ADDISONS | INVESTED IN CLIENT SUCCESS

Addisons' Startup Guide

Practical legal guidance for founders and high-growth companies

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“Kieren represented MP Space through our seed round and provided pragmatic, timely guidance that helped us navigate the process efficiently and with confidence. His advice is commercially grounded and focused on enabling progress, not just managing risk. We’ve continued to rely on Kieren across complex commercial agreements and core structural matters, and he has become a trusted advisor to the business.”

Jay Manley, CEO & Co-Founder, MP Space

FOREWORD

Australia's startup ecosystem continues to produce remarkable innovation, and we are privileged to work alongside founders, startups and investors as they build and grow some of Australia's fastest growing and most exciting businesses.

While startups are rightly focused on developing products and services, attracting customers and securing investment, establishing strong legal foundations is also important. From company structuring and intellectual property protection to capital raising and strategic transactions, quality legal advice can help startups navigate complexity and unlock opportunities with confidence.

We are also proud to support initiatives that strengthen Australia's innovation community, including Cicada x Tech23 and The Founder Institute. Tech23, delivered by Cicada Innovations, has for more than a decade brought together founders, investors, industry leaders and advisors to showcase the ingenuity and ambition of Australian deep tech startups. The Founder Institute is the world's largest AI-native company builder, helping founders, and first-time entrepreneurs turn ideas into funded, AI-powered startups.

Inspired by the innovation and resilience we see across the ecosystem, we have prepared this guide to share practical insights and to help founders and startups better understand some of the legal issues that arise as businesses launch, scale and succeed.

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INSIGHT

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How to prepare for an early-stage startup funding round: an Australian legal perspective

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The internet is awash with articles as to how startups should prepare for an early-stage funding round, which predominantly focus on the more commercial aspects. Whilst the commercial aspects are important, there are some simple things that startups can do from a legal perspective to prepare for an early-stage funding round, which will put them in good (legal) stead to conduct an efficient and successful fundraising process.

Get your house in order

Cap table

The most important document that a startup can get in order prior to commencing any funding round is the capitalisation table (or cap table). The cap table is a document (typically a spreadsheet) that shows the ownership of the company – it normally sets out the company's securities (e.g. shares, options, convertible securities, etc.), who holds those securities, how much each holder paid for its securities, and each holder's percentage ownership of the company. The price per share under a funding round is ordinarily determined by dividing the pre-money valuation by the number of shares on issue (either on an undiluted or fully-diluted basis), so it is critical for both the startup and its potential investors that the startup has a credible cap table.

If you have convertible securities that will convert into shares upon completion of the funding round (e.g. SAFEs, convertible notes, etc.), you should ensure that they are properly reflected in your cap table, including on a post-conversion basis once the terms of the funding round are known. Particular care should be taken where there are different types of convertible securities on issue with different conversion terms.

To make the investors' ownership percentages after the funding round and the price per share under the funding round manageable, you may need to conduct a share split, or share subdivision.

A share split increases the number of shares that a company has on issue by dividing its existing shares; each individual share is worth less, but each shareholder holds more shares. Accordingly, it does not change the total value of the company's securities.

Finalising the cap table may also involve putting in place an employee share option plan (**ESOP**) and granting securities, for example options, to an employee or contractor under the ESOP. If you have promised to grant securities to employees or contractors but are yet to do so, it is best to clean this up prior to completing the funding round – not only does this make your cap table easier to follow, but if you are relying upon the start-up tax concession for ESOPs, this typically results in a more advantageous position for the employee or contractor.

Members register

Many startups think that the cap table and the members register are the same thing, but generally they are not – section 168 of the *Corporations Act 2001* (Cth) (**Corporations Act**) requires each company to have a "register of members" that sets out specific information in relation to current and former shareholders of the company, and most cap tables do not technically fulfil this requirement.

As the members register is evidence of title to the shares in a company (unless proved otherwise), it is important that this document is accurate. Further, most investors will want confirmation that the members register has been updated to include the investors and their shares once the funding round has been completed.

If a startup also has options on issue, it must also prepare an optionholders register. Like the members register, section 168 of the Corporations Act requires each company with options on issue to have a "register of optionholders" that sets out specific information in relation to its optionholders.

