

Royal Holloway, University of London

Spin-out Company formation – Policy and Procedures

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Background

Within UK universities, companies in which a university has a shareholding are usually formed for two main reasons:

- as one way to exploit the intellectual property (IP) assets owned by the university – these are often called “spin-outs”;
- to enable the university to trade whilst protecting its charitable status – these are often called “commercial subsidiaries”.

The aims and objectives of “spin-outs” and “commercial subsidiaries” are quite different. These Policy and Procedures apply to spin-outs.

1 Spin-outs

A university’s interest in a spin-out is basically that of an investment opportunity: the university invests (through licensing or assigning) intellectual property in return for a share of the company. Other initial or founder shareholders are likely to be the academic originators of the IP (the “academic founder(s)”). Spin-outs are usually capitalised by third party cash investment rather than funded by university cash, although it may have access, through the university, to very early stage and relatively small (in commercial terms) cash investments from Proof of Concept funds (typically £25k - £50k) and Challenge funds (up to £250k). As the university usually does not invest cash at any stage (other than small amounts, typically less than £5k, to support initial company formation), it expects its shareholding in the spin-out to be diluted through subsequent investment rounds. The influence and control of the company by first round and subsequent third party cash investors and recruited professional management grows as the university’s and other founders decline. The university is usually seeking to make a medium term financial return (5 to 7 years) through capital gain i.e. by selling its shares, which, if the spin-out is successful, should have increased significantly in value, for a profit. It is usually not involved in the detailed operation of the company after the investment of the IP and first round third party investment and will usually maintain its interest in the company, prior to exit, as a shareholder. A “spin-in” (a company in which the university gains its shares not through investment of university owned IP but through the value it creates through very early stage specialist/technical advice and/or generic business creation advice and support) should be regarded as the same as a spin-out company. The College’s general aims, the relationship and the terms of a relationship between a spin-in company and the College are the same as for that of a spin-out company.

The decision to pursue a commercial opportunity through a spin-out rather than licensing the IP to an existing company is a matter of judgment. Spin-outs are usually pursued when the initial IP might provide a platform for exploitation across a variety of sectors and products and / or the realisation of

the value of the IP relies on the investment of financial and / or technical resources beyond the control of the university, hence the requirement to start a corporate entity which can receive commercial investment.

The corporate entity is most likely to be a limited company, however other forms of incorporation e.g. Limited Liability Partnership, will be considered on the recommendations of our advisors if they offer tax or other advantages. The principles of ownership, strategy, risk assessment, operational management and value sharing described in this policy specifically to limited companies will apply to other forms of incorporation available at the time.

Note The new Companies Bill is likely to come into law towards the end of 2007, which may affect some issues (such as the codification of directors' duties) covered in this policy. The College will keep this policy under review in the light of any changes the Act may require.

2 Commercial subsidiaries

A university's interest in a commercial subsidiary is more complicated: it is usually seeking to protect the charitable status of its core teaching and research activities whilst exploiting a trading opportunity. The formation of a commercial subsidiary may also offer operational advantages (e.g. the employment of specialist staff outside university employment terms). The university would usually be intimately involved in the formation of its strategy, creation of its business plans and the establishment and crucially, the funding of its operations (hiring staff etc) and maintains close control of its operations and strategy. The university would usually own 100% of the shares and the board is likely to consist wholly of, or be dominated by, university staff. The university's interest in the company is usually long term and its financial return would likely be through the remitting of operational profits (say through the levying of management fees) rather than capital gain through the sale of shares.

3 Responsibilities

The decision to form a spin-out company will be taken by the Enterprise Sub-Committee (ESC), on advice provided by Research & Enterprise (R&E) in consultation with the academic founder(s). R&E's advice will be based on market and technical studies and the review of business plans. Following ESC's decision to spin-out, R&E will be responsible for organising the company formation, supervising the investment readiness process and monitoring and managing the College's interest in the spin-out project. R&E will provide ESC with regular progress updates. ESC will take decisions on strategic issues, such as the consideration of the terms of investment offers, exit opportunities or the winding-up of a spin-out (for example, in the event that it fails to secure initial investment). R&E will provide the necessary information and advice to allow the ESC to take informed strategic decisions.

