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Introduction

One significant aspect of the UC’s public service mission is to ensure that the results of its research are made available for public use and benefit. For over 45 years, UC has maintained an active and productive technology transfer program to encourage the development of commercial products and services based on UC’s academic discoveries. A few examples of products that have been commercialized from UCSB research include drugs to treat cancer and other diseases, cloud computing systems and energy-efficient light bulbs.

Given that University innovations are often basic research results from academic studies, they are far from being commercial products. UC is a nonprofit research university, not a company, and the UC does not directly commercialize its own research discoveries (UC does not manufacture products to a commercial standard). In order to assure our research is developed into beneficial products and services, the UC secures intellectual property rights, when appropriate, and then licenses those rights to companies in the private sector who develop commercially available products and services. When these innovations are disruptive or address an under-served market, often the best vehicle for bringing these innovations to market is a startup company.

This guide is intended to help university researchers, including faculty and students, understand the process involved in forming a company based upon a university innovation. Many innovations made at research universities fail to achieve their full potential because they require resources that lie outside of the university in order to do so. Starting up a company is one way for innovations to “graduate” from the University and take on a life of their own — while creating benefits to everyone who helped make that happen along the way.

This guide will also identify resources available at UC Santa Barbara (“UCSB”), in our local community and around the state of California that can help you develop a plan to go from where you are to where you want to be, and to address and understand topics such as how to analyze the business opportunity, external resources for startups; university licensing processes, and more. UCSB’s Office of Technology and Industry Alliances (TIA) is the department you would work with on all UC intellectual property and licensing needs your startup company may have.

See tia.ucsb.edu for more info.
Forming the Company

Launching a successful startup company based on university technology requires commitment, hard work, good timing and, at times, luck. Every successful startup has its own unique story, but some qualities are consistently seen in success stories: a compelling solution to a market need, a substantial market opportunity, sound competitive advantage(s), solid business and financial planning, and a strong management team.

There is no standard timeline for launching or growing a startup. Launch and growth both depend on multiple factors, such as the maturity of the technology, the acquisition of funding and other necessary resources, the market, and business trends.

The company founders will spearhead company formation and will be the key champions for the startup during its launch. In the beginning, the founders will need to complete several tasks in parallel: (a) secure rights to the technology from the University; (b) identify and research key commercial advantages; (c) develop a business plan; (d) pursue financing; and, (e) build a management team and advisors.

University researchers should carefully consider their potential role in the new startup company. Direct involvement in the company can be rewarding and offers a front row seat to the commercialization of the technology that the research group worked so hard to create. However, launching and sustaining an early-stage technology company takes considerable time and effort. Researchers who do not have the ability to commit significant time and effort or who want to focus on academic research may want to consider participating through advisory or consultant roles, with the company’s core business team performing the heavy lifting.

Regardless of the role played by the University researchers, it is critical to build a strong, cohesive management team that shares the same passion for the technology and the entrepreneurial journey. A startup company never launches smoothly. Your cash will run low, you may lose a critical employee, the market may not be what you anticipated, or you could lose a competitive battle or a key early customer. At these times, you will need a strong management team that has the passion (as well as the skills) to meet these challenges head-on.

ShadowMaps won the grand prize at the New Venture Competition in 2014 and was acquired by Uber Technologies in 2016.

While every startup is different, there are common steps to launching a startup company.

Network and Seek Input

Entrepreneurs should seek input and advice from as many experienced business people and potential customers as possible and listen carefully to the rationale behind conflicting viewpoints on similar issues. In an area as complex as launching a new technology company, no single advisor or mentor will have all the right answers or expertise. Further, as the company evolves, mentors and advisors often have valuable connections to funding and potential customers. Seek out networking events, trade conferences and personal recommendations to build a strong and diverse network of mentors and advisors.

As a starting point, a list of campus and regional networking opportunities can be found on TIA’s website at: tia.ucsb.edu/entrepreneurs.
Analyze the Business Opportunity

It is important to carefully and thoroughly analyze the potential business opportunity that can be created by building a company around your technology at the outset. A clear understanding of the opportunities and risks is essential to attract funding and talent to the company, as well as to make a go-no-go decision to invest the time and effort to launch a startup.

