

University Proof of Concept & Seed Funds

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These guidelines are intended to introduce the University Proof of Concept and Seed Funds to you and to help you decide if you wish to apply for funds from these sources. I would welcome any comments you have concerning the objective and operation of the fund. I would also welcome any comments you have on how these notes could be improved and made more helpful.

This booklet is one of a series of five Guidelines to Researchers available from Isis Innovation Ltd (and at www.isis-innovation.com). These are:

- * Intellectual Property, Patents and Licences
- * Starting a Spinout Company
- * Consulting Agreements
- * University Proof of Concept & Seed Funds
- * Isis Software Incubator

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The Technology Transfer Company of the University of Oxford

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INTRODUCTION TO ISIS

Isis Innovation Ltd is the University of Oxford's wholly owned technology transfer company. Isis was established in 1988 and in 1997 started a major expansion phase. Isis manages the University's intellectual property portfolio, working with University researchers on identifying, protecting and marketing technologies through licensing, spin-out company formation, consulting and material sales.

Isis provides researchers with commercial advice, funds patent applications and legal costs, negotiates exploitation and spin-out company agreements, and identifies and manages consultancy opportunities. Isis works on projects from all areas of the University's research activities: life sciences, physical sciences, social sciences and humanities.

Patents & Licensing Isis files, on average, one patent application each week and manages over 400 patent application families and 200 licence agreements. Isis licenses technologies to companies who invest in developing and selling products in a timely and ethical manner. Licensees are sought from all technology and business sectors on an international basis.

Creating New Companies Isis has assisted in the formation of more than 50 University spin-out companies since 1997, generating significant value in equity holdings for the University of Oxford. Isis works with University researchers to develop new business opportunities, identifying and sourcing investment, management and professional services.

Consulting Oxford University Consulting (OUC) offers access to the expert knowledge of University researchers and departmental services within the University. OUC is part of Isis, providing a professional service dedicated to finding cost effective solutions to consultancy needs. Areas of expertise include problem solving, data analysis, expert evaluation, due diligence, management and business development. OUC's activities meet the ISO 9001 quality assurance standard.

Material Sales Isis manages the negotiation of sales agreements for biological and physical science materials developed within the University.

The **Oxford Innovation Society**, founded in 1990, enables industrial companies to benefit from Isis' activities by having a 'window' on Oxford science. Members enjoy advance notification of all patent applications marketed by Isis, a regular newsletter, customised benefits, including seminars and needs analysis, and attend meetings and dinners, which provide a unique environment for constructive interaction between business leaders, investors and top University scientists.

The **Isis Angels Network** introduces private investors and seed/venture capitalists interested in investing in spin-out companies from the University of Oxford to investment opportunities. IAN is a not-for-profit company limited by guarantee, established by Isis in 1999. Members of IAN may also be interested in serving as non-executive directors, nominated by the University, on the boards of the new spin-out companies.

Isis has strong **University links** with all the parts of the University involved in technology commercialisation and enterprise. These include Research Services; Begbroke Science Park; Oxford Science Enterprise Centre; and Entrepreneurship Saïd at the Saïd Business School.

Isis Enterprise is a division of Isis, offering consulting expertise and advice in technology transfer, based upon Isis Innovation Ltd's success as Oxford University's technology transfer company. Isis Enterprise helps universities, research organisations and governments develop their technology transfer activities.

INTRODUCTION TO PROOF OF CONCEPT & SEED FUNDS

The University has created three investment funds in recent years accessible to University researchers for the development of technologies for commercialisation. Although they differ in minor aspects, mainly related to the ways they were originally created, the Funds can be treated as identical from the researchers perspective.

1. UNIVERSITY CHALLENGE SEED FUND (UCSF)

During 1999 Oxford University was awarded one of 15 seed funds that were established as part of the Government's University Challenge Seed Fund Scheme ("Scheme"). The aim of the Scheme was to fill a funding gap in the UK in the provision of finance for bringing university research discoveries to a point where their commercial usefulness can be demonstrated and the first steps taken to ensure their utility. The Scheme's primary focus was the exploitation of science and engineering research outcomes. HM Government has suggested that the availability of seed funds can help the commercialisation process in a number of general ways – financing access to managerial skills; by securing or enhancing intellectual property; by supporting additional R&D; construction of prototype; preparation of business plan; covering legal costs; etc. The contributors to the Scheme were charities (Wellcome Trust and Gatsby Charitable Foundation) and HM Government. These central contributors committed a nationwide total of £40 million. These funds were divided into 15 University Challenge Seed Funds that were donated to individual universities or consortia. Each recipient university of a University Challenge Seed Fund had to provide 25% of the total fund from its own resources.