Other considerations

If you have not already done so, you should consider putting in place a dual company structure, whereby one company (**HoldCo**) holds the business' intellectual property (**IP**) and another company (**OpCo**) is the business' operating entity, meaning that it is the entity that employs employees, engages contractors and enters into contracts with customers. This is a common strategy that is designed to protect what is, for most early stage technology companies, their most important asset – their IP.

In the dual company structure, OpCo is a wholly-owned subsidiary of HoldCo and investors in a funding round invest, and receive shares, in HoldCo. There can be tax implications for the startup in putting this structure in place, so it is important to obtain tax advice, but for most startups the tax implications will only become more complicated as the startup grows, so it is best to consider this as early as possible. It is also necessary to put in place an IP assignment and licence back agreement between HoldCo and OpCo.

Startups should also consider putting in place the following legal documents prior to commencing a funding round if they have not already done so:

1. employment agreements between the startup (the OpCo company if the startup has a dual company structure) and each employee (including the founder(s));
2. contractor or consultancy agreements between the startup (again, the OpCo in a dual company structure) and each of its contractors or consultants. In particular, such agreements should make it clear that any IP created by the contractor or consultant for the startup is owned by the startup; and
3. IP assignment deeds between the startup (the HoldCo company in a dual company structure) and each founder, pursuant to which the founder agrees that all IP associated with the startup is owned by the startup.

Side letters

If a start up has previously issued equity to an accelerator programme or to investors under a small funding round, it may have issued one or more "side letters" to those parties. Under a side letter the company grants special rights to the third party (e.g. a right to participate in the next funding round, to appoint an observer to the board of the company, etc.) or agrees to ensure that certain terms are included in the shareholders' agreement that will be put in place at the next funding round.

Side letters can have an impact on the terms of a funding round. Accordingly, prior to commencing a funding round, startups should collate all side letters and ensure they are aware of their requirements.

Prepare a data room

It is likely that one or more investors will want to conduct due diligence – whether legal, financial, technical or otherwise (or a combination thereof). To streamline this process, startups should consider collating a data room prior to commencing a funding round. A data room is a central depository of the documents and information that an investor may wish to review. While a startup and its advisors cannot predict every document that an investor may wish to review, there are some documents that most companies have or should have that an investor conducting legal due diligence will want to review – e.g. the constitution (if any), cap table, members register, optionholders register, employment agreements, contractor or consultancy agreements, IP assignment deeds, etc. Virtual data rooms vary in their levels of sophistication, and the price for such data rooms increases exponentially, but the key thing for early-stage funding rounds is that the documents and information are in a single, secure, easily accessible location.

What do you not need to do?

If you do not already have a shareholders' agreement in place, there is often little value in putting one in place shortly prior to commencing a funding round as investors will usually require amendments to the shareholders' agreement (or for the shareholders' agreement to be replaced in its entirety). The company's constitution is usually amended or replaced at the same time as the shareholders' agreement, so there is also generally little value in doing this prior to commencing the funding round. However, if you are a founder team and you do not have a founders' agreement in place then there is value in the founders discussing the key terms of the shareholders' agreement in advance of commencing a funding round, to ensure you are aligned before commencing discussions with potential investors.

Conclusion

A funding round can be both an exciting and challenging time for startups and their founders, but with a bit of forward-planning, legal aspects that often cause stress or delay can be dealt with prior to commencing the funding round, which allows startups and founders to focus on finding investors, negotiating the terms and closing the transaction (and getting the money in the bank!).

INSIGHT

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Intellectual Property 101 for tech startups

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A quick-reference guide to protecting and commercialising your IP under Australian law

Why IP matters from day one

For a tech startup, intellectual property is often the most valuable asset on the balance sheet — the code, brand, data and know-how that make the product defensible and investable. Decisions made in the first few months (who signs what, what gets disclosed, and to whom) can permanently affect what IP you can protect and who owns it. Getting the basics right early avoids expensive fixes during a funding round or exit.

IP overview

It is important for founders to understand the difference between an IP licence and an IP assignment – most spin-outs include both IP licences and assignments.