Soraa’s MR16 LED bulb. Soraa was founded in 2008 by UCSB professors Shuji Nakamura, Steven DenBaars, and James Speck.

Several key areas should be thoroughly researched and analyzed when building a business plan for a new startup:

1. **Is there a market for your product?** This is the most important question to answer – if you turn your technology into a product, will there be customers who will want to buy it? To answer this question, you must speak with as many potential customers as possible. Does your technology solve a problem they think they have? Is your value proposition strong enough that those customers will be willing to pay a sufficient amount for it? Have you identified the features and benefits that are most important to your potential customers? Once you have answered these questions to your satisfaction, you can move on to assessing the market size.

2. **Market Size, Dynamics and Potential.** What is the market size? Is it growing, stable or shrinking? When analyzing the market size, it is important focus on the addressable market that the product will specifically benefit. For example, the addressable market for a new high power, extremely bright LED bulb is not likely to be the entire lighting industry, but may rather be automotive headlights or stage lighting etc. Also consider whether the market is controlled by few or many industry players. How will your company break in? Of the addressable market, what share can be obtained by your company?

3. **Competition.** Now that you have identified/assessed the market size, the next step is to understand your competition in that market. Are there products already in the market that address the same general need? If so, how is your technology better? Are there other companies that are developing technology that would directly compete with yours? If so, what is the stage of development and how is your technology better?

4. **Intellectual Property Protection.** Your intellectual property should give you a competitive advantage over your competitors or should create a barrier to entry by future competitors. Based on your understanding of the market and your competitors, what is the best form of intellectual property protection for the technology? Is broad protection possible to secure? Are any key intellectual property rights owned by someone else? If so, how will the startup acquire the necessary rights or re-design the technology to assure “freedom to operate”? Can the company employ multiple forms of intellectual property rights, such as a combination of patents, trademarks, copyrights and, later in the company’s development, trade secrets, to strengthen and supplement protection of its products and services? Some form of strong intellectual property rights is essential to prevent competitors from copying a technology startup’s products and services.

5. **Development Needs/Risks.** What research and development will be needed to get the technology ready for commercial sales? Are any regulatory approvals required? If so, what
is the history of similar products obtaining approval and what is the risk that the approvals will not be secured? What are the key development milestones? How long will it take to achieve these milestones and how much funding is needed to achieve them? What are the development risks, including full failure points, and how do you anticipate mitigating these risks?

6. Return on Investment. Based on the amount of funding required to develop the technology for commercial sale, is it possible for investors to achieve their necessary rate of return? Please note that different funding sources have different needs when calculating their necessary return on investment. For example, the federal government would not expect any return on investment when awarding a grant. In contrast, venture capital firms each have a return they seek to achieve, which could be as high as 10x the invested funding. The required return on investment can vary, so it is important to research individual investors, when possible, in addition to market standards.

Develop Materials to “Pitch” Company

After the analysis of the business opportunity is complete, the startup company will need to develop clear, concise materials that communicate the value of the company and the business opportunity. The presentation materials should be updated as conditions and strategies change, which will likely be often. These materials will be used in many ways: for negotiating a license with the university, raising funding, and attracting talent to the company, to name a few. Investors will rarely hold advanced degrees related to the technology, so presentations should be understandable by the educated layperson and should not assume that the audience has any particular technical or scientific experience. The most important materials to develop are:

1. Elevator Pitch. An “elevator pitch” is a concise, carefully planned, well-practiced and compelling description about the company that a non-technical layperson should be able to understand in the time it would take to ride up an elevator (approximately 30 seconds). An “elevator pitch” that is well-known by the founder(s) and management team is essential, as funding opportunities may arise in informal settings where it is essential to hook an inventor’s interest quickly, for later follow-up.

2. Slide Deck. The slide deck should present the key, compelling points of the business plan, typically containing no more than 20 slides, plus backup slides, that can be presented in 20 minutes. Many investors will give you no more than 30 minutes for a first meeting, so you need to be able to grab their interest quickly and leave time for questions. The goal of the presentation is to generate enough interest to generate a follow-up meeting.