4 Spin-out or license?

As explained in 1 above, the College regards a spin-out as an investment opportunity and the formation of a spin-out company is to enable the investment by third-parties into the IP to enable the most effective development of the commercial opportunity represented by that IP, in order to maximise the return for both the College and the academic founder(s). By forming the company, it is not the intention of the College to attempt to participate in the future day-to-day management of the spin-out. Third party investment in the spin-out will, inter alia, allow the recruitment of suitably qualified and experienced management, who will be responsible, to the shareholders (financial investors, the academic founder(s) and the College) for the management of the company.

5 Company formation and tax issues

The College's company formation process is designed to minimise wherever possible any potential tax (and other) liabilities of both the College and the academic IP originators. The College's policy and procedures are based on advice provided by its professional advisors.

5.1 The Academic(s) – Income Tax Implications

Where an employee of the College who has been involved in the research and development of IP during the course of their employment receives shares in a spin-out company after 2 December 2004, they will be exempt from income tax when they receive the shares to the extent that the value of the shares is represented by the IP and associated goodwill. Interested parties may find more details by referring directly to the Finance Act 2005. Prior to this exemption the individual may have been subject to an income tax charge on the receipt of these shares. The exemption operates where the right to acquire the shares has arisen by virtue of the academic's employment with the College or spin-out company and the acquisition of shares is before or within 183 days of the IP transfer agreement taking place (i.e. the licensing or assignment of the IP from the College to the spin-out company). However, taxation regulations do change and the College does not guarantee that these procedures will produce the optimal tax position in all circumstances and would encourage academics to seek their own independent, professional advice.

5.2 The College's Tax position

Universities as charities are not exempt from tax per se but by virtue of Section 505, Income and Corporation Taxes Act 1988 they are exempt from tax on certain types of income providing the income is applied wholly for charitable purposes. Of relevance to this policy, the exemption applies to investment income i.e. interest and

dividend income. Where a University disposes of any IP which has been created or acquired after 1 April 2002, the disposal will be covered by the corporation tax exemption for charities on the disposal of non-trading gains arising from the exploitation of IP. To take advantage of the exemption the College will need to ensure that it applies any cash consideration received for IP disposal for charitable purposes only. To the extent that the College receives any non-cash consideration for the IP disposal, for example shares in a spin out company, then it will need to be satisfied that the shares represent a “qualifying investment” for tax purposes.

Where the investment is by way of share capital in an unlisted company (i.e. a private limited company spin-out), the College must be satisfied, in order for it to be a “qualifying investment”, that this investment is “for the benefit of the charity”. This will generally be the case where the investment is made on sound commercial terms, for example where the College can evidence that it has reviewed profit/cash flow projections/business plans and has considered that it will receive a commercial rate of return on its investment. Hence the requirement for ESC’s decision, on behalf of the College, to be based on sound commercial terms based on advice from R&E as detailed in 3. above. The College’s tax position will be monitored by its professional advisors as commissioned by R&E and any amendments to this policy will be recommended as necessary to the ESC.

6 When should a spin-out company be formed?

The formation of a spin-out company is basically to allow the investment by third parties into College IP to enable the most effective commercialisation of that IP. Proof of Concept and Seed funds that the College has access to do not require the formation of a company in order to receive funding to allow the investigation and early stage development of the commercial opportunity represented by the IP. The commercial development work enabled by these funds is crucial to the decision as to the most effective route to market i.e. to license or spin-out. There is therefore no need to form a company until and unless both a decision to spin-out has been made *and* there is a likely prospect of it attracting investment. Most third party investors will normally require a new Shareholders’ Agreement (often called an Investment Agreement). Each investor tends to have their own format and these Investment Agreements nearly always supersede existing Shareholders’ Agreements. As College spin-outs will be specifically formed with the prospect of imminent private equity investment R&E does not propose in normal circumstances to draw up detailed Shareholder Agreements as part of the initial company formation policy. It is possible there could be circumstances in which a spin-out company could begin to effectively trade without the need for third party investment (e.g. a consultancy business), however this is likely to be an exception to the general spin-out model.