Under an IP licence, the university retains ownership of the IP, but it grants the spin-out the exclusive right to use the IP on agreed terms. In the context of a spin-out, an IP licence is often granted by the university so that the spin-out can test whether there is sufficient investor and/or customer interest to commercialise the IP prior to the IP being assigned to the spin-out by the university.

Right	What it protects	Duration	Registration needed
Patents	New, inventive technical solutions (devices, processes, some software-related inventions)	Up to 20 yrs (25 yrs for some pharma)	Yes — apply to IP Australia
Trade marks	Brand names, logos, taglines that distinguish your goods/services	10 yrs, renewable indefinitely	Yes — recommended; unregistered rights exist but are weaker
Copyright	Source code, UI, content, documentation, marketing material	Life of author + 70 yrs	No — arises automatically on creation
Registered designs	The visual appearance/shape of a product	Up to 10 yrs (5 + 5)	Yes — must be new and distinctive, and not publicly disclosed first
Confidential information	Trade secrets, algorithms, know-how, customer data, pricing	Indefinite, while it stays secret	No — protected by equitable duty of confidence and contract

Patents: protecting your valuable technology

- **Novelty is absolute and worldwide**: an invention must be new and involve an inventive step compared to everything publicly known anywhere, as at the filing date.
- **File before you disclose**: a pitch deck, demo, beta release, or a careless NDA breach can destroy novelty. A 12-month grace period may exists in limited circumstances for certain disclosures, but it is a limited safety net, not a strategy, and does not protect you in many overseas markets.
- **Software is patentable in limited circumstances**: a claimed invention needs to produce an artificially created state of affairs of economic significance — abstract ideas, schemes, algorithms and mathematical formulae are usually excluded.
- **Typical path**: a low-cost provisional application locks in a priority date for 12 months, followed by a standard (complete) application, examination and grant. Standard patents last 20 years from filing (up to 25 years for some pharmaceutical substances).
- **Engage a patent lawyer and attorney early** for patentability and freedom-to-operate searches before you commit development spend.

Confidential information and NDAs

- **Automatic protection**: genuinely secret information disclosed in circumstances that import an obligation of confidence is protected under the general law, even without a contract.
- **But use an NDA anyway**: a written NDA (mutual or one-way) puts the obligation beyond doubt and gives you a clear contractual remedy — use one before pitching investors, demoing to customers, briefing contractors/manufacturers, or opening a due diligence data room.
- **Key terms to check**: a clear definition of "Confidential Information", sensible carve-outs (already known, public, independently developed), a permitted purpose, no implied licence, a defined term, and return/destruction obligations.
- **Practical habits**: mark documents confidential, restrict access on a need-to-know basis, and remember an NDA protects secrecy — it does not stop someone who lawfully learns your idea from later filing their own patent.

Ownership and commercialisation

- **Employees**: IP created in the course of employment generally belongs to the employer, but this default can be varied by agreement — always include an express written IP assignment clause in employment contracts.
- **Contractors and freelance developers — the most common gap**: the default rule is reversed. An independent contractor generally owns the copyright/IP in what they create unless a signed agreement assigns it to the startup. Sign an IP assignment (work-for-hire) clause before work begins, not after.
- **Founders**: use a founders'/shareholders' agreement with an IP assignment deed so all pre-incorporation code, designs and brand assets are formally transferred into the company.
- **Open-source and third-party components**: audit dependencies and licences before commercial release — some open-source (copyleft) licences restrict how you can license or sell your product.
- **Brand clearance**: search the IP Australia trade mark register and business/domain name registers before committing to a name, then register your core word mark and logo.
- **Licence vs assignment**: be clear in every commercial deal whether you are granting rights (licence) or transferring ownership (assignment), and scope exclusivity, territory and field of use carefully.

