



European IPR Helpdesk

Fact Sheet

Commercialising Intellectual Property: Spin-offs

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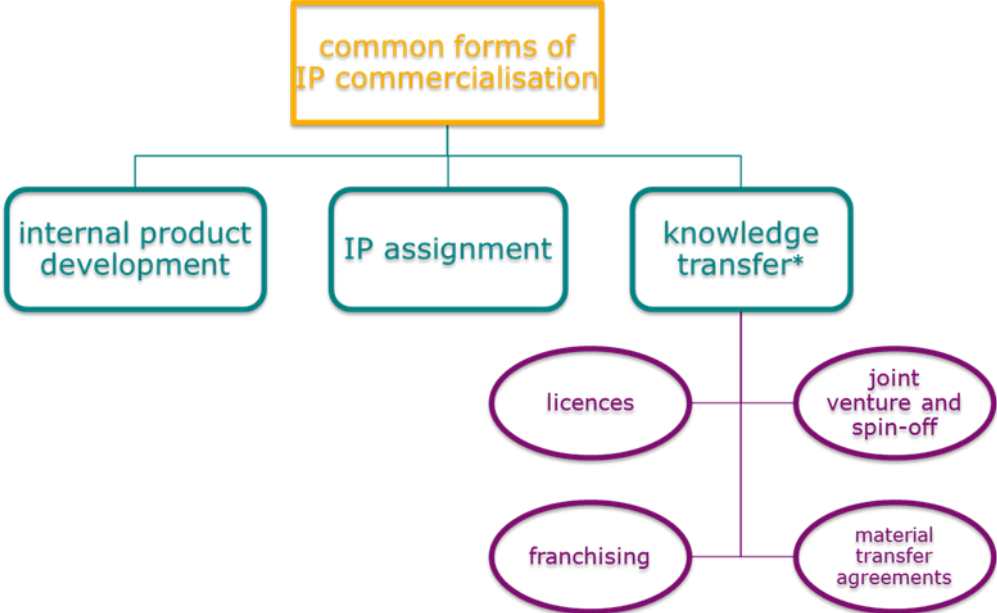
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Introduction

Commercialisation is the process of bringing intellectual property (IP) to the market in order for it to be exploited in return for business profits and growth. The **financial success** of any IP commercialisation will certainly depend on the choice of the most appropriate commercial tool, which should be based on:

- **The organisation's business objectives**
- **The form of intellectual property**
- **The economic resources at its disposal**

There exist several practices to get a protected IP into the marketplace. The most common are summarised in the following diagram:



*Assuming that knowledge transfer includes, and covers more than, technology transfer

Risks should also be taken into account in any IP commercialisation. Although the very nature of risks will depend on the type of commercialisation and its arrangement, their preventive identification, assessment and management would give organisations a lower exposure to risks.

The **IP risks** specific to commercialisation activities are those related to:

- > **Nature of the IP**
- > **Confidentiality**
- > **Nature of the product/service**
- > **Financial matters**
- > **Legal issues**
- > **Business reputation**

An assessment of the risks can be based on the likelihood of the event occurrence (e.g. ownership disputes, third party infringement, etc.) and the associated consequences (e.g. irrelevant, moderate or important). Built on the following outcomes, organisations will be able to make appropriate decisions about the risk management actions to be adopted (e.g. subscribing to an appropriate insurance, revising relevant clauses within contracts, etc.).

“Commercialising IP” is a series of fact sheets aiming to provide an introduction to the forms of commercialisation that can be useful for a less advanced public likely to be involved in exploitation of intangible assets. The content provided therein is not intended to be exhaustive, and professional advice is strongly recommended when it comes to choosing the most suitable commercialisation practice for your organisation and dealing with the complex legal issues surrounding these deals. Yet, with these guides we aim to give you some understanding of the basic principles, which can help you save money and time.

This fact sheet focuses on spin-off, also known as “spin-out”, intended as a separate legal entity created by a parent organisation (PO) to exploit its intellectual property (IP) assets. Once the company is established, the PO will transfer or license to it the IP concerned, in order for the spin-off to commercialise it. This fact sheet identifies the key factors to create a well-conceived spin-off company with a main emphasis on the IP-related aspects that can contribute to its success. Spin-off is considered as a common practice in Universities and Research Organisations (ROs), in order for them to exploit and maximise the economic benefits of the knowledge created, as often these organisations lack the required capabilities to market their intangibles¹.