7 Shareholding in the spin-out company

50% of the shares in the spin-out company will be held by the College and 50% by the academic originator(s). This will be the shareholding position at incorporation and before the first round of investment. This ensures that interests of the academic originator(s) and the College are aligned vis a vis the inevitable dilution that will take place in the first and any subsequent investment rounds. However, the Shareholder Agreement will contain provisions for the College to have a casting vote in the event of a shareholder deadlock where the shareholding of the spin-out is 50% owned by the College and 50% by the academic originator(s). There may be circumstances in which parties other than the College and academic founder(s) might have a legitimate interest in the spin-out – e.g. other Universities and / or other companies who might have helped develop the venture or the IP. Their participation in the venture may require both the College and the academic founder(s) to reduce their standard 50% shareholding. In these circumstances, negotiation (led by R&E) in order to obtain to the best deal will be inevitable and the outcome vary from case to case. Likewise, shareholdings in spin-ins will be determined by negotiation and will vary from case to case. Current professional advice is that shares and options should be held directly by the College rather than Royal Holloway Enterprise Ltd.

7.1 The College's role as a shareholder – liabilities and rights

This policy assumes the spin-out company is a private limited company limited by shares and further assumes that the Company is registered with Companies House for England and Wales.

Liabilities The liability of the shareholder to the limited company, in normal circumstances, can never be more than what the shareholder has agreed to pay the limited company for the shares in the company. Shares in newly formed companies are usually issued (i.e. sold) to shareholders for a nominal price. For instance, the “authorised share capital” of a newly formed limited company maybe £100, divided into 1,000 ordinary shares of £0.10 each. In “taking up” (i.e. buying) 50% of the shares, the College would literally pay £50 to the company for these shares. So in this example, the limit of the liability, in normal circumstances, of the College to the company would be £50. Shareholders of a company limited by shares are distinct ‘legal persons’ quite separate from the limited company itself, so the direct liability of such shareholders to third parties with whom the company has dealt (and with whom the shareholders have not directly dealt) is nil. In no circumstances will the College underwrite or guarantee any loans or similar financial transactions or in any other way subsidise, guarantee or underwrite any of the operations or undertakings of a spin-out company. Note the role of a Director in a limited company is quite different to that of a shareholder (see 8 below).

Rights The statutory rights of shareholders in limited companies are determined by the Companies Act 1985. Basically, both in terms of

these rights and in practice, the greater the shareholding of an individual, the greater their rights and the greater their power within the company. Whilst all limited companies have to register two documents, a Memorandum of Association (which contains the company's name, where the registered office of the company is situated and what it will do - its objects – often the “object” of a company may simply be to carry on business as a general commercial company) and Articles of Association (which sets out the rules for the running of the company's internal affairs), these tend to be quite standard documents. There is however, a third document, often called a Shareholder Agreement. Shareholder Agreements (sometimes called subscription or investment agreements) tend to be lengthy documents. Together with the Articles of Association, they set out a detailed set of rules governing the relationship between the shareholders, any special rights of the investors, transfer of shares, decision-making by the Board and so on. As noted in 6 above, most third party investors will normally require a new Shareholder Agreement. Each investor tends to have their own format and these Investment Agreements nearly always supersede existing Shareholder Agreements. In most circumstances we would therefore not anticipate adopting complex Shareholder Agreements as part of the initial spin-out company formation process (see 7 above regarding deadlock resolution).

7.2 The academic founder(s) role as a shareholder – liabilities and rights

Subject to any provision in either the Articles of Association or the Shareholder Agreement, academic founder(s) are shareholders in their own right within the spin-out company, with similar liabilities and rights as outlined in 7.1 above. However, as a distinct “legal person”, academic founder(s) should seek independent professional advice if they require further advice or information regarding their role as a shareholder.

8 The company formation process – Directors roles and responsibilities

R&E will, through its professional advisors, register the company at Companies House. The name of the company will be decided by R&E in consultation with the academic founder(s).

8.1 Directors and officers of the company

Current regulations require that a limited company registered in England and Wales has at least two officers: one Director and a Company Secretary. A sole Director cannot also be the Company Secretary. Although an officer of a company, the Company

Secretary is not a Director of the Company. R&E's professional advisors will initially take on the role of Company Secretary to ensure that the Directors of the spin-out company can best meet their (i.e. the Directors') obligation to comply with Companies House and other statutory filing and governance requirements.