Quick-start checklist

1. Have every founder, employee and contractor sign an IP assignment covering all work related to the business.

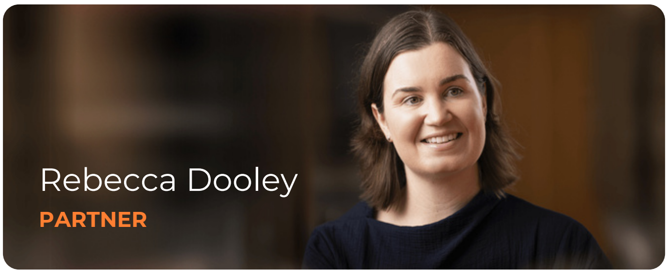
2. Use an NDA before any substantive pitch, demo or technical disclosure.

3. Talk to a patent attorney before publicly disclosing a novel technical solution: this includes prior to any academic or indeed any publication.

4. Clear and register your brand name and logo as a trade mark.

5. Keep a simple IP register (who created what, when, and under which agreement) — investors will ask for it and it will be needed in event of any dispute

Addisons' Venture Capital & Startups team



Rebecca helps clients achieve positive business outcomes with solutions that are underpinned by commercially-sound legal advice.

With more than a decade's experience in corporate and commercial law, Rebecca provides startups, founders and investors with legal advice relating to capital raising and mergers & acquisitions (M&A). Rebecca also provides legal advice on other corporate and commercial matters, including corporate structuring, contracts and employee share plans.

Rebecca's knowledge of Australian corporations and contract law is supplemented by a thorough understanding of relevant market practice and trends, enabling her to help clients navigate both legal and commercial issues.

Ultimately, Rebecca believes that lawyers need to be focused on solutions, not problems, and to not forget that they are just cogs in the machine. What Rebecca's clients appreciate about her is that the advice she provides is timely, focussed on the client's goals and given in a manner that non-lawyers can understand. She is also known for her keen eye for detail, whilst not losing sight of the bigger picture.

AWARDS & RECOGNITION

Founders Institute
2022 | Global Startup Mentor Award for Australia & New Zealand - Nominee

Kieren advises clients across the spectrum of M&A, fundraisings, corporate and commercial transactions.

His clients work in industries including technology, life sciences and medtech, ecommerce, agribusiness, renewables, equipment manufacturing, and hospitality. They include early-stage businesses needing assistance with fundraising and M&A. Kieren continues to advise those businesses as they evolve – guiding them through structural changes and advising on strategic, corporate transactions and commercial issues as they grow.

Kieren's clients benefit from his experience on the client side of transactions, which includes executive roles responsible for corporate development and strategy as well as line management with profit and loss responsibility. This complements his highly regarded corporate advisory experience which included working for a magic circle firm in London.

Clients value his ability to understand their businesses and to provide astute and practical advice over the long term, allowing them to proceed with confidence.

AWARDS & RECOGNITION

Doyle's Guide Leading Lawyers - NSW
2022, 2024-2025 | Business & Commercial

Lawyers Weekly – Partner of the Year Awards
2026 | Capital Markets - Finalist

Addisons' Venture Capital & Startups team

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Addisons' Venture Capital & Startups team advises startups and investors, supporting them to achieve their ambitions for their new business venture or investment.

Our startup clients come from a range of industries including technology, life sciences, agribusiness, health and retail. We work with many of them from formation, through their growth and operations to exit, assisting them with all their legal needs along the way.

Startup clients often struggle with business growing pains. They may be focused on fundraising, but they often also need broader guidance to establish solid foundations for their new venture. Our flexible support and bespoke advice scales to their needs, including advice on business structures, employment arrangements (including employee incentive plans), contracts or protecting intellectual property.

We also represent investors including venture capital funds, institutional and corporate investors and individuals in connection with investments in startups.

Our extensive local and international legal experience, as well as thorough understanding of venture capital and startup market practice and trends, ensures we can guide clients through the legal and commercial issues of establishing or investing in a startup.

"Rebecca Dooley and the team at Addisons have been excellent to work with, helping MAKO (formerly MicroTau) over a number of years and various matters. Rebecca is not only a pleasure to deal with, extremely responsive, and sharp in her advice - but she is also commercial. Rather than pursuing legal rabbit holes or fighting every point in a negotiation, her practical advice means we don't waste time and resources and instead are focused on what moves the needle in achieving our mission. This is a rare combination that we struggled to find in the years before engaging Addisons and we couldn't recommend them highly enough."