The £4 million Oxford UCSF has invested in 71 projects so far, ranging in size from £2,500 to £250,000. The overall objective of the UCSF Scheme is to enable university researchers to access seed funds in order to assist the successful transformation of good research into good business. This early funding is the riskiest stage of the venture process.

The Oxford UCSF is an 'evergreen' fund and will continue to make investments whenever it has cash available to do so. The initial £4m was invested by 2003 and as these early investments by the Oxford UCSF bear fruit, the Fund has been replenished and is currently in a position to resume making investments as from December 2006.

2. THE ISIS UNIVERSITY INNOVATION FUND (IUIF)

As the UCSF became fully invested in May 2003, the University made a further £1 million available to continue to finance UCSF style activities. The IUIF is managed along the similar lines as the UCSF with applications managed by Isis Technology Transfer Managers together with University researchers and presented to the Investment Advisory Committee. Applications to UCSF / IUIF are considered on the same basis and are treated in the same way with respect to conditions of the awards. The Investment Advisory Committees of the Funds (which are both owned in their entirety by the University) will decide whether a successful application is funded by UCSF or IUIF.

3. PROOF OF CONCEPT FUND

This two year fund was created in 2004 following a successful collaborative bid by the Universities of Oxford, Cambridge, Imperial College, and University College London to the Government's Higher Education Innovation Fund (HEIF) managed by the Higher Education Funding Council for England (Hefce). The total fund size was £1.8m, of which £450k was allocated to projects from Oxford University. This fund has now been fully committed.

The following table summarises some of the key facts relating to the Proof of Concept, IUIF, and UCSF. Further information can be obtained from Isis Innovation. If you have a project that you believe may be suitable for any of the Funds, please contact Isis Innovation.

KEY FACTS ABOUT THE FUNDS

FUND:	UCSF & IUIF
Status	Open
Size of the fund	UCSF £4 million IUIF £1.1m
Ownership of the fund	Oxford University
Management of fund	Isis Innovation & Investment Advisory Committee
Investment policies	Designed to establish a sustainable fund
Level of funding	UCSF Up to £250k IUIF Up to £100k
Restriction on funding	Not to compete with research grants; UCSF cannot invest in existing companies
Investment criteria	Innovation of science Intellectual property Key people Size of opportunity
Monitoring and reporting	Appropriate progress report schedules will be agreed between the researcher(s) and their Isis Technology Transfer Manager
Investment Returns	UCSF funding is expected to produce a return from equity and licence income
Investment Decisions	Made by the University on the recommendation of the Investment Advisory Committee

APPLYING TO THE FUNDS

A) FIRST CONTACT

A researcher wishing to apply for Funds should contact either the Technology Transfer Manager at Isis Innovation with whom they are already working or the Seed Fund Manager at Isis Innovation (andrea.alunni@isis.ox.ac.uk) to be put in touch with the appropriate Technology Transfer Manager.

B) SELECTION OF FUND

A single application is made to UCSF / IUIF. Successful applications are offered funding from either fund on the same terms. The Proof of Concept Fund is fully committed and is not able to accept new applications.

C) COMPLETE A PROJECT SUMMARY FORM

After an initial meeting and assuming that you wish to continue with your proposal, it will be necessary to complete an Application Form (e.g. see pages 12 & 13). The Form should be completed by you together with the Isis Technology Transfer Manager. Where monies are to be paid into your Department, the form will need to be signed by the head of your department or departmental administrator and then returned to Isis Innovation.

This form will start the proposal evaluation procedure. An Isis Innovation Technology Transfer Manager will take responsibility to progress the project and keep you informed of progress.

D) INVESTMENT TYPES

There are a number of different types of project activity on which the Funds may invest:

- Proof of concept
- Pre-patent research
- Reduction to practice
- Commercial demonstration or Prototype
- Business planning support
- Spin-out company

The Funds may make investments into University Departments, into new spin-out companies and for the provision of external services (e.g. market research, business planning).