3. Executive Summary. An executive summary is a 1-2 page (maximum!) document that represents a summary of who your company is, what you are trying to accomplish, the basics of your value proposition, etc. – essentially, a summary of everything you would find in a formal business plan. This document is often used as the first opportunity to grab a potential investor’s interest, so it should highlight the company’s strengths.

4. Formal Business Plan. Some investors and university license programs will require the submission of a formal business plan. The formal business plan is a written document that more thoroughly presents a startup company’s business opportunity analysis, demonstrating the startup’s potential. The business plan should address what investors want to know most: why the technology is compelling, it’s competitive advantage, the market size/potential, sales strategy (pricing, product distribution, and marketing strategy), product development timelines/
Pursue Investors/Funding

Commercializing technology can be a capital-intensive process. Entrepreneurs need to raise funds from investors and other sources to make it happen. Research each funding source carefully before pitching to them to confirm a match with your interests and needs and be sure to adjust your pitch to address each investor’s interests. Investors and grant programs will typically focus on specific markets or will provide funding only at certain stages of the company’s lifecycle. If your company does not match an investor or other funding source’s interests, there is little chance of attracting an investment.

Luckily, the state of California has a rich history of housing good sources of investment in early-stage technology companies. Common sources of early stage funding for a startup company include:

- **Friends and Family.** During the earliest stages of company formation, entrepreneurs often use their own funds, or funds provided by friends and family, to get the company off the ground. A “friends and family” round can provide critical seed funding. However, take care to assure that what the company provides in exchange for the funding will not unduly interfere with future funding opportunities.

- **Angel Investing.** Angel investors are typically affluent individuals who have a personal interest in funding new companies. They are often willing to invest at earlier stages than venture capitalists, often with smaller amounts of funding in exchange for equity positions. The best angel investors for your company are ones with ties or direct experience in your market or industry, who can offer your start up more than just money. Some angels will form into groups to share research, vet opportunities and pool investments. These angel groups or networks allow your company to pitch many angels at the same time.

- **Venture Capital.** Typical venture capital firms (VCs) invest after the seed funding round (i.e. during Series A, B or C) in exchange for an equity stake in the company. VCs raise substantial funds from other sources, such as institutional investors, and then invest the funds in high growth potential companies. VCs are typically hands-on, interacting with the startups’ management team and will often help locate and place senior management into the startup. VCs also typically requires a relatively high annualized return on the funds used to make investments.

- **Strategic Investors (also called Corporate Venture Funding).** Many large companies have venture arms that invest in startups. These can be a good source of funding because the corporates usually invest in companies who would make good business partners for them. For example, they might invest in a materials startup that could then supply them with better materials for their products. These investors are not always looking for a high return on their investment, but they are always seeking what would be
in their best interests. Be wary of strategic investors whose interests may not be aligned with your company’s.

- **Government/Nonprofit Grants.** In some markets, it is becoming increasingly common for startups to secure government or nonprofit grants to help fund initial product development. The most common funding mechanisms are the U.S. federal government’s SBIR and STTR grant programs. However, depending on the technology area, federal agencies will award grants through other programs. Many nonprofit foundations, particularly those focused on medical issues, also have emerging technology or startup grant programs. Government and nonprofit funding can be attractive because it is often “non-dilutive,” meaning the company does not need to give any equity in exchange for the funding, but they do often require a higher degree of administrative effort. Note, however, that there is an emerging trend in non-profit funding where these foundations sometimes require equity in exchange for grants, but U.S. federal funding is always non-dilutive.

- **Organic Growth (“Bootstrapping”).** If a startup is in a position to release an initial product fairly quickly, it may be able to grow organically, based on sales or joint ventures with partners, without the need to raise any external funding. When bootstrapping is feasible, it can be attractive for founders since it is non-dilutive and founders usually retain more control over the company. However, a company is likely to grow more slowly and could have more resource constraints when a bootstrapping strategy is employed.

A cautionary note: VC funding sometimes has a bad reputation among entrepreneurs, however, as with all areas of business, there are good partners and bad partners. Again, it is very important to research your potential investors before taking their money, no matter which funding type. Talk to other entrepreneurs who have worked with them and research their reputation online.