Henry Bilinsky, Founder & CEO, MAKO

AWARDS & RECOGNITION

Best Law Firms™ Australia – Sydney
2026-2027 | Venture Capital Law

Shared Pie, Bigger Pie: making ESOPs work for your startup

AUTHOR

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With most startups looking to manage cash flow while still offering competitive remuneration, an employee share option plan (ESOP) offers startups a method for attracting and retaining employees and other personnel by providing them with equity. To ensure that an ESOP is properly implemented, startups should be aware of how such schemes are operated, and the issues that need to be effectively managed.

What is an ESOP?

ESOPs enable companies to offer and grant securities to employees, contractors, directors and advisors, so they can receive an ownership interest in the company. In Australia, the most common form of security offered and granted by startups under an ESOP is options. Options provide the holder with a right to be issued shares in the future, usually in return for a cash payment (known as the 'exercise price').

There are multiple ways to structure an ESOP; this article focuses on some of the issues that need to be managed in relation to startups granting options to recipients who are Australian tax residents.

What to consider when implementing an ESOP?

Start-up concession

Unless a concession applies, the difference between the market value of the options granted to a participant under an ESOP and the amount that the participant pays in cash for those options (which is normally nothing) will be deemed to be taxable income for income tax purposes in the financial year in which the participant receives the options. This is usually a problem that startups need to resolve, as the participant will not have realised any actual value from their options, and will most likely not have the funds to pay the income tax, when it needs to be paid.

As a result, most startups structure their ESOP as a 'start-up concession scheme'. Under the start-up concession, 'ESS interests', such as shares or options, acquired at less than market value, do not have the discount treated as taxable income; the ESS interests will instead be treated as capital gains tax assets. To be eligible, a startup must, amongst other things, be less than ten years old, not listed on a stock exchange and not generate revenue greater than $50,000,000.

For an option grant under an ESOP to comply with the requirements of the start-up concession:

- the exercise price of the options must not be less than the market value of the underlying ordinary shares when the options were granted;
- a minimum holding period of three years, or when the employee ceases to be employed, if earlier, must apply to the options and the underlying ordinary shares; and
- the recipient's shareholding in the company cannot exceed 10% immediately prior to the option grant (and any options already held by the recipient are counted for this purpose).

The startup must also comply with various reporting requirements to both the Australian Taxation Office (**ATO**) and the participants under the ESOP.

What to consider when offering and granting options under an ESOP?

Corporations Act

When offering options under an ESOP, startups will need to rely upon an exception to the requirement to prepare a 'disclosure document' (such as a prospectus) under the Corporations Act 2001 (Cth). The exceptions most used in connection with ESOPs are:

- the senior manager exception, which permits companies to offer and grant options to a person "who is concerned in, or takes part in, the management of the body" without a disclosure document; and
- the '20/12' exception, which allows companies to raise up to $2 million from up to 20 persons in any rolling 12-month period without a disclosure document.

Companies must also be careful not to give any recommendations or opinions that intended to influence the decision of persons to participate in the ESOP, and not make offers under the ESOP to persons during unsolicited meetings or telephone calls.

Exercise price

As noted above, for the start-up concession to apply, the exercise price of the options must not be less than the market value of the underlying ordinary shares when the options were granted. The ATO has issued a 'safe harbour instrument' that sets out two different valuation methodologies that startups can use to determine the market value of their ordinary shares for this purpose.

Vesting regime

Options are often granted under an ESOP to a recipient in consideration of future services. Accordingly, it is important to have a mechanism that allows the recipient to 'earn' their options by performing the relevant services.

The mechanism most used by startups is a vesting regime. Under a vesting regime, the ESOP participant cannot exercise the relevant options unless and until a specified period passes or an event occurs.

Vesting is often time-based, with the vesting of options commencing after a certain point, known as a cliff. A common vesting regime involves options vesting across four years, with 25% of options vesting at a one-year cliff and the remaining 75% vesting at monthly or quarterly intervals over the next three years. Vesting can also be performance-based, which means that the options will only vest if the recipient meets specific performance objectives or KPIs.

Treatment of leaver's options

If the ESOP participant leaves the startup before the end of the time-based vesting regime, or does not satisfy the specific performance objectives or KPIs under a performance-based vesting regime, their unvested options will stop vesting and will lapse.