E) INVESTMENT EVALUATION AND DECISION

The next step is for a more detailed investment proposal to be prepared. The format for this Investment Proposal Form is available from Isis, and will be prepared by the Isis Technology Transfer Manager, together with the researcher(s). The extent of appropriate additional information will depend upon the scale and nature of the proposed investment. This Proposal will be signed by the researcher(s), departmental head/administrator as appropriate, and Isis, and then circulated to the members of the Investment Advisory Committee for their review before presentation to the University. Depending upon the timing of its meetings, and the scale and nature of the proposed investment, the researchers may be invited to present the proposal to the Investment Advisory Committee.

The Investment Advisory Committee was appointed by the University to advise about all aspects of these Funds. The current members of the Investment Advisory Committee are as follows:-

Mr Bernard Taylor (Chairman)	Chairman of Isis Innovation
Professor John Bell	Regius Professor of Medicine
Mr Nigel Keen	Chairman of Oxford Instruments plc, Laird plc
Mr Giles Kerr	Director of Finance

This committee meets on a regular basis to review the positions of the Funds and discuss the investment proposals that are presented to it by Isis Innovation.

The Investment Advisory Committee reviews investments for the University to approve. Our aim at Isis is to ensure that decisions can be made quickly and with the minimum of additional paper work for researcher(s) and their department(s).

F) INVESTMENT CRITERIA

The key criteria for evaluating pre-spin-out projects are:-

- *Innovation of the science: How novel is the approach compared with other research in the field?
- *Intellectual property: What does the backdrop of prior art look like?
- *Background of the key people: Who are the key researchers etc.?
- *Commercial opportunity: Can the research be turned into a sustainable business?

In the case of spin-out proposals the criteria are as follows:-

- *Strong technology and IP base
- *Products and/or services that offer a potential competitive advantage
- *A strong business leader/entrepreneur
- *Clear growth prospects

G) OFFER LETTER

If the proposal is approved, Isis Innovation will prepare an Offer Letter on behalf of the University, that details the amount to be invested and the terms of the investment. This Offer Letter will need to be signed by the researcher(s). The University Finance Division will on receipt of the signed Offer Letter release the funds to the appropriate destination.

H) **MONITORING THE INVESTMENT**

Usually the Isis Innovation Technology Transfer Manager will have identified and agreed with the researcher(s) a set of "milestones". These milestones will form the basis of the monitoring process. The Investment Advisory Committee meet on a quarterly basis and will expect progress reports on all the major investments.

We recognise that it may be difficult to identify clear end points in all cases, but some method of progress reporting will need to be agreed.

I) **INVESTMENT RETURNS**

Fund investments must offer the prospect of a financial return. Each award is made under the terms set out in the pro forma Offer Letter (see page 12). The normal Decrees and Statutes will apply when dealing with the exploitation of Intellectual Property. In the case of spin-outs, the equity split is agreed between the University and the researcher(s) on a case by case basis, assisted by Isis Innovation.

