Office of Technology Management informational series:

Start up Company Formation Guide and License Checklist

The University licenses its technology only to companies that demonstrate the capability to develop the technology into commercial products in a timely manner and the willingness to share the downstream benefits of commercial use of the technology with the University. (e.g. through equity, royalties from sales, etc.) This list is intended as a guide to the process of forming a start-up company to license the University technology.

- **Review the company's business model** with professionals, such as IllinoisVENTURES, the Office of Technology Management, or others, to determine whether a viable business case is possible.

- **Enter into a standstill option agreement** during which time the University will not license the technology to any third party (Optional). This allows time for an individual or a company to develop a business plan and satisfy other licensing requirements.

- **Develop a preliminary business plan** and submit it to the OTM. The business plan should identify the product(s), business model, markets (size, competition, fields), management, development timeline, financial costs, capitalization or funding required, and financial projections for 5 years. The plan should also identify which technologies are needed and their benefits to the company. The business plan needs to be specific enough that the OTM and the company can begin to negotiate the deal framework and to identify meaningful milestones for the license.

- **Negotiate the license deal framework** with the OTM. The deal terms represent a package whose value depends upon both the type and significance of the technology being licensed and external market factors. Components of the package include exclusivity, field of use, equity, royalty rates, sublicense royalty sharing, diligence milestones royalty minimums and other payments. The terms are inter-related, and there is a trade-off among terms in arriving at the entire deal. Equity is typically taken in start-up company deals in exchange for lessening the cash burden on the company in the early years.

- **Conflict of interest management plan approval** when a start-up company involves a University faculty member, a plan is developed describing the relationship between the company and the faculty's University research and students. This plan identifies and mitigates potential conflicts of interest and should initiated as early as possible.

- **Establish company as a legal entity** A license for a technology will only be granted to a company demonstrating the capability of developing the technology into a commercial product. Documentation needed includes the company's Articles of Incorporation, by-laws, and founders agreements, or the equivalent.

- **Finalize the license agreement** License drafts are exchanged and the final deal terms and contract language are negotiated and agreed upon.

- **Complete a business plan** acceptable to the University.

- **Finalize the investment agreements** Investment documentation and agreements are reviewed and approved by the University and should be ready for signing.

  - Charter (Articles/Certificate of Incorporation)
  - Purchase Agreement
  - Investor Rights / Registration Rights Agreement
  - Stockholders Agreement

- **Have experienced management** on board at the time of signing the license agreement. If that management is on an interim basis, specify assembly of a qualified management team within a period of time after execution of the license agreement.

- **Provide a capitalization plan and capitalization table** A start-up must disclose its current levels of financing, equity value or capitalization at the time of license signing, and must reach specified levels of financing within an agreed-upon time after execution of the license agreement.

- **Execute license and investment agreements, and provide stock certificate**

- **Monitor agreements** The company, the University and the investors monitor company's progress toward commercialization obligations and milestones.