**Presenting to Investors**

Investors listen to pitches constantly, and each investor will only invest in a very small percentage of the companies who pitch to them. When evaluating an opportunity to invest, the investors will first determine if the startup meets their strategic and financial goals and if the company fits into their current portfolio of investments. Investors will often invest only in specific markets, or at specific stages of a company’s lifecycle, so it is important to research an investor before approaching them for funding.

Investors invest to make profit. When evaluating a company, investors are not only evaluating the company’s potential for success, but also how they can recoup their investment, with an appropriate return. Many investors, such as VCs, need to recoup their investment within time frames that are relatively short (i.e., 5-7 years), either through an initial public offering (“IPO”) or through a merger & acquisition (“M&A”). If so, the investor will also analyze whether an exit is possible during the ideal time frame. When preparing to present to these investors, it is helpful to think through reasonable exit
strategies and how much additional funding will be needed to get to exit.

When scheduling a meeting with an investor, be clear about its purpose. If you wish to meet with an investor for informational or exploratory purposes, make sure the investor understands your intent. If you are meeting to request funding, make sure the presentation team is thoroughly prepared. If the team is not fully prepared or does not have a strong grasp of your startup company’s business analysis, subsequent meetings (and funding) are unlikely.

The presentation should be interesting, engaging and concise. The use of examples to help illustrate the business’s potential can be highly effective, as are product prototypes. If potential customers or partners have provided feedback, include representative samples of that feedback. If investors ask a question, provide an accurate answer or promise to follow up soon.

Practice your presentation in front of more experienced entrepreneurs or mentors to obtain their feedback. The questions they raise are likely to be asked by the investors, as well.

Other Resources for Startups

Incubators, accelerators, and hackspaces are terms you may have previously heard. California hosts many incubators, accelerators and hackspaces to help technology companies get started, and different regions have different specialties. These facilities can reduce the time and cost from conception to company launch. Incubators and accelerators can also provide affordable work space, referrals to service providers (attorneys, accountants, etc.) that understand how to work with startups and a gateway to the local entrepreneur community for building your network of mentors and advisors.

Most regions of California also have entrepreneur organizations that host public events, such as lectures by successful entrepreneurs, business training and workshops, and other networking events. These events can provide a valuable way to connect to the local entrepreneurial ecosystem and some much-needed information.

A list of incubators in the Santa Barbara region, as well as local organizations that sponsor entrepreneurial events, can be found on TIA’s website at: tia.ucsb.edu/entrepreneurs.

Pitfalls

Launching a new company is a high risk endeavor. While many startups are successful, unfortunately, the failure rate can be high. Some common challenges that can cause early-stage startups to fail are:

- **Technology does not meet a compelling commercial need.** Sometimes, the science is brilliant, innovative and cutting-edge, but it does not address a critical commercial need. Other times, the existing solution in the marketplace may be “good enough,” despite its flaws, so the market is not driven to embrace further, unknown innovation.

- **Inexperienced Management.** Launching a startup is difficult, requiring multiple skill sets. Decisions and deals made early in the company’s life cycle can affect the company’s health and opportunities for a long time to come. A strong, experienced, cohesive team is necessary for a startup to succeed. It is important for an inexperienced founder to build a strong initial advisory board to help navigate the company through early challenges.
complexities and be prepared to cede control to more experienced management as the company grows. Problems can also arise if the initial founders, new management and the investors do not share the same vision.

- **Lack of Funding.** A startup needs sufficient capital to develop a robust commercial product, secure a strong intellectual property position and obtain any necessary regulatory approvals. To attract and acquire sufficient capital, the startup company needs to have a solid business analysis that accurately forecasts the total funding needed to get the product to the marketplace.

- **Timing.** Even when a strong commercial need exists, a company can miss its “window of opportunity.” Sometimes, the market is not ready for the product (i.e., it’s too early or too expensive). Sometimes, in the time it takes a startup to bring a product to market, the need has already been filled by a different technology or by a competitor that leapfrogged over the startup company’s technology with the next generation.

- **Niche product.** The initial market may look large and promising, but over time, the addressable market becomes much smaller and, as a result, the company cannot meet its financial targets.

- **Bad Luck.** Even the most successful and experienced entrepreneurs will sometimes fail due to events outside their control.