8.2 Role and responsibilities of a company Director

It is important to bear in mind that company Directors have a range of exacting legal responsibilities and duties. Failure to comply with some of these statutory obligations can lay the Director open to criminal charges. In addition to these statutory responsibilities, Directors also have a range of well-established (common-law) fiduciary duties. In particular, as a Director you should: act in good faith; act in the best interests of the company; avoid conflict between personal and company interests; not make any personal gain from opportunities which arise by virtue of your position. Basically, the law regards the role of a company Director as similar to that of a trustee: i.e. the shareholders have 'entrusted' the company assets to you its Director(s) and the Director(s) must act in their (i.e. the shareholders') best interests. Failure to fulfil these duties can result in an action by the company against the Director(s) for damages.

8.3 Who should be the Director(s) of the spin-out company?

As noted in 8.1 above, a company needs at least one Director.

8.3.2 The "College Director(s)"

At least one Director (but usually just one) will be appointed by the College through the ESC, on the recommendation of R&E. The "College Director" will usually be either the Director of R&E or the R&E executive managing the IP commercialisation project but could be another College employee if considered appropriate or desirable. Although employees of the College, the College Director(s), unlike the academic founder(s), will not be offered nor hold shares in the spin-out Company. As these College Directorships will be considered part of their normal employment duties, the College will provide suitable indemnity insurance to cover their duties as a company Director. In addition, no College employee will be appointed a College Director without the approval of Principal and having first undertaken suitable training to make them aware of the responsibilities of being a company Director. College Directors whilst empowered to act as a full Director of the spin-out company are not empowered to make shareholder decisions on behalf of the College unless specifically authorised in writing in advance by the ESC.

8.3.3 The Academic Founder(s) as Directors

It is not essential that the academic founder(s) be a Director(s) of the spin-out company. However, their involvement in the commercial development of the IP is usually vital, particularly in the early proof of concept stages. The founder academic(s) will have a financial interest in a spin-out company through their shareholding (see 7 above). However, the founder academic(s) may wish and / or it may be advantageous to the spin-out company for the founder academic(s) to participate as a Director of the spin-out company. This should be fully discussed with R&E. If both the College (through the ESC) and founder academic(s) agree that the founder academic(s) should be a Director, R&E will make the same company Director training that is available to College Directors available to the founder academic(s). Participation in suitable training will be considered essential before the College can agree to a founder academic(s) taking up a Directorship in a spin-out company. However, as a company Directorship is not considered part of their normal duties as a College employee, the College will not provide indemnity insurance to cover their role as a Director of the spin-out company. However, the spin-out company may provide suitable insurance for Academic Founder Directors.

8.3.4 Academic founder(s) services to a spin-out Company

The academic founder(s) may wish to provide services for the spin-out company or this may be a requirement of investors. Initially this is likely to be as a consultant, in which case a consultancy contract between the academic founder(s) and the spin-out company should be agreed, through R&E, between the parties in line with the College's consultancy policy. Should the academic founder(s) and the spin-out company wish to extend the services provided by the academic founder(s) to the spin-out company beyond the scope of the College's consultancy policy (e.g. as an employee of the spin-out company), this will need to be agreed by the College on a case by case basis. In no circumstances will the College underwrite or subsidise the cost of the academic founder(s)'s services to the spin-out company.

8.3.5 Shadow Directors

Section 741 (2) of the Companies Act 1985 says that a Shadow Director "means a person in accordance with whose directions or instructions the directors of the company are accustomed to act". This was subsequently widened by case law (Court of Appeal, 1999) in a judgement that "the expression "shadow director" is wide enough to include a person on whose advice or guidance the official board of directors is accustomed to act, unless the advice or guidance is given in a professional capacity, and it is not necessary that the official board cast themselves in a subservient role or

surrender their respective discretions.” The significance of this is that a Shadow Director is deemed to have the full legal liabilities of a normal Director, and could thus be sued, fined, imprisoned and so forth (see 8.2 above). Academic founder(s), R&E and other College staff and management who have contact with a spin-out company should be made aware of these issues. Attendance at spin-out Board meetings for non-Directors, even as “an observer”, should be carefully considered. In particular, since some of the spin-out Directors (College Directors and academic founder(s) Directors) will be College staff, it is most important that senior members of the College, including their own supervisors, do not in any way give instructions to such Directors as to how they should conduct the affairs of the spin-out company. Giving such instructions could, at a stroke, make that person a Shadow Director.

