

University spin-outs and intellectual property rights

The value of university research programmes has long been recognised in the UK as a source of talent and potential. Much of the research cultivated in UK universities addresses society's biggest challenges. It follows that this research has the capacity to grow into valuable business opportunities. Where research performed in a university setting is commercialised in this way, the resulting business is known as a "university spin-out".

The success of these ventures is, to a great extent, contingent on the use and exploitation of the intellectual property rights ("IPRs") arising from the research. This article explores the mechanics behind the university spin-out process and some of the key issues of which their founders ought to be aware.

The parties

A spin-out will always involve two parties: (i) the spin-out founders (usually the post-graduate student, research associate or other academics who have led the research activity); and (ii) the university where the spin-out founders are based. However, there may also be investors. Although spin-out founders regularly fund their own spin-outs, investment may also be secured from the university or from third parties such as private venture capitalists or angel investors.

IPRs in spin-outs – the basics

At a high level, IPRs in the context of spin-outs are most likely to consist of: (i) registered rights (such as patents, trade marks or registered designs) and (ii) unregistered rights (such as unregistered design rights, or copyright in, for example, academic journals or software).

Good management of IPRs is vital from the outset as a failure to do so could result in the inadvertent loss of potentially valuable IPRs. For example, the spin-out founders should take care not to publish or disclose a patentable invention before applying for a patent, as this may, in some cases, mean the inventor loses the right to patent that invention. This can quite often conflict with the academic need to publish results at the earliest opportunity.



Whilst not always strictly considered to be IPRs, trade secrets and confidential information are sometimes also addressed under the "IPRs" banner (although it is important to note that this kind of information is only as valuable as the owner's ability to keep it out of the public domain, usually through contractual obligations in the form of confidentiality agreements / NDAs).

Who owns the IPRs prior to the spin-out?

When embarking on the spin-out process it is vital to establish who owns the IPRs – whether it is the spin-out founder or the university. This will dictate who is able to protect and exploit the outputs of the research.

In the case of universities, ownership of IPRs will be subject to the terms in place between the university and the spin-out founders (in the academic or research associate's contract of employment or a post-graduate student's PhD agreement). The degree of ownership will vary between universities. In practice this will often mean that the university owns the IPRs generated during the course of the research project. It is good practice for the spin-out founders to check the scope of these contracts so that they are clear what IPRs belong to them (such as any research they carry out in their private time, or independently or beyond the scope of the research project) rather than to the university.

To spin or not to spin?

Whether the university and the researchers decide to go down the route of a spin-out will depend on a number of factors, including the management and industry experience of parties involved, the stage of the relevant technology's development and whether it is ready to go to market. In certain circumstances, it may be more attractive to license the technology to an established industry player than bear the risk of establishing a spin-out.

Spin-out – negotiating IPRs with the university

Where the parties decide to proceed with a spin-out, the spin-out founder should negotiate carefully the ownership and usage rights of the IPRs with the university's commercialisation department.

The allocation of IPRs on establishing a spin-out (as between the spin-out founders and the university) can be vital in its success. A spin-out that can establish clear ownership, or exclusive rights to use valuable IPRs will be attractive to potential investors.

The university's commercialisation department will usually have an IP policy which will dictate the tone of the negotiation. The policy (which can usually be found on the university's website) will be based on the university's desire to balance the exploitation expectations of the spin-out founders against the competing interests of public funding responsibilities and meeting its wider aims of stimulating the exchange and dissemination of academic ideas.

The ideal position for a spin-out founder would be for the spin-out to own the IPRs outright (the university may request the right to use the IPRs for academic research and teaching purposes only). The university are likely to ask for an ownership stake in the spin-out company to compensate them for this transfer of IPRs into the spin-out.

However, depending on its IP policy, the university may prefer to retain ownership of the IPRs. In this case, the spin-out founder should try and secure an exclusive right to use the IPRs (which may be in exchange for a licence fee payable to the university).

IPRs – other considerations during the spin-out process

There are other considerations to bear in mind during the spin-out process:

- **Timing.** The spin-out business plan should balance the competing objectives of aiming to exploit the IPRs as early as possible whilst waiting long enough to ensure that the IPRs have developed enough to be tangible enough for robust protection.
- **Ownership.** Ensuring that all relevant IPRs are correctly assigned or licensed to the spin-out company.
- **University's rights to the IPRs.** The university may wish to retain certain rights or include certain restrictions over ownership and/or use of the IPRs by the spin-out company, such as: limiting how the IPRs may be used (for example to prevent conflicts with the university's corporate partners); permitting the university to license or assign to other companies; limiting geographical regions in which the spin-out company can exploit the IPRs; or putting in place measures in the event the spin-out company cannot successfully exploit the IPRs.

- **Protection against IPR infringement.** It is important to ensure that the IPRs are capable of being protected against third party infringement and that the spin-out company has the ability to assert its ownership/ usage rights in the event a third party attempts to infringe the IPRs.
- **Investor considerations.** The spin-out founder should be clear on the impact of external investment. For example, if a subsequent investor takes shares in the spin-out company, this will dilute the spin-out founder's shareholding and therefore reduce the degree of control the spin-out founder has over the spin-out company.
- **Valuation of IPRs.** The spin-out founder should ascertain how the IPRs will be valued and ensure that the spin-out company's business plan is reviewed in conjunction with the valuation of the IPRs. This may inform how the university is remunerated (which could be one, or a combination, of taking shares in the spin-out company, cash payments or royalties).
- **Regulatory approval.** The spin-out company may need to obtain regulatory approval before it is able to use any assigned or licensed IPRs (for example, in relation to pharmaceutical products or medical devices).
- **Owner of subsequent IPRs / improvements to IPRs.** Ensure that the ownership of any subsequent IPRs or improvements to existing IPRs which are developed following the spin-out process are clearly identified.

Burges Salmon's BScale platform has been set up to service emerging technology companies and can assist founders beginning the journey of spinning-out their research.

Who to contact

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1. Please note that this is not an exhaustive list and only relates to IPRs. Spin-out founders will need to consider various other aspects of the spin-out process and may wish to seek advice on various topics such as tax (there are a variety of research-based tax incentives that may be applicable), corporate or employment law, both on a personal basis and for the spin-out company.