



UNIVERSITY OF
PORTSMOUTH

Spin-out company formation guidance

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Spin-Out Company Formation – Knowledge Transfer Guidance Document

One of the University's four headline aims is 'To promote the discovery, development and application of knowledge through high quality research'. In working towards accomplishing this aim, University employees will extend current knowledge and produce innovative and novel concepts, which may give rise to commercially viable inventions and propositions.

This document addresses one potential avenue for commercial exploitation of University inventions and business concepts and is designed to guide staff through the process of setting up a 'Spin-Out' company. This document should be read alongside the University of Portsmouth Intellectual Property Policy : <http://policies.docstore.port.ac.uk/policy-090.pdf>

Further information, guidance and support for University staff is available from Research and Innovation Services: <http://www2.port.ac.uk/research/ris/>

This document should be read in conjunction with the University's Declaration of Interests Policy: <http://policies.docstore.port.ac.uk/policy-104.pdf>

1. Definitions

In this document the following words, acronyms and phrases shall have the meanings attributed below:

'Income' means income actually received by the University (or one of its wholly-owned subsidiary companies) upon exploitation of Intellectual Property (e.g.royalties, up front payments, sale of equity, traded rights or dividends) after deduction of identified costs including, but not limited to: legal costs and fees, Intellectual Property Rights costs (including official fees, agent fees), the recovery of loans to the project (including contingent repayable loans due to a third party). For avoidance of doubt, 'Income' as defined in this document, shall not be deemed to include consideration in exchange for research, services or facilities.

'Intellectual Property' (hereinafter 'IP') means any inventions, designs, information, know-how, specifications, formulae, data, processes, methods, techniques, and other technology that are conceived, or developed by the University, and its Staff, alone or jointly with others and the Intellectual Property Rights therein.

'Intellectual Property Rights' means any patent, registered design, copyright, database right, design right, trade mark, application to register any of the aforementioned rights, trade secret, right in unpatented know-how, right of confidence and any other intellectual or industrial property right of any nature whatsoever in any part of the world.

'Spin-Out' means a private limited company, incorporated for the purpose of exploitation of IP owned by the University.

'Staff' shall mean all employees of the University and its subsidiary companies, including part-time staff, acting in the course of their employment and all other individuals to whom the University's Intellectual Property Policy applies.

'Staff Founders' means Staff with inventions and/or business ideas, who wish to establish and (at their option) to hold equity in a Spin-Out.

'R&KTS' shall mean Research and Knowledge Transfer Services department of the University's central administration, or such other service department as nominated by the Vice-Chancellor's Office from time to time, for the purpose of managing the process and procedures relating to University knowledge transfer.

2. Developing the Spin-Out proposal

Appendix 1 outlines an action plan for activities which should be undertaken by Staff Founders who wish to form a Spin-Out.

Staff Founders are encouraged to approach R&KTS at an early stage, in order that advice may be given on potential routes to commercialisation and protection of any commercially viable IP. Where a potential Spin-Out opportunity is identified, R&KTS staff will work closely with the Staff Founders to develop an exploitation/business plan, which will present clearly the business opportunity. R&KTS may be able to assist with applications for proof-of-concept and market research funding and to signpost sources of external expertise and advice, in order to facilitate due diligence and to work up a detailed proposal. Such detailed proposal (business plan) should include the following information:

- i) Details of the product/service offering
 - What will the company sell and where will the products be sourced/developed?
 - What is the background to the invention/business proposition; what has contributed to its current development in terms of funding, resources, etc?
 - What IP will the company need access to now and in the future (pipeline)?
- ii) Target market(s)
 - What is the target market, estimation of market size, who are the potential competitors?
- iii) Route to market
 - How will the goods/services be sold?
- iv) Outline business projection
 - What are the expected sales, margin, overheads and cash investment requirement for the first two years?
 - What access to incubation facilities will be required?
- v) Spin-Out personnel and management
 - Who will manage and direct the company?
 - What will be the roles of the Staff Founders?
 - Who will be responsible for product development, sales and marketing, finance and accounting, company legal documents?
 - Will the company have any employees?
- vi) Investment
 - What level of initial investment will be needed to develop the invention/business opportunity?
 - Who are the (potential) external investors/where will funds be sought?
 - What equity is offered to the University and Staff Founders?
 - Are there any non-equity holding inventors, who will need to be rewarded through royalty sharing mechanisms?
- vii) Risks
 - What are the major sources of risk/uncertainty? – including technical, academic competition, commercial competition, management and financial risks.

In addition, Staff Founders must consult with the relevant Head(s) of Department and/or Dean(s) to gain formal confirmation of their support for the release of staff time and resources, and in order to manage any potential conflict of interests that creating a Spin-Out may create for individuals working in a related field to the Spin-Out company.