9 R&E and College support to spin-out companies

One of the principal roles of R&E is to develop and support the commercialisation of academic founder(s) generated and College owned IP assets. With particular relation to spin-outs, R&E will work closely with academic founder(s) to provide proof of concept, commercial and “investment ready” support and access to College proof of concept and seed funds. It will also, where appropriate and necessary, attempt to secure the services of interim or initial management teams, recognising that this is a vital but probably the most difficult element of the commercialisation process. It will lead and manage the company formation process as part of the objective of securing third party investment to enable the sustainable development of the commercial opportunity through the spin-out company. One of the main aims of securing of third party investment is to bring with it a suitably experienced and qualified management team. After this point, it is the aim of the College that the College Director should resign (and cease the provision of support to the spin-out company through R&E’s professional advisors) and R&E will continue to monitor the College’s investment in the spin-out Company as a shareholder rather than through its participation as a Director or being involved in the strategic or day-to-day management of the spin-out Company (see 8.3.4 below). It is the College’s policy not to participate as a financial investor in initial or subsequent funding rounds.

9.1 Services or facilities provided by the College to a spin-out company

Any services or facilities provided by the College to a spin-out company will be priced and supplied in light of the appropriate College policies and Codes of Practice and on an arms length basis. The College’s investment in a spin-out company consists of the

licensing or assignment of the IP, commercial and “investment ready” support and access to College proof of concept and seed funds. In no circumstances will the College underwrite or subsidise the cost of services or facilities provided to a spin-out.

9.2 Legal Advice

Whilst R&E and the College is prepared to support the spin-out process and in some respects its interests will be aligned to the academic founder(s), the academic founder(s) are a distinct “legal person(s)”. It is likely that during the spin-out process, that the College will retain professional advice, as will any investor(s) and the spin-out company itself. The College recommends that academic founder(s) should seek independent professional advice if they require further advice or information regarding their role as a Director, shareholder or investor.

10 Licensing of College IP to the spin-out company

Provided that the College, through ESC is satisfied, on advice provided by R&E, that the spin-out company is the best vehicle for exploitation of the IP and that any prospective third party investment is likely to be on acceptable terms, the College will be prepared to license the relevant IP to the spin-out company. The College’s shareholding in the spin-out company is not just a consideration for the licensing of the IP but represent: consideration for the value created by the College’s support of the academic founder(s) work; supporting the commercialisation of the academic founder(s) idea; and the incurred expenses of patent and IP management. The College’s ownership and the revenue sharing arrangements with the originators of the IP are determined by the College’s “Exploitation of Inventions and Patents” Code of Practice. In order to comply with best practice and to facilitate future due diligence by potential investors, the College will require the academic founder(s) to sign an assignment agreement to confirm the College’s ownership position of the specific IP involved in the spin-out project . Rather than assigning the IP to the spin-out company, the College’s preferred route is to issue a licence when substantial third party investment into the spin-out company is received. The terms of this licence will be determined on a case by case basis. There will be several key conditions of the licence. From the effective date of the licence, the licence requires the spin-out company to cover the costs of maintaining any patents or the cost of applying for patents. Failure to pay these costs will enable the College to terminate the licence should it chose to do so. Additionally, should the spin-out company get into financial difficulties resulting in the petitioning for its winding up (other than for the purposes of a bone fide amalgamation or reconstruction) or has a receiver or administrator appointed over all or any of its assets, the College may terminate the licence. This “clawback” right is the College’s (and the founder academic(s)) protection against losing the IP to a company receiver. A clawback right is usually lost in an assignment of the IP.

10.1 IP Warranties by the College

The College is mindful of future investor's needs to conduct rigorous due diligence, especially in relation to the IP. The College's policy is to conduct rigorous due diligence on its own IP and cooperate as fully as possible to encourage enabling investment. However, our standard practice is that the College is not prepared to warrant: the source of the IP; whether the technology will work; whether any patent applications for the IP will be granted; whether any third parties, other than the named inventors, has any rights in the IP; whether the IP will infringe third party IP and whether the IP will be effective to prevent third parties from competing with the company.

10.2 Warranties by the Academic Founder(s)

Academic founder(s) should be aware that they will probably be asked to give personal warranties, IP and non-IP related, to investors. This is a matter on which they should seek their own professional advice.