1 Spin-off

A spin-off refers to a separate company established in order to bring to the market technology developed by a PO. It is deemed to be a valuable alternative to transform technology into product and service², as well as to license out technology. A conventional spin-off company can be set-up in two ways³:

- A new company is created through the separation from a PO which contributes with its financial, human and intellectual capital. This R&D spin-off has mainly the scope to further develop and commercialise the IP created at and appositely **assigned** by the PO. Together with the relevant intangible

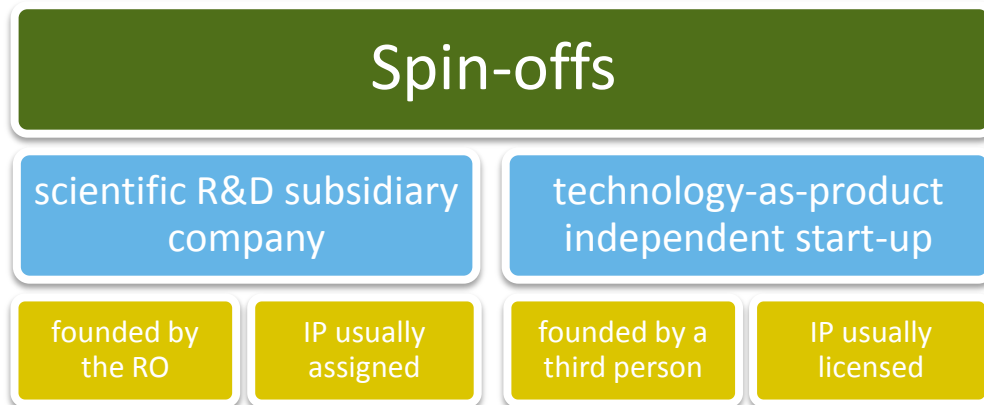
¹ Within the industry sector, the setting up of joint venture collaborations is more frequent. See the European IPR Helpdesk fact sheet on “Commercialising Intellectual Property: Joint ventures”, available in the [library](#).

² The advantages that a technology may bring in everyday life, in fact, may only be ascertained by the product or service embodying it.

³ A combination of both is also possible.

asset, the PO also transfers to the new legal entity the obligations and risks associated to the commercialisation of the IP.

- A spin-off can also be a company established, usually by a person external to the PO, with a view to exploiting the intangible **licensed** by the owing organisation. Often, in fact, ROs attract venture capitalists interested to invest in the development of the IP created by the organisation. This type of company is also referred to as an innovative “start-up”, more likely to obtain a final marketable product.



The interests in creating spin-offs may be several and with different scopes. Although the underlying reason is to commercially exploit intangible assets so as to create new economic value, *spin-offs are also considered as a fundamental mediator between the research environment and industries as they are a powerful means of technology transfer between these two sectors*⁴. This is most of the time achieved through the acquisition of the spin-out company by larger companies.

Besides these general scopes, creating spin-out companies would allow ROs to:

- **Externalise the development process that might not fit with the RO's scientific objectives;**
- **Obtain funding not available for purely research institutions to partially cover development cost;**
- **Participate in a European research funded programme as an industrial partner;**
- **Endow research staff with entrepreneurial skills.**

⁴ This is highly stressed by and in line with the European Commission C(2008)1329 "Recommendation on the management of intellectual property (IP) in knowledge transfer (KT) activities for universities and other public research organisations", available at http://ec.europa.eu/invest-in-research/pdf/ip_recommendation_en.pdf.

The creation of a spin-off is a complex process entailing the development of a separate business with the subsequent allocation of IP rights and responsibilities, project and risk management and, in certain circumstances, fund raising to attract investors for financial contribution. As regards to the scheme complexity, it is important to note that very often scientific entrepreneurs (spinning off from the academia or ROs) lack significant IP management experience, which is likely to undermine the commercial potential of the new product. Therefore, business-oriented support to their functions is crucial to increase the chances to obtaining funds as well as to increase the shareholders' and costumers' reliance.

Accordingly, before setting up a spin-off it is important:

- ✓ **To draft a business plan in which to identify the spin-off goals and the suitable actions to take;**
- ✓ **That the spin-off management is consistent with the overall PO's IP strategy;**
- ✓ **That the PO is entitled to use the relevant IP (ownership or license rights);**
- ✓ **To arrange for an IP management committee, with overall control exercised by the PO;**
- ✓ **To define an expected financial return⁵;**
- ✓ **To prepare an exit plan.**

2 Knowledge transfer process

In the early stages when a spin-off is founded, a strategic decision should be taken on how the new company will acquire the IP belonging to the PO. Two main methods exist: the *contribution in kind* from the PO or the *licensing* of its intangibles.

The main *differences* are that, while through the *contribution in kind* – or assignment – the IP transferred will become the property of the spin-off and hence part of its capital, on the other hand the PO will retain the full ownership of the IP *licensed* with the consequent right to use it in future. Moreover, the transfer will be done according to the internal procedures and defined by corporate agreement, in the case of contribution in kind. On the contrary, a licence agreement will rule the second type of transfer.