3. University considerations

The University will consider supporting the formation of a company for the purpose of commercialising University Intellectual Property. This route may be adopted in preference to licensing the invention to an existing and established company, for example in circumstances where:

- there is no obvious pre-existing licensee or no existing market;
- the opportunity is very early stage and requires significant investment to develop;
- there is a realistic prospect of a good financial return and of significant company growth;
- the Staff Founders have aspirations and a high level of personal commitment to form a company and for greater control over exploitation of the invention that this affords;
- the invention/technology needs to be strengthened through in-licensing to form a portfolio of IP;
- the business of the Spin-Out is not to directly compete with services that could be otherwise provided through the University's own research and consultancy routes.

The merits to take forward a Spin-Out company will be considered on a case-by-case basis and according to a detailed assessment of: future commercial and technical potential of the IP; prospects for growth and added value through utilisation of a company vehicle; the level of commitment and resources necessary to achieve commercial success; the potential exploitation benefits, including reputation and outreach benefits for the University.

4. Staff Founder considerations

Potential Staff Founders, particularly research and teaching staff, should give serious consideration to the level of commitment and personal responsibility required to participate in a business – particularly the legal liabilities attached to becoming a director of a company. There are many aspects of company formation which require current and in-depth legal, taxation, accountancy and financial expertise which should be obtained only from appropriately qualified and regulated professionals. R&KTS staff, whilst experienced in commercial matters and company creation, are not approved or regulated to give legal or financial advice and **Staff Founders are strongly advised to obtain independent professional advice, relating to their proposed directorships and equity holdings in any Spin-Out company, prior to incorporation.**

5. Equity and University investment

The initial investors in any Spin-Out will include the University and the Staff who have devised the invention/business concept. The University's investments are generally both retrospective and prospective. Retrospective investments include: the IP itself and the effort expended and resources utilised in creating that property, investments in IP protection and legal costs, access to proof-of-concept funding. Therefore, the University would expect to be a significant shareholder in any Spin-Out company in exchange for the resources and permissions granted to the company.

In accordance with its policy, the University recognises the valuable contribution, which Staff, Faculties and Departments make towards achieving the University's knowledge transfer mission and towards the successful exploitation of University IP and potential subsequent Income generation. Whilst it is not obliged by law to do so, the University's policy is to financially reward Staff Founders by offering an equity stake (shares) in the company. Staff Founders may alternatively opt for or be offered to share instead the Income realised by the University through its equity holding.

The usual starting point for the division of equity between the Staff Founders and University, based on retrospective investments, would be expected to be equal, i.e. 50:50; with Income from the 'University' share being distributed to the Faculty and Department upon realisation¹. The precise division of equity would also need to take into account any equity being held in trust by the University for others (e.g. Staff Founders not participating in equity) and any external (third party) involvement in the generation or development of IP (e.g. external research funding, contingent repayable proof-of-concept loans, inventors/contributors who are not Staff, Seed Funds, etc.).

Future investments of the University towards the Spin-Out may include: provision of incubation facilities and services, in-kind contributions, release of staff time and access to Seed Funds. Much of the prospective investment is made by the host academic Department/Faculty, therefore Staff Founders wishing to proceed with a Spin-Out company must have the full support of their Department/Faculty before seeking formal University consent. This support is additionally required so that there is full and proper recognition of the impact on individual staff commitments, as well as for any departmental facilities and other resources that may be called upon. The arrangements between the Spin-Out and the University in terms of access to facilities and services will be the subject of contracts between the University and the Spin-Out company, as with any commercial entity wishing to access University resources.

Following formation of the Spin-Out and as the company grows, it would be expected that the company would be required to issue more shares to attract financial investors (Seed Funds, Venture Capital, etc.) and personnel (management, directors, employees share options, business angels, etc.). Each time further shares are issued, the initial founding shareholders would expect to see their shareholdings diluted, but the company valuation and hence the share value may increase.

6. University approval

Formal University approval to form a Spin-Out must be granted by the Board of Governors acting through its Finance Committee. Such approval will be made only in response to the submission of a completed formal request pro-forma (Appendix 2) produced by the Staff Founders in conjunction with R&KTS and accompanied by written confirmation of the support of the relevant Head(s) of Department, Dean(s) and Directorate. R&KTS must approve the content of the formal request and will submit the proposal to Directorate and to the Finance Committee for consideration.

The Finance Committee may seek advice from others (including external advisors or consultants) with relevant technical and commercial expertise to assist with assessing the Spin-Out proposal. In reviewing and approving the Spin-Out proposal, the Committee will also agree any conditions under which the Spin-Out will be incubated whilst it remains within the University and acceptance of the proposed equity split between the University and Staff Founders. These terms and conditions will be set out in a memorandum by the Finance Committee before any steps towards incorporation of a company are implemented.

¹ Cumulative Income shall be further distributed to Faculties and Departments which have contributed towards the development and exploitation of IP, in accordance with the University Intellectual Property Policy.