10.3 "Pipeline" Agreements

In this context, a pipeline agreement would essentially be an extension to a licence agreement described in 10 above. Investors in a spin-out company often want access to future new IP based on developments of the IP licensed to the spin-out company. Whilst this may seem reasonable, in practice these agreements can cause real problems for the College. For instance, it is possible that pipeline arrangements could prejudice future research grant applications as many funders may not back new applications if the output has been encumbered by being "pre-licensed". Or it may be difficult to recruit new academics into departments or groups if the IP that they might generate has already in effect been licensed. The College recognises that there may be circumstances where some type of pipeline arrangement might be considered desirable for the commercial success of the spin-out company. However, the College anticipates that it will only agree to these in exceptional circumstances and then only if: the IP is tightly defined and linked only to named individuals rather than Departments or groups; the initial right to any new IP is in the form of a time-limited option rather than an automatic licence on the same terms as the original licence and the overall time of the pipeline agreement limited to say three years.

11 Dividend or "exit"?

As stated in 1 above, the College, as well as pursuing the commercialisation of IP through spin-outs as part of its third stream responsibilities, also regards a spin-out company as an investment opportunity. However, the College's

position is not the same as a venture capitalist. The College's (and the founder academic(s)) equity position is likely to have been significantly diluted through successive funding rounds, as neither the College nor the academic founder(s) normally participate in follow-on funding – although the value of these shares may also have significantly increased. However, such value growth is by no means guaranteed – in fact quite the opposite – typically 7 or 8 out of 10 venture capital backed start-ups (which is the status of a typical University spin-out company) do not succeed. If the spin-out company is involved in a high technology business (which is typical), it is unlikely to even breakeven let alone achieve profitability for a number of years – usually at least 5 to 7 years, or even longer in the case of most biotechnology ventures. In these circumstances, it is unlikely that the College should expect to receive dividends from its shareholdings in spin-out companies. However, a company does not have to be profitable for the value of its shares to appreciate significantly.

R&E will maintain an active shareholder / investor interest and if it considers a potential profitable exit by the sale of the College shares is possible, will alert the ESC. Appropriate professional advice will be retained and the decision as to when at what price the shares should be sold will be made by the ESC. A decision to strike-off or wind-up a spin-out company will be taken by the ESC.

12 Key principles and variations to this Policy

It is not possible to anticipate all the circumstances which might arise in the course of the formation of a spin-out company, investment into that company by third parties and other strategic and more operational issues which might arise in the course of forming a spin-out company and particularly how a spin-out operates post funding. However, this Policy does set out some key matters of principle as well as some other more detailed issues. It is the intention of this Policy to provide guidelines to the College community explaining the College's objectives in pursuing spin-out opportunities, how it works with academic founder(s) and how it anticipates relating to the needs and requirements of third party investors and critically, the terms and conditions determining the College's relationship with spin-out companies.

Key principles

- 12.1** Once the decision has been made to pursue a commercialisation opportunity through a spin-out company, the College will use all reasonable endeavours to support the successful “spinning out” – i.e. helping to raise sufficient initial investment to develop the opportunity and attract the right management team to pursue the opportunity as a commercial venture (the “spin” part of spin-out) independently of the College (the “out” part of spin-out). Once it has raised the capital and has a management team, the College will maintain its relationship as an interested investor NOT as an active manager of the company. It is anticipated that College Directors will resign once third party investment has enabled the recruitment of a management team.

- 12.2** Inappropriate pipeline agreements can create real problems and the possible future rewards of a spin-out cannot jeopardise the College's core academic research activity.
- 12.3** In no circumstances will the College underwrite or subsidise the cost of services or facilities provided by the College to a spin-out company nor will the College underwrite or guarantee any loans or similar financial transactions or in any other way subsidise, guarantee or underwrite any of the operations or undertakings of a spin-out company. To do so would expose the College to liabilities and risks that as a charity pursuing its educational and research purposes it is not equipped or prepared to do.
- 12.4** The College will not, over and above small cash sums needed to support the initial company formation, invest College cash, at any stage, into spin-out companies.
- 12.5** The respective equity share between the College and founder academic(s) is determined by the College's "Exploitation of Inventions and Patents" Code of Practice (a copy of which is included in Appendix I). The College believes this represents a fair division of the proceeds of IP developed by staff of the College. To maintain fairness in its dealings with the College community, the College does not intend to vary these terms in the course of any individual spin-out transaction.

