated otherwise. This policy applies to all Creators and any inconsistency between this policy and the IP Policy will be resolved in favour of the IP Policy unless expressly stated otherwise.

Recognising that the commercialisation of research is one way to realise the impact agenda, the University will work with its researchers to facilitate and drive research commercialisation.

Commercialisation can be undertaken through several different mechanisms, such as commercial collaboration, licensing of intellectual property to existing companies or the creation of new spin-out companies from the University.

### **2. Definitions**

For the sake of clarity, the patenting of IP is always considered a development activity. Development activities may be undertaken before or after a decision has been made to create a spin-out company.

**"Creator(s)"** means researchers who have made a material contribution to the development of the IP; they may or may not be University Founders. Creator(s) always includes, but is not limited to, creators of intellectual property

**"Director"** means a person appointed to the board of the Spin-Out Company.

**"General Activities"** are activities undertaken by the IP & Commercialisation team in the course of identifying and evaluating IP and providing permissions for commercialisation.

**"Intellectual Property"** or **"IP"** means inventions, software, copyrights, design rights, database rights, trademarks, know-how and any other intellectual property owned by the University.

**"Inventions"** are any research outputs that can be reasonably identified as having commercial potential including patentable or potentially patentable discoveries or ideas and any associated technology required for their development or application.

**“IPC Team”** means the IP & Commercialisation team responsible for supporting intellectual property and commercialisation activities across the University.

**“Policy”** means this policy.

**“Researcher Block of Shares”** means the portion of the Shares in the Spin-Out Company allocated to the Creator(s) and University Founders.

**“Shares”** means the shares in the Spin-Out Company issued to the University, Creator(s) and University Founders

**“Spin-out Company” or “Company”** is a company limited by shares created to commercialise the IP which has at least one University Founder involved in the company.

**“University” or “UCLan”** is the University of Central Lancashire.

**“University Founders”** are University staff who intend to make a material contribution to the future of the Spin-Out Company; they may or may not be Creators. Note that there may be additional founders who are not University staff; these additional founders are not covered by this policy and their contribution and reward will be negotiated on a case-by-case basis by the Spin-out Company.

### **3. Procedure for Company Formation**

#### **Authorisation**

A wholly owned subsidiary of the University shall require authorisation from the University before a new Spin-out Company is incorporated.

A member of staff of the University shall require authorisation from the University before being appointed an officer (director or company secretary) of a company.

#### **Application Process**

The Creator(s) will submit a completed invention disclosure form/software disclosure form to the IPC Team.

The IPC Team shall work with the creators to undertake an IP/commercial review and create a business proposal to determine whether authorisation should be recommended. Various factors will be taken into account, these factors include (in no particular order):

- Size of the commercial opportunity;
- Strength of the IP;
- Viability of the business plan;
- Interests of the University (i.e. costs/potential gains/reputation);
- Interests of the creator(s) (i.e. involvement in company/ impact on existing and future duties);
- Impact upon the relevant School;
- Use of University resources and facilities;
- Availability of appropriate management team;

- External partner organisations and third-party contributors (i.e. collaborators, funders, investors);
- Other methods of commercialisation (i.e. licensing, joint venture); and
- Any relevant legal issues.

## **Approval Process**

The decision to take forward a spin-out company will only be made in light of a realistic assessment of the future commercial and technical potential of the IP, together with a clear evaluation of the commitments and resources necessary to achieve both commercial and technical success. UCLan retains sole and absolute discretion both as to the weight to be given to any factors noted above and the decision to approve or enter into any spin-out company.

The formation of a company - for example, limited by shares (Ltd.) or private limited company - limited by guarantee (LBG) that utilises UCLan's Intellectual Property by a staff member of UCLan requires the approval of the University Resource Committee prior to any Company being established.

Where the IPC Team is satisfied that it is appropriate for UCLan to invest in a Spin-out Company, and the application is supported by the Pro Vice-Chancellor for Research and Enterprise, the IPC Team shall prepare and submit a briefing paper for consideration by the University's Vice-Chancellor Group (VCG). VCG will consult with both the University's IP Panel and Resources Committee. Following the Resources Committee's recommendations, a final decision will rest with VCG.

The briefing paper - which will not be binding on the University until formal contractual documents and filings are completed - must be accompanied by an agreed business plan and include confirmation of the proposed equity stake of the University, the creator(s) and that of any third party investor other than a company within UCLan's group ('third party'), together with proposals for directorships and whether secondment and facility sharing arrangements are required. The University expects the proposal to have been agreed by all relevant parties before the submission for approval by Resources Committee.

Where the IPC Team is not satisfied that it is appropriate for the University to invest in a Spin-out Company it shall discuss with the Creator(s) whether exploitation may be achieved via other routes (i.e. licensing).

## **4. General Provisions: University**

Following approval by Resources Committee, UCLan shall take steps for the initial formation of a Spin-out Company and preparing the requisite legal documentation. Please note that the University's Legal Services team acts for the benefit of the University only and Creator(s) must seek their own independent legal, financial and tax advice.

UCLan may require the Creators and/or any third party to enter into ancillary agreements with UCLan in relation to the formation, party's roles and other arrangement regarding the Spin-out Company, including but not limited to any shareholders agreement.