⁵ However, when setting up a spin-off, importance should not only be given to the income that can be generated but also to the value and gains stemming from the business partnerships (e.g. acquisition of know-how and show-how) and on the public benefits likely to stem from the spin-off activities.

Accordingly, *these two methods differently affect the spin-off activity*, as in the first case the decrease in the value of the IP assigned has a direct repercussion on the spin-off capital and its entire existence can be at risk⁶. In the second case, if the IP licensed loses value, this can only be a reason for renegotiating the licence agreement but it has no repercussion on the spin-off's existence.

With a particular focus on the *contribution in kind*, when creating a spin-off it should be clearly established that, where the PO acts as a research laboratory of the new company, the PO should be granted back a licence to the technology assigned to carry on further R&D activities on it. Maintaining a balance between the rights and expectations between parties is vital when creating a spin-off and technology transfer offices (TTO) should act as intermediaries between the parties of the transaction.

Indeed, a TTO plays a fundamental role in the construction process of any form of spin-off, which might be passive or active. A passive role is when only the necessary resources (e.g. templates and personnel) are allocated to assist the process, without a direct involvement of the TTO. An active role would occur when the TTO, for instance, actively participates in writing the business plan and IP related agreements, secures or finds initial funding, assembles the management team, and so forth.

3 IP related activities and documents

When setting up a spin-off company, depending on the form that has been chosen, there are several activities to be carried out and documentation to be prepared before sitting at the negotiating table and signing the definitive spin-off agreement. Those related to the IP may include:

*IP due diligence*⁷

This activity should be carried out independently from the type of spin-off. In fact, on the one hand IP due diligence is crucial to show investors that any matter related to the IP, forming the object of the spin-off transaction, is properly dealt with. More precisely, thanks to the due diligence, investors will be able to ascertain the ownership of the IP and any obligations affecting it (e.g. research contracts⁸, granting conditions or third party suspected infringement). On the other hand, through the IP due diligence you will be able to discover any

⁶ The IP asset can be liquidated to creditors as a part of company assets. On the other hand, IP assignment is more convenient for the PO in terms of tax exemption and transfer of risks.

⁷ A thorough analysis on how to carry out an IP due diligence exercise can be found in the European IPR Helpdesk fact sheet on "IP due diligence: assessing value and risks of intangibles", available in the [library](#).

⁸ A research contract is a binding agreement between the sponsor funding the research costs, and the University carrying out the research for a defined project. In these relationships, the ownership of the IP created usually rests with the University, but sponsors can be granted an option for a royalty-bearing licence on the project results.

defects in your IP management and fill the gaps revealed, before the business transaction: in a few words, to tidy up your intangibles.

Confidentiality

Early in the negotiations phase, ROs need to show their innovative knowledge to potential investors to convince them of the value of the project. Ideas, know-how, description of inventions, chemical formulas and research information may be the object of negotiating discussions. In order to ensure that all this valuable information is kept safe, it is best practice to conclude a Non-Disclosure Agreement (NDA) before engaging in negotiations for spin-off agreements.⁹

Employment contracts

These contracts should be thought over in advance and cover all the issues related to the ownership of the IP that will be created by employees/researchers during the spin-off life cycle. This is particularly needed for those spin-offs that will act as a scientific R&D subsidiary company of the PO, having the scope to further develop and commercialise the IP created at and appositely *assigned* by the PO.¹⁰

Assignment agreements

When the IP belonging to the ROs is permanently assigned to the spin-off for exploiting its commercial value, the ROs retain no property in it but just contractual rights. These rights are enshrined in the so-called assignment agreements whereby parties define a lump sum payment or royalty obligations for the transfer in question. In addition, the acquisition of shares of the newly created company (i.e. shareholding) often represents an economic consideration for the transfer of IP. Nevertheless, ROs might want to have licences granted back for academic use. Assignment agreements normally follow corporate rules.

Licence agreements

These agreements are needed when the ROs decide to license its IP assets to the spin-off company. By licensing its knowledge, the ROs will remain the owner and have a certain degree of control over the IP generated by the spin-off. The main financial terms to be agreed upon in licence agreements are whether the transfer

⁹ For any question related to disclosure of confidential business information and also to access samples of the different types of NDA, you can visit the European IPR Helpdesk [library](#).

¹⁰ To have a better grasp of the IP issues related to employment relationships, you can read the fact sheet on "Inventorship, Authorship and Ownership", available in the [library](#) of the European IPR Helpdesk website.

is generally done in return for a lump sum payment or is royalty-bearing. On occasion, it can be decided that the ROs' economic return will be represented by their shareholding in the spin-off.¹¹

4 Best practices and checklist

In the main, in order to be prepared and to take on the spin-off formation process in the best way possible, a TTO should set an institutional **IP policy** and have a set of templates already in place answering, *inter alia*, the following questions:

- Is the IP to be assigned or licensed to the spin-off?
- Is the assignment or licence to be under a lump sum or royalty payment?
- Is the RO's financial return only based on its shareholding?
- Are rights on improvements made on the transferred IP to be granted?
- How will inventors be compensated?
- Will the RO retain licence rights for teaching and research purposes?
- Can the spin-off use the RO brands?
- How will the conflicts related to the IP between the spin-off and RO be addressed?
- Who is responsible for spin-off negotiations?
- Are complex IP matters to be addressed to external advisers?