Variations

R&E lead the spin-out process on behalf of the College. It is enabled to negotiate and represent the interests of the College with the other parties concerned with the spin-out process. However, the key principles (above) should be regarded as non-negotiable. This Policy has been agreed by the Enterprise Sub-Committee and Finance Committee. Any variations to this Policy must be agreed by these College Committees.

This policy was approved by Council at its meeting on 27 March 2007

Appendix I

The Exploitation of Inventions and Patents

Code of Practice

The College's policy is to encourage members of staff to work on new developments and inventions and, specifically in the case of academic teaching staff, the terms and conditions of employment expect a person to advance his or her subject by research or otherwise.

2. This Code of Practice is based on the following principles from the CVCP Working Party's Report issued in 1977 and still recommended as good practice:

- i) Universities should promulgate detailed procedures for all categories of staff and students to govern the patenting and commercial exploitation of research results.
- ii) For the avoidance of any doubt on this matter, all contracts of employment for academic staff should include the clearly stated requirement to undertake research in addition to teaching.
- iii) Universities should ensure that all agreements for research under the sponsorship of research councils and other bodies are subject to prior approval by the institution, which should have special regard to detailed mutually acceptable provision for the exploitation of results.
- iv) Universities should ensure that no member of staff undertakes private consultancy work without the prior approval of the institution, which should have special regard to disclaiming the institution's liability.
- v) Universities should, where research students are supported by the university's own scholarships, adopt regulations concerning commercial exploitations which are based on those of the research councils.
- vi) In the case where a student is a member of a research team whose efforts have resulted in an invention, a university should treat him/her, for the purposes of the patenting or commercial exploitation or the research results, in the same way as the members of staff who comprised the rest of the research team.
- vii) If an invention is potentially patentable, care must be taken to ensure that the possibility of patenting is not lost by premature publication.

3. If, in the course of his or her duties, a member of staff makes an invention which he or she believes to be commercially exploitable, this must be reported by the member of staff to the Principal who, in consultation with the HoD and the member of staff, shall ensure that steps are taken to protect and exploit the invention, if appropriate. No contact or arrangements shall be entered into with an outside body or bodies without the prior agreement of the Principal.
4. Ownership of intellectual property is determined by the College's Intellectual Property Policy
5. The inventor and the College will collaborate to protect the secrecy of the invention at all times before the filing of any initial application to patent. (The patents act, 1977, forbids any disclosure before filing with only three exceptions, which operate during the six months before filing: the display of the invention at an international exhibition, disclosure following the unlawful obtaining of information and disclosure by breach of confidence.)
6. If, having taken expert advice, the Principal decides that the College does not wish to take part in the development or exploitation of an invention, the College will assign its rights in the invention to the inventor. Alternatively, arrangements will be made for an interested third party such as a commercial company to take over the rights in terms mutually agreed between the College, the inventor and the company.
7. Otherwise the College will undertake responsibility for the development and exploitation on behalf of both the inventor and the College, will either:
 - i) Ask an external agency such as the British Technology Group (BTG) to assess the invention and if the agency reports that the invention is of interest, the College may ask it to undertake development and exploitation, or:
 - ii) With the collaboration of the inventor, the College will apply for patent protection.
8. Before sharing any benefits from the invention, the College will recover any direct and overhead costs arising from the production of the invention itself and the expenses of patenting. The assessment of overhead costs rests with the Finance Committee after full consultation with those directly concerned.

9. The sharing of net income generated by the exploitation of an invention will normally be as follows:

Net Total Income	College	Department	Inventors
Within the first £10,000	-	10%	90%
Within the next £20,000	15%	10%	75%
Thereafter (over £30,000)	30%	20%	50%

Note: If there are more inventors than one, the Principal will decide upon the distribution of the inventors' share among them.

Arrangements for spin-out companies are determined by the College's "Spin-out Company formation – Policy and Procedures"

10. A student who produces, or belongs to a research group which has produced a patentable invention will be treated as a member of staff for the purposes of patenting and commercial exploitation of the invention.
11. Except where the College has fully assigned its rights to a member of staff when, therefore, total liability rests with the individual, the College's usual liability insurance policies will cover the development and exploitation of patentable inventions in the same way as it covers other College activities.
12. For the purposes of this Code of Practice, computer software will be regarded as an "invention".
13. This code of practice will be reviewed from time to time in light of experience of its operation.

This revised version of the Code of Practice was approved by Council at its meeting on 27 March 2007.