### Licensing from the University

Because the University must locate research funding from a variety of diverse organizations, often, the university will owe intellectual property obligations to the research funder whose terms must be included in a license agreement. The most common source of research funding is the U.S. federal government. The U.S. Bayh-Dole Act, which grants universities title to the patentable inventions they create under a U.S. federal grant or contract, requires the university to manage federally-funded intellectual property in accordance with certain rules. For example, Bayh-Dole requires universities to grant a non-exclusive license to the U.S. federal government for its own use, distribute a portion of net revenues to inventors and, when the university issues an exclusive license to a federally-funded invention, it is required to assure the license contains commercial diligence terms, “preference for U.S. industry” conditions, and march-in rights of the U.S. government. The university is legally bound to include any terms in its licenses that were licensing-related conditions of the funding used to create the intellectual property.

There are several different forms of licensing arrangements that can be explored by a startup company:

1. **Letter Agreement.** A letter agreement is a simple, one to two page agreement, in a letter format with minimal “legalese,” where the university promises to negotiate the terms of a license with the startup company for a short period of time (3-12 months, depending
on campus practices). In exchange, the company typically reimburses certain patent costs incurred by the university for the licensed invention and will pay a one-time, relatively modest fee. A letter agreement can be an effective tool to secure access to a patent or copyright while the company is forming, seeking initial funding and conducting a detailed analysis of the business opportunity.

2. **Option Agreement.** An option agreement is a legal contract that allows the startup company to exercise a right to obtain a license at any time during a fixed time period. The term of an option is typically 1 – 3 years, depending on circumstances. The standard terms for an option agreement are an annual fee (with the first fee due upon signing the agreement) and reimbursement of certain patent costs incurred by the University for the licensed inventions. An option agreement is a good mechanism to employ if the startup company is ready to commit to the development of the technology, but the precise business model, profit margins and other financial details are not yet predictable. It is also a good mechanism if the startup company does not know how the optioned technology will ultimately fit within its product line. Because the option agreement is an option to secure a license, but not itself a license, the optionee is not granted the right to sell products or services or issue sub-licenses, but is granted the right to use the intellectual property internally and even engage in various product development activities.

3. **License Agreement.** A license agreement grants the startup company all of the rights necessary to sell commercial products. It typically lasts for the life of the patent (although it can be terminated by the company at any time, upon notice). The terms of license agreements vary widely, as each agreement is customized to reflect the specifically anticipated products and market, the development stage of the company and the technology being licensed, and the role of the licensed intellectual property. The UC follows industry norms when developing financial and business terms and has “comparables” from thousands of university licenses within the UC system and across the U.S. and Canada. There are several standard terms for license agreements that are important to understand:

   i. **Earned Royalties.** Earned Royalties are generally a percentage of net sales and are negotiated as part of the license agreement. Rates depend on a variety of factors such as the value of the invention, the cost of commercializing the invention, profit margins, and whether the license is exclusive or nonexclusive.

   ii. **Annual Maintenance Fees/Annual Minimum Royalties.** Annual fees, in set amounts listed in the license agreement. Once the licensee introduces commercial products, the annual fees become a minimum annual royalty and are creditable against earned royalties owed by the licensee to the UC. For example, if a licensee paid a minimum annual royalty of $10,000, but sells products that generate $12,000 in earned royalties to UC, it pays only an additional $2,000 to the UC, the amount that the earned royalty exceeded the minimum annual royalty.

   iii. **Patent Cost Reimbursement.** The licensee is required to reimburse the UC for the costs of securing the licensed patent rights.

   iv. **Sub-licensing Revenue.** If the licensee authorizes others to use the licensed patents, the UC requires that the sub-licensee pay royalties at the same rate as the licensee on the products sold by the sub-licensee. If the licensee receives any fees or other payments in exchange for the sub-license of UC’s patents, the UC must receive a share of that revenue.
v. Development Milestones. As discussed above, the UC licenses intellectual property rights to companies so that University innovations can be actively developed into products and services that benefit the public. To assure the company is actively developing products and services, key product development milestones are placed in the license agreement with deadlines for meeting them.

vi. Equity. Startup companies face the combination of high developmental costs and risk, uncertainty as to the potential value of the technology, and are “cash-poor but equity-rich.” Small and startup companies may find it particularly difficult to commit significant cash outlays for both R&D and licensing costs. Accordingly, the University may accept equity in a company as partial consideration for technology licensing-related transactions. The decision whether to offer equity is the company’s to make – the UC does not require equity in exchange for a license.

vii. Milestone Payments. At times, when flexibility is needed, UC is able to agree that certain fixed fees will be paid upon the achievement of specific milestones, such as first commercial sale or initiation of the first Phase I clinical trial. These milestone payments, which occur over the life of the license, can sometimes be used to reduce the level of the licensee fees paid in the first years of the company’s life.