All the relevant IP issues should be treated separately in the documentation listed above, but they can of course be included in the overall spin-off agreement¹² as key IP clauses.

The following non-exhaustive **checklist** will highlight some of these key issues that a TTO should consider when dealing with the IP allocation in spin-off creation:

¹¹ All the terms that can be included in a licence agreement (such as geographical scope and field of use, the licensee diligence, infringement monitoring and the like) as well as the different types of such agreements are discussed in depth in a dedicated fact sheet produced by the European IPR Helpdesk on "Commercialising Intellectual Property: Licence agreements", which is available in the [library](#).

¹² Drafting IP agreements and the general spin-off agreement is a TTO's task. Nevertheless, due to the complexity of the matter, TTOs are advised to seek external professional support.

- ✓ Clearly define the IP to be transferred to the spin-off
- ✓ Obtain all the necessary rights from your RO's inventors
- ✓ Consider whether IP rights should be obtained on the already existing intangible
- ✓ Make sure that the RO has clearance or assignment for any third party's IP rights
- ✓ Protect the RO's interests in retaining licence rights for research purposes in case of IP assignment
- ✓ Carefully negotiate the transfer terms in the case where it is foreseen that the IP is firstly licensed and successively assigned to the spin-off during life span
- ✓ Properly deal with all the IP obligations to be included in licences – exploitation, royalty payment, third parties infringement, etc.
- ✓ Clearly define the rights to improvements to, or further developments of, the licensed IP
- ✓ Envisage how the ROs will recuperate the licensed IP – improved or further developed – from the spin-off company in case of insolvency or dissolution

Useful Resources

For further information on the topic please also see:

- Management of Intellectual Property in Publicly-funded Research Organizations: Towards European Guidelines (Expert group report – Office for Official Publications of the European Communities), Luxembourg, 2003, available at: <http://ec.europa.eu/research/era/pdf/iprmanagementguidelines-report.pdf>
- Management of academic intellectual property and early stage innovation in countries in transition, WIPO, available at: http://www.wipo.int/dcea/en/tools/tool_02/
- UNICO practical guides Commercialisation Agreements, "Spin-out transactions", 2006, available at: http://www.praxisunico.org.uk/uploads/unico_guides_spinout.pdf
- Sandelin J.C., Dealing with Spinout Companies, In Intellectual Property Management in Health and Agricultural Innovation: A Handbook of Best Practices (eds. A Krattiger, RT Mahoney, L Nelsen, et al.). MIHR: Oxford, U.K., and PIPRA: Davis, U.S.A. 2007, available at: <http://www.iphandbook.org/handbook/ch13/p02/>
- Factsheet on "Commercialising Intellectual Property: Joint Ventures": http://www.iprhelpdesk.eu/sites/default/files/newsdocuments/Commercialising_Intellectual_Property_Joint_Ventures_0.pdf

- Factsheet on “IP due diligence: assessing value and risks of intangibles”:
http://www.iprhelpdesk.eu/sites/default/files/newsdocuments/IP_due_diligence_0.pdf
- Factsheet on “Commercialising Intellectual Property: Licence agreements”:
http://www.iprhelpdesk.eu/sites/default/files/newsdocuments/Licence_agreements.pdf

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ABOUT THE EUROPEAN IPR HELPDESK

The European IPR Helpdesk aims at raising awareness of Intellectual Property (IP) and Intellectual Property Rights (IPR) by providing information, direct advice and training on IP and IPR matters to current and potential participants of EU funded projects focusing on RTD and CIP. In addition, the European IPR Helpdesk provides IP support to EU SMEs negotiating or concluding transnational partnership agreements, especially through the Enterprise Europe Network. All services provided are free of charge.

Helpline: The Helpline service answers your IP queries within three working days. Please contact us via registration on our website (www.iprhelpdesk.eu), phone or fax.

Website: On our website you can find extensive information and helpful documents on different aspects of IPR and IP management, especially with regard to specific IP questions in the context of EU funded programmes.

Newsletter and Bulletin: Keep track of the latest news on IP and read expert articles and case studies by subscribing to our email newsletter and Bulletin.

Training: We have designed a training catalogue consisting of nine different modules. If you are interested in planning a session with us, simply send us an email at training@iprhelpdesk.eu

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