The startup may also have the right to buy back and cancel the vested options of a participant who has left the startup. The price paid for vested options often depends on whether the participant is a 'good leaver' or 'bad leaver'. A participant may be a bad leaver if they ceased working at the startup due to misconduct and accordingly will only receive a nominal amount for vested options. Alternatively, a participant may be a good leaver if they leave the company on good terms and will generally be paid the fair market value of their options. Companies may also decide that a good leaver can retain some or all of their vested options.

INSIGHT

ADDISONS

Preference shares: a (brief) explainer for startups, founders and investors

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Venture investors commonly require that they receive preference shares when investing in startups. Accordingly, it is critical for startups, founders and venture investors to understand the rights attaching to the preference shares.

These rights will dictate the return on investment to which an investor will be entitled upon the occurrence of certain events (which in turn will have an impact on the return on investment for the other shareholders).

What are preference shares?

Preference shares provide the holders of the preference shares with a preference or priority over the holders of ordinary shares on a winding up of the company, although the "liquidation events" are usually extended to certain exit events (such as a share sale or a business sale). The priority in relation to these distributions is customarily known as a "liquidation preference". If preference shares carry a right for the holder to have their investment repaid, that is referred to as a "1 x liquidation preference".

The exact formulation of the rights attaching to preference shares varies from company to company and it is not unusual for companies to have multiple classes of preference shares on issue.

Different types of preference shares

Whilst all preference shares provide the holders with a preference or priority, the other rights attached to them can vary and can be subject to negotiation between the company and potential investors. We look at some of these different rights below.

Convertible vs. non-convertible

Convertible preference shares may be converted into ordinary shares, either by the holder electing to convert, or upon certain triggers that are set out in the terms of the preference shares. These triggers often include:

1. an initial public offering by the company; and
2. a certain percentage of the preference shareholders deciding to convert all preference shares in that class.

If preference shares carry a 1 x liquidation preference, but no right to any surplus above that amount, convertible preference shareholders will convert to ordinary shares leading up to a liquidation event if they will receive a higher return as ordinary shareholders (or, on an "as converted" basis). Convertible preference shares can also carry a liquidation preference that is equal to the higher of these two amounts – that is, a 1 x liquidation preference, or the amount they would receive "as converted" to ordinary shares.

Non-convertible preference shares cannot be converted into ordinary shares.

Cumulative vs. non-cumulative

Preference shareholders can have priority over ordinary shareholders on dividend payments, although not always. If a dividend is not declared in a particular year, preference shareholders with non-cumulative rights to dividends will not be entitled to a dividend for that year. Holders of preference shares with cumulative rights to dividends are entitled to a dividend for that year at some point in the future (in priority to the payment of dividends to ordinary shareholders). Non-cumulative rights to dividends are more common in the Australian market where preference shares carry a dividend preference.

Redeemable vs. non-redeemable

The company may "redeem" redeemable preference shares, meaning that the company may cancel the shares (usually in return for a payment from the company to the holder) at:

1. a fixed time or on the happening of a particular event;
2. the company's option; or
3. the holder's option.

The company cannot redeem non-redeemable preference shares (unless the company utilises another mechanism, such as a share buy-back or capital reduction).

Participating vs. non-participating

On a liquidation event, the holders of participating preference shares are entitled to receive their liquidation preference, and also to participate with ordinary shareholders on a pro-rata basis in any surplus assets once all liquidation preferences have been satisfied.

The holders of non-participating preference shares are not entitled to participate with ordinary shareholders once they have received their liquidation preference.

Participating preference shares are rare in venture deals in Australia.

Other considerations

Anti-dilution mechanisms

Whilst this is ultimately a matter for negotiation between the company and potential investors, it is not unusual for the terms of preference shares to include an anti-dilution mechanism. Anti-dilution mechanisms protect investors against dilution if the company conducts a subsequent fundraising at a lower valuation (known as a "down-round"). They do this by adjusting down the share price of the preference shares, and thereby increasing the number of ordinary shares into which they convert – i.e. the number of preference shares increases on an "as converted" basis.