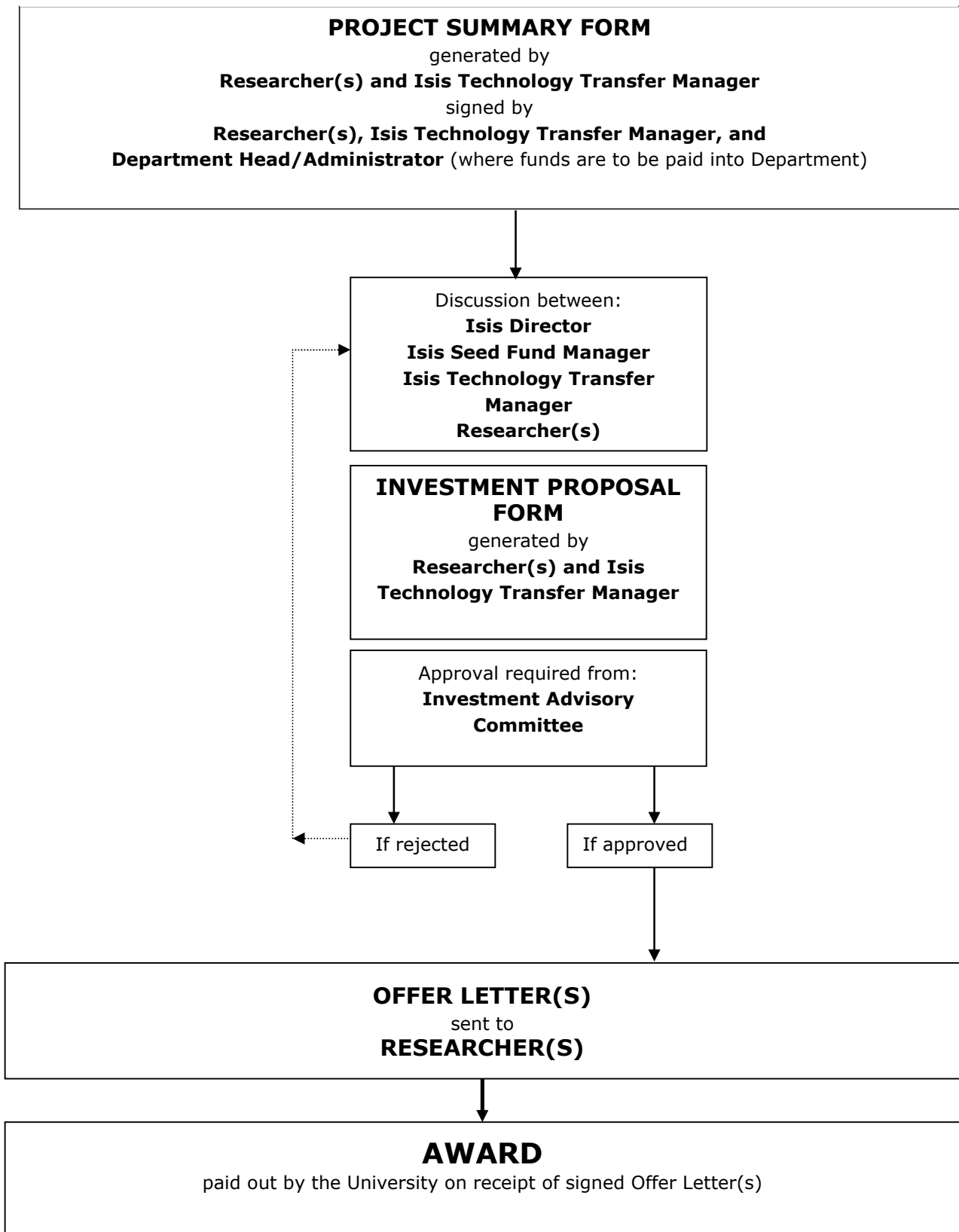
J) **TIMETABLE**

We expect to be able to process investment proposals within four to eight weeks of receipt of the Project Summary Form, depending on the complexity of the proposal.

K) **PAYMENT OF FUNDS**

The approved proposals are sent to the University Finance Division for payment once the signed Offer Letters have been received. The department receiving the funds will be advised of the award together with the accounting and reporting requirements.

FUND APPLICATION PROCESS FLOWCHART



SOURCES OF ASSISTANCE

ISIS INNOVATION LIMITED

Isis Innovation is experienced in both the commercialisation of intellectual property and the establishment of spin-out companies based on Oxford University research. The objective of all of the Funds is to assist the commercialisation of research. Isis Innovation is responsible for identifying and evaluating potential Fund investments.

If you wish to discuss your research and the Funds, please contact Isis Innovation. There is no substitute for talking to someone who has the relevant experience to provide you with specific advice relating to your circumstances. This may lead to an application for funding from the Funds or to assistance in accessing other sources of funding.

OUR APPROACH

Our approach is to unlock the commercial potential of the University by working alongside researchers. We have expertise, based on long experience, in assessing and managing the exploitation of intellectual property and establishing spin-out companies.

By co-ordinating input from researchers, the Investment Advisory Committee and the Isis Technology Transfer Manager, we are looking to form a judgement on the best route for commercialisation. This can involve evaluating the intellectual property, market opportunities, management ability etc. We aim to be creative and supportive advisors/project managers with an active and involved approach to working with researchers. Through these Funds, the University can also be a supportive investor in development projects and start-up companies.