Creator(s) shall, and will use all reasonable endeavours to procure that any necessary third party shall, execute and deliver such documents and perform such acts as may be required for the purpose of progressing formation and structure of the Spin-out Company.

UCLan (which may act through a wholly owned subsidiary company) shall have the right to receive a financial return from each Spin-out Company, whether in the form of (at UCLan's discretion) shares, option for shares, loans, licensing of its IP or a combination of the above ('Return'). The size of its Return shall be determined solely by UCLan on a case by case basis.

In agreeing appropriate equity sharing arrangements between UCLan, the Creator(s) and any third party investors the extent of the University's initial costs and recurring costs (as defined in the IP policy), factors set out in paragraph 4.13 of the IP Policy and the following (non-exhaustive) factors shall be taken into account:

- the relative contributions made by each party;
- potential profit margins;
- market penetration potential; and
- capital investment requirements.

By way of indication only, UCLan anticipates that where it takes shares or other equity stake in the spin-out company its Return would likely be:

- 10-25 % of all dividend rights on shares for life sciences and engineering sectors; and
- < 10% for software-based companies.

Where there are multiple Creators any equity offered shall in no event reduce or dilute the University Stake and shall be split between the Creator(s) in equal proportions unless specifically agreed between all Creators otherwise and such agreement notified to UCLan in writing in advance of any allotment.

Where a Creator holds Shares, Share Options in or otherwise receives monies from a Spin-out Company (aside from any basic salary expressly agreed in writing by UCLan) they will waive all rights to a share of any licence, share-sale or dividend income received by the University from the Company or other revenue share pursuant to paragraph 4 of the IP Policy.

All initial costs and recurring costs (as defined in the IP Policy) together with all costs, expenses, fees and charges incurred by UCLan in relation to formation of the Spin-out Company and the value of any University funding used to generate the IP ('**University Costs**') shall be deemed a loan to the Spin-out Company and shall be repayable according to the terms of a loan agreement to be entered between the University and the Spin-out Company. Events triggering repayment may include (amongst other things) sale of all or a substantial part of the assets of the Spin-out Company; listing of Shares in the Spin-out Company on a stock exchange; a change in control of the Spin-out Company; or breach by the Spin-out Company of any agreement to which it is party with UCLan. The terms of the loan agreement shall be determined by UCLan on a case-by-case basis.

UCLan shall have the right to appoint such number of directors, officers and/or observers to the board of a Spin-out Company as UCLan shall reasonably require.

Any services or facilities provided or made available to the Spin-out Company by the

University (including its staff, premises, facilities, management and/or other administrative services) shall be subject to separate agreements which may be charged by UCLan to the Spin-out Company at commercial rates (or another entity within its group). These will be negotiated by Legal Services and will require approval in accordance with the University's financial regulations.

In some circumstances UCLan may retain rights to its IP outside the field of the Spin-out Company's commercial activities.

## **5. General Provisions: Staff**

A Creator who is a full-time member of staff at the University cannot be an employee of a Spin-out Company. UCLan may (at its discretion) permit a full-time member of staff to become part time (reduced contract hours or secondment) in order to allow the staff member to be employed or seconded to the Spin-out Company on a part-time basis. Such a decision will only be taken following consultation with the Dean of School and the People Team.

No Creator(s) shall have the authority to incorporate or dispose of a Spin-out Company other than through the appropriate University procedure.

Any Creator who has been refused permission to establish a Spin-out Company may not set up a company having similar objects other than through the University.

Where a Creator takes an equity stake, directorship and/or any other interest in a Spin-out Company he or she shall be acting in a personal capacity and shall be responsible for taking his or her own independent legal, financial and tax advice.

## **6. Spin-Out Company Costs**

The Company shall be responsible for its own operating costs including (amongst other things) insurances, including D&O insurance, legal and financial compliance costs.

No UCLan assets (i.e. staff time, IP, facilities) will be released or permitted to be used by the Spin-out Company until all legal documents have been executed.

The Company books and accounts shall be produced to the University on request and shall be subject to an annual external audit.

## **7. Licence or Assignment of IP**

The decision whether to license or assign the relevant University IP to the Spin-Out Company after formation will be made by the University at its sole discretion.

The terms of such licence or assignment shall be determined by UCLan on a case-by-case basis.

## **8. Exclusions and inclusions**

If the University does not own any of the IP on which the Company will be based, then this policy does not apply.

Where the commercialisation of University IP is governed by an agreement between the University and a third party ("Collaboration Agreement"), the terms of the Collaboration Agreement will apply. In such circumstances, this Policy will apply to the fullest extent possible, however, in the event of any conflict between this Policy and the Collaboration Agreement, the terms of the Collaboration Agreement will apply.

## **9. Shareholding in Spin-Out Company**

The Creator(s) and University Founders are responsible for determining the split of shareholding between Creator(s) and University Founders in the Researcher Block of Shares. This will typically be based on the contribution of each Creator to the development of the IP and the intended contribution of each University Founder to the future of the Spin-out Company. In the event that the Creators and University Founders cannot reach agreement, the Block of Shares will be divided equally.