There are two main types of anti-dilution mechanisms:

1. **full ratchet anti dilution**: this mechanism drops the investor's share price to the share price of the down-round; and
2. **weighted average anti dilution**: this mechanism reduces the investor's share price only partly to the share price of the down-round and takes into account the number of shares issued at the reduced price. Weighted average anti dilution mechanisms can be either narrow or broad, depending on whether the weighting takes into account:
    - broad: all equity previously issued and currently under issue; or
    - narrow: only the total outstanding preference shares,

   when determining the new price for the old preference shares.

A broad-based weighted average anti-dilution mechanism is more favourable to the company and its ordinary shareholders and is more common in the Australian market.

Multiple classes of preferences shares

It is not unusual for startups to create a new class of preference shares for each new funding round, resulting in multiple classes of preference shares, each with different terms. The layering of rights can create a good deal of complexity. When a startup is considering creating and issuing a second or subsequent class of preference share, it is important that the terms of the new class are properly drafted to take into account the terms of the existing class(es), so as not to create inconsistencies and potential disputes between different share classes in relation to matters such as priority, liquidation preference and conversion.

Conclusion

Ultimately, the terms of the preference shares will dictate the investor's return on investment, which in turn will have an impact on the return on investment for other shareholders, including the founders. Mistakes in negotiating the terms of the preference shares, or failing to ensure those terms are properly configured with existing preference shares, can have significant consequences for both investors and existing shareholders of a startup, so it is essential that both startups and investors fully understand the rights attaching to the relevant preference shares.

INSIGHT

ADDISONS

University spin-outs: some key legal considerations for founders

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A university spin-out is a startup that is formed to "spin-out" and commercialise intellectual property (IP) developed through academic research at a university. These startups are usually founded by the researchers responsible for the underlying work and are often supported by the university's commercialisation structures.

Whilst a spin-out from a university is an exciting opportunity for the founders, such transactions can be complex from a legal perspective, and involve multiple legal issues for the spin-out and its founders, some of which are set out below.

Process

The legal process for spinning out IP from a university will most likely start with a term sheet. A term sheet is a non-binding document that sets out the key commercial and legal terms of the spin-out in simple language – it is a way of ensuring that there is high-level agreement between the university and the founders of the spin-out prior to the drafting of the final, legally-binding documents.

The university will most likely provide you with the first draft of the term sheet, and this is the time that you should seek legal advice. Whilst the term sheet is not legally-binding, it forms the basis for the drafting of the final, legally-binding documents, and it is often difficult to deviate from the agreed term sheet without reopening negotiations more broadly.

IP licence vs. IP assignment

It is important for founders to understand the difference between an IP licence and an IP assignment – most spin-outs include both IP licences and assignments.

Under an IP licence, the university retains ownership of the IP, but it grants the spin-out the exclusive right to use the IP on agreed terms. In the context of a spin-out, an IP licence is often granted by the university so that the spin-out can test whether there is sufficient investor and/or customer interest to commercialise the IP prior to the IP being assigned to the spin-out by the university.

An IP assignment is a transfer of the ownership of the IP from the university to the spin-out – once this occurs, the relevant IP is owned by the spin-out. Universities will usually only agree to assign IP to a spin-out once certain milestones are satisfied. These milestones are normally focused on the spin-out satisfying the university that it has the ability and resources to commercialise the IP, such as a business plan and funds (whether through a funding round, non-dilutive grants or otherwise).

Other IP considerations

Founders should ensure that the spin-out results in the company having all the legal rights it needs from the university to commercialise the IP – for example, does the spin-out need a licence to some of the university's "background IP" (e.g. IP that was created prior to or independently of the IP being licenced or assigned to the spin-out)? The university may also impose restrictions on the spin-out's ability to sub-license IP (e.g. no sub-licensing to third parties without the university's consent), particularly when the IP still belongs to the university. This may slow down the spin-out's ability to commercialise the IP, so founders may wish to negotiate exceptions to such restrictions.

Whilst the IP is being licensed by the university to the spin-out, the spin-out and the university will need to agree which party owns any improvements to the IP. If it is agreed that improvements are owned by the university, such IP should form part of the licensed and/or assigned IP.