A Word about UC Policies

When a company is formed around University technology, it should be aware of any relevant UC polices. We recommend that all startup companies meet with a TIA licensing professional to identify and discuss any policies that may potentially apply to its contemplated activities. While many different policies may be invoked, the following policies are the most commonly relevant:

- **Use of University Facilities/Resources.** The University of California is a public institution, heavily subsidized by the state and federal taxpayers and tasked with the performance of academic and scholarly research. Private companies are not allowed to directly use or access University resources unless the University has specifically identified that resource as available for use by external users. If a startup company wants to directly access UCSB’s research infrastructure for its own projects, it can do so by using one of the many shared research facilities that are set up as available for external use. Additionally, many campuses, including UCSB, have on-campus incubator space where startup companies can lease offices and basic lab space.

  If the company is interested in having a UCSB researchers conduct a research project for the company, it can either provide funding as an unrestricted gift or through a research agreement. While the UC will be required to own any resulting intellectual property developed by its employees, if the funding is provided through a research agreement, the agreement typically includes the ability for the sponsoring company to secure a license to any intellectual property developed by UCSB while performing the research project. Please note that UCSB, as a scholarly institution, is not allowed to undertake projects of a “commercial or routine” nature. There must be some academic research value to the research that is undertaken.

- **Permissible Consulting by Faculty.** The University is unique from other employers because it allows faculty to engage in certain “permissible” consulting activities. The company may own any intellectual property developed by faculty during permissible
consulting activities, as long as those activities meet certain criteria and comply with all applicable UC policies. However, if the policies and criteria are not followed, the University may be required to assert an ownership interest in the intellectual property. The University of California’s Guidelines on Faculty Consulting and Intellectual Property provides a helpful explanation of the policies applicable to faculty consulting.

- **Conflict of Interest in Research.** To protect against the appearance of bias in research, state law requires that if a UCSB researcher desires to accept research funding from a for-profit company, and he or she has any financial interest in that company (through, among other things, being a paid consultant, serving on the board or as a corporate advisor, or holding equity), the researcher must disclose the financial interests to UCSB, which are then reviewed by UCSB’s conflict of interest committee. If the financial interests are significant, the researcher may be required to follow certain management conditions to protect against the possibility of research bias or, in more extreme cases, will not be allowed to accept the funding if the conflict is deemed “unmanageable.” If a startup company anticipates funding research at UCSB, and the research will be performed by any UC employee that has a potential financial interest in the company, then the startup and/or the affected researcher should discuss the potential interests with the UCSB Conflict of Interest Coordinator to assure problems won’t be created down the road.

- **Conflict of Interest in Licensing.** If one or more of the University inventors have a financial interest in a startup (stock, employment, consulting commitments, etc.) and want to either negotiate the license agreement directly with TIA (i.e., be “across the table” from TIA), or desires to influence TIA regarding potential licensing terms, then the University of California’s policy on Conflict of Interest in Licensing will need to be followed (patron.ucop.edu/ottmemos/docs/ott01-02.html). Since many UCSB inventors retain an employment relationship with UCSB during the startup company’s formation, TIA strongly recommends that inventors ask an individual who is not affiliated with UCSB to conduct negotiations in order to preserve campus relationships and eliminate potential delays caused by implementing the policy’s requirements. The unaffiliated individual is most often an attorney representing the startup or a member of the management team that is not employed at UCSB and often has past experience negotiating license agreements.