7. Spin-Out documentation

Formal legal documents will be required in order to establish inter alia the shareholding, nature of the company's business and directorships of the company. R&KTS will facilitate, through the appropriate officers of the University (e.g. Contracts and IPR Manager) and through the University's external legal advisors, drafts of the following documentation, as required:

- Heads of Agreement
- Shareholder Agreement (and formal Share Certificate* issued to the University)
- Technology Licence Agreement (including any pipeline provisions)
- Services/Facilities Agreement
- Director's Service Contract*
- Memorandum and Articles of Association*

*These documents are usually supplied by the company's own legal advisors.

8. Performance monitoring

The University will normally nominate a director or an observer to sit on the Board of the Spin-Out who will report at least annually to the Finance Committee on the progress of the company. The books and accounts of the company will be made available to the University upon reasonable request and the Spin-Out is expected to maintain robust financial practices. The University also reserves the right to undertake formal reviews of the company's progress towards its proposed objectives. The University reserves the right to withdraw support if the Spin-Out does not meet the performance targets agreed by the University from time to time.

Appendix 1

Spin-Out Activity Plan

1. Contact R&KTS (Contracts and IPR/Sector Manager) with the opportunity

Successful knowledge transfer requires a team approach between the Knowledge Transfer Services department and the academic staff member/originator of the idea or technology. R&KTS staff have delegated authority and the necessary skills and experience to work with staff who wish to Spin-Out and guide them through the commercialisation and internal approvals processes. Staff Founders must be engaged fully in this process and provide all of the necessary assistance to R&KTS, in order to properly evaluate the opportunity and to seek potential licencees and/or investors.

2. Complete an IP Disclosure Form

The IP Disclosure Form records important information about the idea or technology, including the individual contributors/inventors, external research sponsors and publications (past and planned). The Contracts and IPR Manager will work closely with the Staff Founder to evaluate the idea or invention and if applicable, to decide on the most appropriate form of IP protection and commercialisation strategy.

3. Evaluate the opportunity

The Contracts and IPR Manager will meet with the researcher(s) to discuss the invention and make a preliminary evaluation of feasibility, novelty, potential applications and possible markets. Where applicable, a patent search will be undertaken to define the scope and novelty of the idea. The R&KTS team and Staff Founders will also draw on their knowledge of the market (literature and industry contacts) to ascertain the potential market(s) for the idea, potential licencees and competitors.

4. Carry out proof-of-concept and/or market assessment

If the idea is at an early stage and/or insufficient information is known to properly assess the market and/or identify exploitation opportunities, R&KTS will work with the Staff Founders to identify sources of funding for proof-of-concept and market assessment work, in order to strengthen the intellectual property and exploitation prospects.

5. Prepare an exploitation/business plan

The Staff Founders and R&KTS will use the results of their evaluations and any proof-of-concept work to formulate an exploitation plan. If there are strong reasons for forming a new company to exploit the technology (see 'University considerations', above), then a preliminary business plan may be prepared.

6. Complete 'Request for Approval of Spin-Out Company' pro-forma

Once the discussions between the Staff Founder and R&KTS have led to a consensus for the formation of a Spin-Out as the preferred route to commercialisation, the attached (Appendix 2) should be completed. Signatures of support must be obtained from the Department and Faculty, as well as the Head of R&KTS. The pro-forma will set out the case for 'spinning out' and the proposed equity holding of the University, Staff Founders and any external parties/investors, which have been involved in the development of the opportunity.

7. Obtain University approval

Prior to incorporation of the Spin-Out, formal approval to the 'Request' must be received from Directorate and the Finance Committee.

8. Prepare company documentation

R&KTS will assist in the preparation of formal documentation, once University approval has been received from the Finance Committee. The company can then be incorporated.

Appendix 2

Request for University Approval of a Spin-Out Company

FAO: Directorate/Finance Committee

Re: Project/Proposed Spin-Out Company Name

Finance Committee, in accordance with the University's IP policy, is asked to approve the formation of a private limited company; in which it is proposed that the University will hold equity, in exchange for granting the company rights to commercially exploit University intellectual property.

1. Background

[What University IP, expertise or service is the proposed Spin-Out company based upon?]

2. University support

[Give details of University funding or other resources that have been used to develop the project to date and any future commitments.]

3. External investment/support

[Give details of any external support or investment to date.]

4. Benefits

[What is the benefit to the University and how does this relate to the strategic objectives? Why is a Spin-Out preferred to any other licensing arrangement?]

5. Risks

[What risks are presented to the University?]

6. Equity sharing proposal

[Initial equity proposal: University: Academic Founders: External.]

7. Internal support

	Print name	Signature	Date
Academic Founder(s):			
Head(s) of Department:			
Dean(s) of Faculty:			
Head R&KTS:			
Directorate:			

Finance Committee approval:

Signed: Date:

[Signatories to attach any additional terms and conditions which apply to such approval]