Finally, if the IP is assigned to the spin-out, the university may require that the spin-out licenses the IP back to the university for research and education purposes. If this is the case, the key terms of this licence should be contemplated in the term sheet.

Compensation for the university

Commonly, the university will seek compensation for licensing and/or assigning the IP to the spin-out, which may include one or more of the following:

- equity: a shareholding interest in the spin-out;
- upfront payment: initial amount due to secure the licence or assignment;
- milestone payments: lump sums due upon events such as obtaining regulatory approval, first commercial sale or hitting certain sales targets;
- royalties: regular payments based on a percentage of sales or revenue;
- sublicensing fees: amounts due if the spin-out licenses IP to a third-party; and
- fee reimbursements: for example, for patent applications and registrations.

If it is agreed that the university will receive a shareholding interest in the spin-out, the term sheet should require that the university becomes a party to a shareholders agreement with the spin-out and its other shareholders (including the founders); the term sheet should also include the key commercial and legal terms for the shareholders agreement. Universities will often seek certain protections in the shareholders agreement (e.g. a board seat or an observer right, specific information rights), and it is in the best interests of all parties for such protections to be agreed at the same time as key terms of the spin-out.

Multi-founder teams should also ensure that there is alignment between the founders in relation to the terms of the shareholders agreement prior to negotiating the key terms of that document with the university – it is almost impossible to negotiate with the university when the founders are not in agreement.

Conclusion

It is unsurprising that the strong research and development culture in Australia's universities has created exciting and innovative IP, and university spin-outs offer the chance for that IP to be commercialised. To put the spin-out in the best legal position to proceed with that commercialisation, it is important that the legal documentation clearly and thoroughly sets out the rights and obligations of the both the spin-out and the university.

VENTURE DEALS

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FY26 highlights

Advised 2150 on its $12 million follow on investment in OpenSolar.

$12 MILLION

Advised Agscent on its Series A funding round, and its subsequent SAFE rounds.

$5 MILLION

Advised The Beauty Chef on its fundraising and secondary sale to The Light Warrior Group.

Advised EVX on its convertible note bridging round.

Advised Hachiko on its $1 million pre-seed fundraising and $2.5 million seed fundraising.

$3.5 MILLION

Advised Hullbot on its $16 million Series A funding round.

$16 MILLION

Advised Laronix on its $5 million Pre Series A fundraising.

$5 MILLION

Advised MicroTau (trading as MAKO) on its US$20 million Series A funding round.

US$20 MILLION

Advised Metluma on its seed fundraising.

Advised Oscorp Energy on its $1.3 million pre-seed fundraising.

$1.3 MILLION

Advised Preve on its $2.1 million pre-seed fundraising.

$2.1 MILLION

Advised Quasar on its seed plus fundraising.

Advised Virescent Ventures as co-lead of DryFlow Magnetics' $12.5 million seed fundraising.

$12.5 MILLION

Advised Voltavate on its pre-seed fundraising.

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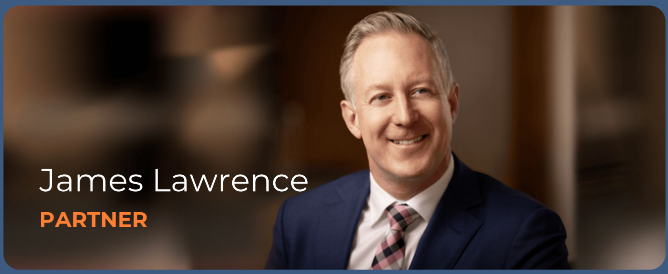

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ABOUT ADDISONS

A full-service commercial law firm, Addisons is built on enduring partnerships with Australian and international clients. Many have trusted us for decades to support them with their most complex legal issues and day-to-day concerns. Our teams are respected as astute problem solvers and tireless advocates who strive to know our clients' business. Our bespoke solutions focus on the essentials, equipping clients to make informed decisions, strengthen business relationships and navigate legal challenges to achieve their commercial and strategic goals.

Whatever success looks like for you, when you choose to work with Addisons, trust that our team is dedicated to ensuring your business succeeds.

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