- **Use of UCSB Name and Logo.** As a public, state entity, the University of California is prohibited from endorsing any specific company, product or service. As a result, the use of the University of California names and logos are restricted and cannot be used to imply, directly or indirectly, that the University supports, favors or endorses your commercial products. If a faculty member is involved in your company, it is appropriate to identify them as a professor at UCSB as long as the statement is factual and does not imply endorsement by the University.

### UC SANTA BARBARA

**Frequently Asked Questions**

**How much does a license cost?**

Valuing a license depends on many factors, including, 1) the type of IP being licensed (patents v. copyrights); 2) the scope of the rights being licensed (exclusive v. non-exclusive); 3) the territory: (worldwide v. U.S. only); 4) the field/market area of the license; 5) the anticipated product; 6) market size; and 7) the company’s business model. Additionally, the financial consideration is viewed as a whole. For example, a typical exclusive license will include an upfront
fee, equity, maintenance fees, milestone payments, an earned royalty on sales of products and reimbursement of patent costs. If earlier fees/milestone payments are lower, later fees/payments may be higher. UC’s philosophy is to make the initial fees low enough that they don’t provide a barrier to entry while they do demonstrate the commitment of the licensee to develop the IP into useful products.

Do I have to give the UC equity?

No. Giving equity to UC as partial consideration for the license is an option that many startups choose to make in order to conserve their cash for research activities, product development and development of its intellectual property portfolio, which may be important for future investment opportunities. However, UC does not require owning equity in its startups and some companies prefer to pay cash for the license. When the company and university agree on an equity component in the license, UC is restricted in the amount of equity it can hold. UC also does not take a seat on the board, so the startup can be assured that the university will not take an active role in managing the company.

What if I’m not ready to enter into a full license?

A variety of agreements are available to serve the particular needs of the company at different stages of its growth. Initially a Letter of Intent may be sufficient. This type of short-term agreement provides for an exclusive negotiation period in exchange for limited financial consideration to the university. This allows the startup to do any necessary due diligence around the IP and business opportunity, to refine its commercialization plan and to negotiate the license without being concerned that another party will also be negotiating with the university. An evaluation license or option provides the company with the ability to conduct more in depth due diligence, including evaluating how the technology works in the company hands or performing proof of concept experiments to confirm the viability of the company’s plans.

TIA can meet with you and explain the different licensing arrangements to help you determine the best fit for your company based on its current circumstances.

How long does it take to negotiate a license?

The time to negotiate is highly variable and can take from a few weeks to several months depending on the degree of license customization requested by the company. Typically, a brief term sheet focusing on the scope of the license and financial consideration is negotiated first. This is followed by negotiating the language in the legal license agreement that incorporates the terms in the term sheet and addresses such matters as patent prosecution and infringement, reports, use of names and warranties and indemnification. While UC is willing to work extensively with a startup to understand its business plan and to craft an agreement that gives the company the best chance to succeed, there are certain provisions that, as a university, we have limited ability to negotiate. A startup can reduce the amount of time it takes to negotiate a license by discussing upfront with the licensing office those terms for which there is little, if any, ability to modify. Negotiations are also facilitated when the company has a reasonably detailed commercialization plan soon after it first approaches the university and before full license negotiations begin. If the company is engaging legal representation, selecting an attorney that is reasonably familiar with University licensing practices will also help. Letters of intent and option agreements are generally quicker to negotiate than a full license agreement.

What happens if my company develops IP?

It is anticipated that, during its research and development activities, a company will develop new IP that is distinct from the in-licensed UC IP. If the new IP is generated independently by the company without university resources or university employees, the company will usually own the IP. If university funds, facilities or employees were involved in generating the IP, the
University is likely to have an ownership position in the IP. This ownership may be shared with the company should company employees who have not used university resources be co-inventors or co-authors. As a company matures, it is likely to have a blend of UC-owned, company-owned and jointly-owned IP in its portfolio.

**If a faculty member participates in the company and develops IP, does the UC own it?**

UC faculty are permitted to engage in certain outside professional activities, including consulting for companies. Companies are able to own intellectual property developed by UC faculty during permissible consulting activities that comply fully with applicable University policies. To learn more and to discuss best practices, please contact a licensing officer at TIA, or review the University of California's Guidelines on Faculty Consulting and Intellectual Property, available at: tia.ucsb.edu/about-tia/forms.