APPLICATION FORMS

The following pages show the:

- **Project Summary Form** for the University Challenge Seed Fund (UCSF) and Isis University Innovation Fund (IUIF).
- **Pro Forma Offer Letter** describing the terms under which grants from the UCSF & IUIF Funds are made available.

**UCSF / IUIF
Project Summary Form**



Project Title:		UCSF / IUIF ref:
Isis Technology Transfer Manager:		Isis Project No:
Researcher name (s):		
Department (s): <i>(where funds will be paid on approval)</i>		
Project type: <i>(please, indicate the amount of funding requested per category)</i>	Type 1: Initial proof of concept	£
	Type 2: Pre-patent research	£
	Type 3: Reduction to practice	£
	Type 4: Commercial demonstration	£
	Type 5: Start-up company	£
Brief description of technology/invention (2/3 lines):		
<p>Would you classify this technology/invention as Life or Physical Science? <i>Life/Physical</i> <i>(please delete as applicable)</i></p>		
Status of patent application: <i>(please delete as applicable)</i>	<i>No patent applied for UK patent application PCT application National phase application</i>	Date: Date: Date:
Brief description of commercial potential of project (2/3 lines):		
Next step after UCSF / IUIF funding e.g. license technology, further research, form company:		

Date of Advisory Committee Meeting at which approved:	
Recommended to the University by: <i>(for the UCSF/ IUIF Investment Advisory Committee)</i>	Date:
Approved for payment by: <i>(for the University)</i>	Date:

This form should be completed in conjunction with the UCSF / IUIF 'Guidelines to Researchers'.

Is this for equity in a new company? Yes/No <i>(Please delete as applicable)</i>		
If the funding is not for equity in a new company, please complete the table below: UCSF / IUIF projects within the University are relatively short term and small scale and are treated as incremental activity for Departments. They must be costed on a marginal basis and only additional costs to the University will be granted by the funds. Thus there are no indirect costs to be added to the direct costs you identify below.		
Item	Amount	* Please provide details
Salaries (incl employer's costs)	£	
Consumables*	£	
Equipment*	£	
Computer Hardware*	£	
Computer Software*	£	
Bought-in services*	£	
Other*	£	
TOTAL	£	
Funding start date:		Completion date:
Instalment dates where applicable:	Date	Amount
		£
		£
		£
Has this funding been sought from other sources?:		
Other comments/issues:		
Form completed by <i>(Researcher(s) to sign and date)</i> :		
Application authorised by: <i>(Head/Administrator of Department(s) to which funds will be paid)</i>		Date:
Form checked by: <i>(Technology Transfer Manager)</i>		Date:
Submission Agreed by: <i>(Isis Director)</i>		Date:

PRO FORMA OFFER LETTER (UCSF & IUIF)



Ref. ucsf/iuif xxx
Date

Dear #C,

Name of Fund: [UCSF / IUIF] (the 'Fund') ref:

I am pleased to confirm that, in response to your application, the Investment Advisory Committee of the Fund is prepared to recommend an award of [£amount] under the following conditions.

1. The money will be used exclusively for the work described in your application. Any unspent monies will be returned to the Fund at the end of the academic year in which the work is planned to be finished.
2. Any intellectual property generated as a result of work financed by the grant will remain the property of the University.
3. If a new company results from work financed by the grant, the grant will be treated as equity investment and will be accorded equity in the name of the University for the account of the Fund, at the same price as the first round cash investors. In addition, at formation of the company, the Fund has the opportunity to subscribe for further shares at the same price as, and on a basis no less favourable than, the first round cash investors up to a limit of £250,000 per venture. If the company is spun out without first round cash investors, the company will agree a side letter with the Fund at the time of spinning out which sets out a mechanism under which shares will be issued to the University for the account of the Fund if there is no cash investment within six months of spinning out.
4. If, rather than a new company, results from work financed by the grant generate licensing income, a portion of the net revenue will be allocated to the Fund in accordance with the University's Regulations. The researcher(s) share will not be affected.
5. This offer will remain open for four weeks from the above date.

Yours sincerely,

[Chairman of the Investment Advisory Committee]

Please sign and return this letter to c/o Isis Innovation, Ewert House, Summertown OX2 7SG to indicate your acceptance of these conditions.

Accepted:

Accepted on behalf of the University

Principal Investigator

[Director of Finance]

Date:

Date:

