COMMERCIALISATION POLICY

Aston University Internal Procedure on the Handling, Protection and Commercialisation of Intellectual Property

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A INTRODUCTION

A1 Scope

The purpose of this paper is to set out the University's internal procedures for the handling, protection and exploitation of its intellectual property and in particular for the approval, establishment, funding and operation of spin-outs companies established for the purpose of exploiting University intellectual property.

A2 Settlement of Disputes in relation to these procedures

In the event of any dispute or grievance regarding these procedures or the way in which they are applied, these will be resolved in accordance with the University's normal staff or student (as appropriate) dispute and grievance procedures.

B HANDLING INTELLECTUAL PROPERTY

B1 What is Intellectual Property?

Intellectual Property ("IP") refers to ideas, information and knowledge that can be protected and commercialised (used to generate revenue). This includes, *inter alia*, inventions, literary and artistic works, symbols, names, images, designs, know-how and confidential information.

B2 Ownership of IP

Most IP generated, discovered or developed at Aston University will be owned by the University. Details of how ownership of IP created at Aston is decided are set out in the University's IP Policy as amended from time to time.

B3 IP Pipelines

IP Pipelines are arrangements (which may be either formal or informal) by which a research funder automatically gains rights over new IP generated in the future in a particular lab or department or by a particular researcher whether or not the funder explicitly funds the research from which such new IP is derived. Care should be taken in any negotiations over IP, whether carried out by the Research Support Office, Business Partnership Unit or otherwise, to avoid creating IP Pipelines.

B4 IP Due Diligence

It is vital that the University does not seek to commercialise any IP until it has investigated and established its ownership and any obligations it has to third parties.

B.4.1 Due diligence procedure:

As soon as possible after becoming aware of any particular IP, the Business Partnership Unit ("BPU") (or any similar unit which supersedes it) should investigate and establish ownership and any third party rights attaching to the IP. In order to do this the BPU has designed a number of forms which the creators of IP are required to complete.

- An employment and funding form

  This seeks to find from the creators who they are employed by, who funded the work in question and whether any other arrangements have been entered into that may affect ownership or rights over the IP. Each originator of IP completes one of these forms. On receiving the completed forms the BPU will arrange to view original contracts to check ownership status of IP, or where there appears to be third party involvement but no contract exists, will contact the third party to agree rights to commercialise the IP. Where students are involved in the creation of IP the University will ask them to assign their rights in the IP to the University in return for admission to the University's revenue sharing scheme in accordance with the University's IP Policy.

- Declaration of inventorship

This requires the inventor to make a declaration stating who the inventors are – it is useful in the case of later disputes over inventorship.

- Assignment

  As there has been some uncertainty over whether a University is legally entitled to the IP of its employees, members of staff are asked to sign a confirmatory assignment of IP to the University. Where a student has been involved in the creation of IP they will be asked to assign their IP to the University in consideration of a revenue share according to the University's policy. Following such assignment students will be treated in the same way as staff members and, unless otherwise stated, references in this procedure documents to members of staff will also apply to students who have assigned their IP to the University in accordance with this procedure.

- Revenue sharing agreement

  It is University standard practice that unless the inventors agree otherwise they will share equally the revenue share due on their invention. This form allows them either to agree that revenue should be shared equally or to agree other arrangements.

- Technology Evaluation Form

  This allows the University to gather the information necessary to file a patent application and to assess commercial potential

- Case for Filing Form

  This allows the University to gather the information required to make a decision on whether or not to file a protective application in respect of any particular item of IP. It also requires staff involved to identify all inventors so that any dispute over inventorship can be settled prior to filing. The form finally requires a signature from the relevant Executive Dean as an indication that they know of no reason why the filing should not proceed.

Copies of the above forms and agreements are available from the BPU on request.

Due diligence checks are the responsibility of the BPU and the member of BPU staff completing them should sign a certificate indicating that they are complete and that to the best of their knowledge the University is free to commercialise the IP. Any arrangements for sharing revenue with third parties should be attached to this certificate and it should remain with the file.

The inventors are required to keep the University informed of their contact details as throughout the commercialisation process it may be necessary to obtain their input.

Once the University's ownership has been established the University is free to protect and then to exploit the IP. No publication or exploitation of IP must take place until the IP is protected.

B5 Protection of IP

The Pro-Vice Chancellor for Business Partnerships and Knowledge Transfer, taking into account information from the BPU's steering group on technology exploitation, and whether approval has been received from the relevant Executive Dean, shall make the final decision on whether any particular IP should be protected either via patenting or other protective application and whether any protective application once filed is continued. If a decision is made to file a protective application this will be done via one of the University's approved patent agents. Any IP acquired from outside the University should be transferred to one of the University's approved agents as soon as reasonably possible taking into account ongoing prosecution. The BPU shall retain the discretion to use whichever of the University's approved agents it considers most appropriate for any particular case.

The University shall initially be responsible for paying any expenses associated with the protection of IP which it may cover through grants from external sources if appropriate. However external patent costs should be recouped from any licensee or other party which commercialises University IP. As a minimum any commercialisation of University IP should not leave the University with a loss taking into consideration any expenditure the University has made in protecting the IP.

Ideally, due to the costs involved, protection of IP through filing of patent applications or other means should not take place until the due diligence process is complete and the University has a reasonable degree of certainty over ownership of the IP. However, it may be necessary to file a protective application before the due diligence is complete where there is a requirement to publish the results. A patent application is almost always invalidated by public disclosure of the idea or its underlying research before a patent application has been filed. For this reason, no information on an invention should be made available to the public anywhere in the world prior to a patent application being made - this includes grant applications, journals, oral presentations, posters and even casual conversations. This may mean that a patent or other protective application needs to be filed before due diligence is complete. Such cases will be at the discretion of the BPU, but where an application is filed before due diligence is complete, due diligence should be completed as soon as possible and before any commercialisation is carried out.

The BPU will provide the following reports on commercialization activities:

- An annual report to the Executive Dean of each School detailing any patents or other protective applications filed on IP originating from that School; and
- An annual report to Finance Committee detailing all commercialization activities and the running total of income and expenditure to date.

B6 Evaluation of commercial potential of IP

Research and/or results which may have commercial potential should be brought to the attention of the BPU. This may be through any of a number of routes, such as a technology audit of a group or individual researcher, an approach by the researcher themselves or through an indication from a colleague that a certain researcher should be contacted by the BPU.

The BPU may use a number of tools to assess the commercial potential of a technology. One such tool is the Technology Evaluation Form that the BPU has devised. The form prompts consideration of a variety of factors and can then be used to identify any areas of weakness that require further attention if the project is to be pursued successfully. A copy of the "Technology Evaluation Form", used by the BPU for initial assessment and documentation of ideas can be provided on request.

Financial return from University technology transfer is hugely speculative and there are no guarantees that a return will ever be made. Even where returns are possible these are often long in coming as University technology is at a very early-stage, and this must be borne in mind when pursuing any commercial opportunity. Nevertheless, the existence of a potential market for the technology is a valuable indicator of success and so in-house desktop research and market assessment by external consultancy firms may be used to ascertain the market potential for the technology and the current/predicted market trends.

Other tools including a scoring system are also available, but the final decision will usually be made on the basis of the experience and expertise of the staff in the BPU in conjunction with external advice where appropriate.

B7 Prosecution of IP Applications

This should be carried out through the BPU. Patent agents will be required to send all correspondence to the BPU who will involve academic staff as required.

B8 Incentivisation of inventors and Schools of study

The BPU encourages researchers to consider the potential commercial applications of their research at an early stage. This requires that University inventors be incentivised to bring IP to the attention of the BPU and this is done in part through a revenue share arrangement. The inventors involved in the development of any IP are provided with a substantial share of any net revenue (as defined in the University IP Policy) it generates through commercialisation.

It is also necessary to incentivise the Schools to allow staff to participate in commercialisation activities and to further this aim each School should also receive a share of revenue due to any invention originating from that School in accordance with the University IP Policy.

B9 Self-sustainability of the BPU

Currently the BPU is funded via HEFCE but this funding is decreasing and may disappear. It is therefore necessary that provision be put in place for the BPU to become self-sustaining if possible. For this reason the revenue sharing arrangement includes a revenue share for the BPU. However, it is acknowledged that income from IP commercialisation is uncertain and funding may also be sought from other sources. It is not the intention that the BPU should make a profit and thus should income from the BPU share exceed BPU expenditure at any time, any excess will be transferred back to Central funds.

B10 Responsibility for the commercialisation of IP

When making decisions on protection or commercialization of IP there is a need to balance a desire for full consultation through the University committee structure with the needs of the commercial world which often require a speedy decision. For this reason, where the guidelines set out in this document have been followed, there will be no requirement to seek further permission through the University committee structure. However all activities will need to be reported as set out in section B.4. Where any proposed commercialisation activity falls outside the guidelines the permission of the University will need to be obtained from the Chief Financial Officer.

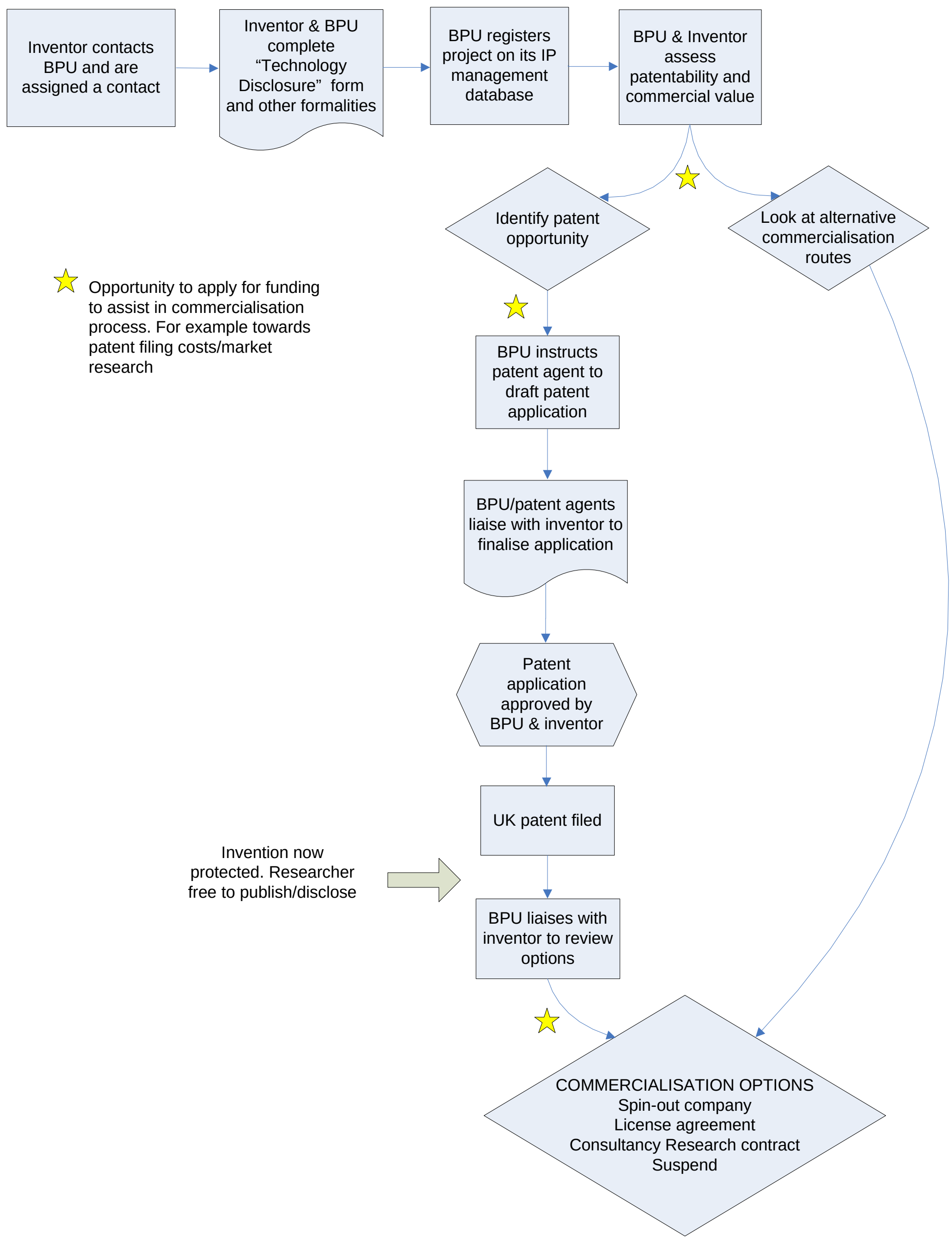

Figure 1: Process for protection of IP

C COMMERCIALISATION OF IP

There are essentially two routes that the University may take to commercialise its IP: licensing or formation of a new spin-out company.

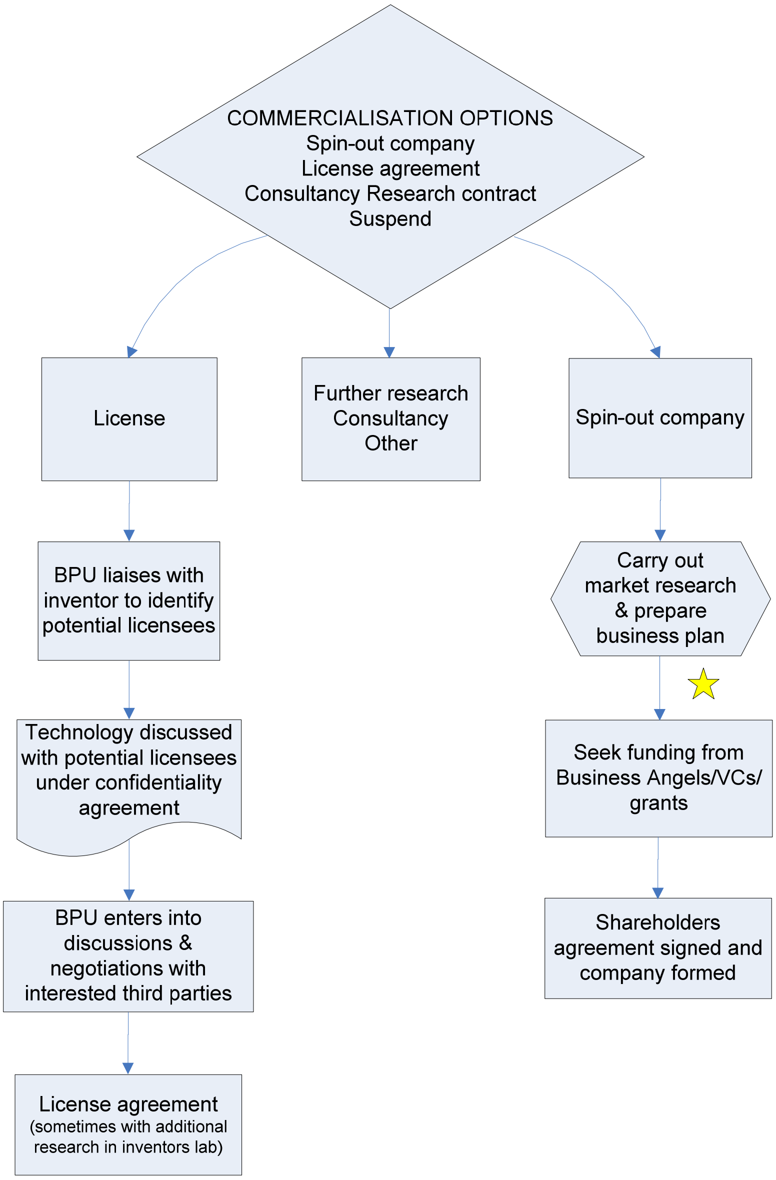

Figure 2: Different commercialisation routes available

C1 The Decision to license or spin-out

The decision to licence or spin-out depends on a number of factors:

C.1.1 The technology

Platform technologies make a better basis for spin-out companies than other types of technology – platform technologies are those that can give rise to more than one product. It is helpful if a prototype of the potential product has been produced.

C.1.2 The market

Even if the technology is not a platform technology it could still become the basis for a spin-out company if there is likely to be a very large market for the technology or if there is a smaller but easily accessible niche market

C.1.3 Availability of Licensees

Technologies that are "before their time" may be difficult to licence due to lack of organisations willing to take them up, but could form the basis for a spin-out company

C.1.4 Patent

It is sometimes easier to commercialise via a spin-out company those technologies that are either not patentable or difficult to patent. However lack of patents may mean that the spin-out finds it difficult to raise finance and the academic will not be able to publish the work.

C.1.5 Competition

If there is a lot of competition then it might be difficult to break into the market or get funding. Also competing directly with large competitors can be very difficult – in these cases licensing might be better.

C.1.6 Willingness of the academic staff to take part

Spin-outs take a long time – months or even years and many are never successful. Spin-outs are time consuming during the set up period and will take up time the academic may prefer to spend on research, writing grant application(s), spending time with family, etc.

Spin-outs are hard work and much of the work will have to be done whilst the academic is also working full time on research and teaching. A lot of the aspects of setting up a spin-out require input from the academic staff and the tasks may also be mundane (photocopying, meetings, etc.).

Academics may need to be champions for their spin-out and will need to be able to maintain enthusiasm despite set-backs.

Academics must be able to present ideas to investors in a clear, non-technical way and must show that they are sensible and reasonably easy to work with. Thus it is essential to the success of a spin-out project that academic founders are enthusiastic to pursue this route.

C2 Conflicts of interest

Involvement in commercialisation activities may lead to actual or potential conflicts of interest between employees' duties at Aston and their position with regards to commercialisation. In spin-out companies, because the founders will usually be shareholders, and, subject to the agreement of their Executive Dean may also be non-executive directors and consultants, and because the company may fund ongoing research in the University, the setting up of the company may have to be given particular consideration from the point of view of conflicts of interest. Academics and other staff involved in commercialisation activities will be required to declare any actual or potential conflict of interest to the Pro-Vice-Chancellor for Business Partnerships and Knowledge Transfer as soon as they become aware of them and details of any such conflicts will be included in any proposal made to Finance Committee or other committees of the University. Academics and other staff need to be particularly alert to the dangers of allowing their academic work to be directly or indirectly influenced by the needs of a spin-out company and to the setting up of IP Pipelines. The Pro-Vice-Chancellor for Business Partnerships and Knowledge Transfer will discuss any declaration of actual or potential conflict with the Chief Financial Officer and following such discussion will make a ruling as to what action (if any) should be taken to avoid or manage the conflict. The failure of any member of staff to declare any actual of potential conflict of interest of which they are aware will be treated as a disciplinary matter. Any dispute as to whether or not a conflict of interest exists will be dealt with according to Aston’s normal staff or student (as applicable) dispute and grievance procedures.

Throughout this section C2, the term "Immediate Family" means, in relation to any person, that person’s spouse (including civil partner and co-habiting partner) and parents, step-parents, siblings, children, step-children, adopted children, foster children or person to whom the affected person stands in loco parentis, father-in-law, mother-in-law, sister-in-law, brother-in-law, grandparents, step-grandparents, great grandparents, step-great grandparents, grandchildren, step-grandchildren, great-grandchildren, step great grandchildren, aunts, uncles, nieces, and nephews, and any other relatives of that person who are financially supported by him or her and the spouse (including civil partner and co-habiting partner) of any person referred to above.

Conflicts of Interest may take any of the following forms:

C.2.1 Conflict of Educational Mission

Aston employees who are involved in educating, training, supervising or directing the work (“Education”) of students, should ensure that the education they provide is appropriate to the student. Special care must be taken to ensure that the choice of a student's research project and the direction of that research is not, and does not appear to be influenced by, their supervisor's financial interest or the interests of any commercial entity with which their supervisor has a direct or indirect relationship. The same principles may apply to junior members of academic staff and research assistants and will also apply where it is a member of the supervisor’s Immediate Family who may gain from the arrangement rather than the supervisor him/herself.

Members of staff should declare all matters where they believe there is an actual or potential conflict of educational mission, but in particular the following must be declared:

- Where a student receives support from (is sponsored by) a company in which the proposed academic supervisor has a financial interest.
- Where the results arising from, or IP generated in the course of, the research project are related to the research activities of a company in which the supervisor has a financial or other interest.

As a general rule, the University will consider whether it should enroll a student in the above circumstances. Where a student is enrolled in such circumstances an alternative or second supervisor may need to be appointed.

C.2.2 Conflict of research integrity

Aston employees should maintain the highest standards of scientific integrity in the conduct of research. The potential for personal gain must not jeopardise nor appear to jeopardise the integrity of research activities, including the overall direction of research, choice of research, its design, the interpretation of results, the reporting of such results or the exploitation of any intellectual property deriving from the results.

Members of staff should declare all matters where they believe there is an actual or potential conflict of research integrity, but in particular the following must be declared:

- a researcher or a member of his or her Immediate Family holds a position in or has a financial interest in the company sponsoring the research
- the value of a researcher's financial interest in an enterprise or that of an Immediate Family member may be affected by the outcome of the research.
- the researcher is an inventor of patents which may be affected by the outcome of the research.
- the intellectual property deriving from the research will belong to an enterprise in which the researcher or a member of his or her Immediate Family has an interest
- the researcher or a member of his or her Immediate Family holds a position (e.g. as Director) or has a financial interest in an enterprise that may wish to restrict (or otherwise manage) adverse research findings for commercial reasons.

Where a researcher has, or appears to have a conflict of research integrity (for example, because he or she (or a member of his or her Immediate Family) has a financial interest in a research sponsor), integrity in designing, conducting and reporting the research may be insufficient to protect the researcher and the University from suspicion and consequent reputational damage. In such cases special measures must be taken to put the researcher beyond suspicion.

Any member of staff having an actual or potential conflict of research integrity should:

- *Before a research project is accepted* (i.e. a contractual arrangement agreed), disclose the conflict to their Executive Dean and the Head of the Research Support Office.
- Play no part whatsoever in the negotiation on behalf of the University of the financial terms of any contract,
- Where requested to do so, appoint a co-investigator (who has control over the design and analysis of the research and its results), or an oversight committee.

C.2.3 Conflict of financial interest

Aston employees have a responsibility to respect and promote the financial interests of the University. Staff should wherever possible ensure that Aston:

- *receives appropriate financial benefits from the provision of research services, including consultancy and other services conducted through Aston.*
- *receives appropriate financial benefits from the use or commercialisation of its intellectual property, and*
- *receives appropriate financial benefits from the use of other resources and assets, including equipment, technical staff, facilities, etc.*

A conflict of financial interest may arise when a member of staff of a member of his or her Immediate Family has a financial interest in an external organisation which may conflict with or have the appearance of compromising his or her responsibilities to the University or his or her professional judgement. Such financial interests may include being a shareholder, receiving consulting income, honoraria, gifts, loans and/or travel payments; or holding positions such as consultant, director, officer, partner, or manager.

Some examples of conflict of financial interest include (but are not limited to):

- *An Aston employee's relationship or that of members of an employee's Immediate Family with another organisation, e.g. as a share-holder of a spin-out company, may create financial responsibilities to that organisation which conflict with his or her financial responsibilities to the University.*
- *A member of staff may have a conflict of financial interest if he or she is a consultant to a company sponsoring research in his or her laboratory;*
- *A member of staff who owns significant equity in a company whose product he or she wants to test may also have a conflict of financial interest.*

Note that conflicts of educational mission, conflicts of research integrity and conflicts of financial interest may exist simultaneously.

Members of staff should declare all matters where they believe there is an actual or potential conflict of financial interest or where a conflict of financial interest could develop.

Such actual or potential conflicts may be managed in a number of ways, including (but not limited to):

- Seeking formal permission from the Chief Financial Officer, describing the nature of the proposed relationship. If the Chief Financial Officer believes that the conflicts created by the proposed arrangement are manageable and that the use of any Aston resource will not conflict with academic priorities he/she may approve the arrangement in writing. If the Chief Financial Officer is in any doubt as to whether a conflict exists, he/she should refer the matter to Finance Committee. If approval is given, either by Finance Committee or the Chief Financial Officer, then the arrangement will be formalised and an appropriate fee may be levied for the resource to be used.

- Contracts with external organisations, including their financial terms, should be negotiated by the Research Support Office with the employee playing no part whatsoever in such negotiations.
- Disclosing (if necessary under confidentiality) and seeking a written waiver from the BPU in respect of all inventions or other IP generated by the individual as part of (for example) a private consultancy.
- Ensuring that the University retains ownership and control of any intellectual property generated as part of an individual's research
- Where Aston employees provide consultancy services, by conducting that consultancy through the University.
- Where any goods or services are to be purchased from a business in which an employee has any financial interest, then such interest should be declared to the Chief Financial Officer in writing

C.2.4 Conflict of commitment/loyalty

Full-time employees owe their primary commitment and allegiance to Aston University. External appointments infer an obligation (and sometimes a statutory duty) to act in the best interests of the external body. These duties may overlap with those duties and obligations as employees of Aston. Where an external appointment is taken up this does not absolve the employee from ensuring that he or she continues to give their primary commitment and allegiance to Aston. Part-time staff also owe a commitment and allegiance to Aston to the extent of their duties at Aston and also need to take care to avoid conflicts of commitment.

The scheduling of commitments to such external bodies should be such that they do not result in significant rescheduling of lectures, tutorials or other supervisory or management duties.

Where an Aston employee is involved in founding a new company, he or she may be induced to dedicate more time to it than is consistent with their duties to Aston. In the early stages this risk can be reduced by ensuring that appropriate people are employed by the new company to manage and direct both its business and scientific activities, with the Aston employee's role being limited to an advisory role unless they themselves wish to take a more active role. Alternatively, the Aston employee may if he or she wishes, and with the agreement of their Executive Dean, be able to arrange to dedicate themselves full-time to the company via secondment, sabbatical or by taking paid or unpaid leave of absence from Aston for a period of time. All such arrangements, including consultancy and acting as a Director of the company will be at the discretion of the Executive Dean of the appropriate School of study. Under no circumstances will a member of Aston staff be compelled to leave their employment with Aston and transfer to a spin-out company where they do not wish to do so.

In exceptional circumstances, it may be acceptable to Aston to permit academic staff to devote significant time to an external appointment, for example where such appointment can be shown to be short-term, non-disruptive to the employee's other duties and of clear benefit to Aston. Such cases should be put to the Chief Financial Officer and the relevant Executive Dean in a timely fashion, giving full details of the nature of the activity and the timing and duration of the external commitment for their permission.

Members of staff should declare all matters where they believe there is an actual or potential conflict of commitment/loyalty, but in particular the following MUST be declared

- Any Aston employee acting as (or intending to act as) academic supervisor for an industry-funded student where the employee concerned or a member of his or her Immediate Family has a financial interest in the sponsoring company.
- Any Aston employee taking any part in the negotiation of a contract between Aston and a company, where the employee or a member of his or her Immediate Family has a financial interest in the company.
- Any Aston employee publishing or formally presenting research results or providing expert commentary on a subject, without disclosing any financial interest in a company that may benefit from the results being reported or opinions expressed.
- Any Aston employee acting as academic supervisor for a student where the research results are related to the research or commercial activities of a company in which the Supervisor or a member of his or her Immediate Family has a financial interest.
- Any Aston employee acting as Principal Investigator on a project funded under contract by a company, in which the employee concerned or a member of his or her Immediate Family has a financial interest in the company.
- Any Aston employee carrying out research, the outcome of which may affect patents or other intellectual property owned by or on which the employee concerned is an inventor.
- Any Aston employee with a financial interest in or holding a position in a company (e.g. as director) where the company may, for commercial reasons, wish to restrict (or otherwise manage) adverse research findings generated by the employee concerned.
- Any Aston employee conducting research in a personal capacity that would normally be conducted by Aston.
- Any Aston employee taking administrative action within Aston which is beneficial to a company in which he/she or a member of his or her Immediate Family has a financial interest.

Nothing in this section C2 is intended to limit the academic freedom of any member of Aston or to limit their ability to carry out personal consultancy work. However, it should be noted that academic freedom or the freedom to carry out such consultancy will not absolve any member of Aston of the need to report any actual or potential conflict of interest and for it to be handled appropriately.

C3 Responsibility for decision making

A recommendation on whether to establish a spin-out company should be made by the BPU in the first instance. The BPU has tools to help evaluate whether a technology should be a spin-out or licence project although these should be used as a guide only in the light of the individual circumstances.

Where the BPU has proposed that a project should be a spin-out the rationale for this decision should be presented to Finance Committee along with any declarations of actual or potential conflicts of interest, for their approval following the procedures set out in section E.

In order to protect the University's financial interest in the spin-out company employees may also be required to sign an undertaking that they will not within a reasonable period of leaving the University become involved in any other entity or undertake any other activity that may be in competition or otherwise detrimental to the proposed spin-out. This arrangement may then be formalised through employment or other contracts with the spin-out company in due course.

D LICENSING

D1 Preliminary steps

Before any commercialisation of IP can take place it is essential that the internal IP due diligence process is complete.

Where it is intended that IP will be licensed, the first step is to identify a potential licensee. The BPU will produce a summary which provides non-confidential information on the opportunity to send to potential licensees. This is done in conjunction with the academic inventors.

The BPU will also produce a list of potential licensees using leads from researchers alongside its own and external marketing expertise. Potential licensees may be contacted by a number of methods including telephone marketing and mailing of non-confidential literature. Any organisation interested in licensing the IP is invited to contact the BPU for further discussions.

D2 Confidentiality

It is important that unpublished information regarding University IP is not discussed with any third party without the protection of a confidentiality (or non-disclosure) agreement. Even when a patent has been filed, unpublished information should not be disclosed during the first year without first discussing the proposed disclosure with the BPU as this may affect the value of the IP.

Once a company has shown an interest in licensing University IP, the BPU will arrange for a confidentiality agreement to be put in place allowing full disclosure of the opportunity – the University has a standard confidentiality agreement which is suitable for this purpose. Academic staff should not attempt to negotiate confidentiality agreements themselves and should forward to BPU for review any such agreements they receive from third parties.

D3 Negotiating IP Licences

Once interested parties have been identified, the BPU will negotiate with them a deal that will be of maximum benefit to the University and the inventors. Identification of the right commercialisation partner is important for successful exploitation of the University’s IP and any potential licensee must have the resources to take the technology to market; there must also be a real intent by the potential licensee to develop and commercialise the technology.

Due to actual or potential conflicts of interest academic staff should not be involved in the negotiation of the financial terms of IP licences. The BPU will be responsible for negotiating IP licences within the guidelines set out below. Where terms are not within the guidelines the proposed terms should be referred either to Finance Committee for approval.

D4 Licensing Guidelines

The following guidelines should be adhered to in reaching a licensing deal. Any departure from these guidelines will require approval from Finance Committee before the deal can be signed.

D.4.1 Exclusivity

A licence can be exclusive or non-exclusive and the BPU shall decide which is most appropriate given the circumstances although preference will be given to exclusive licences.

D.4.2 Patent costs

The licensee should be required to repay the University's past patent costs (either on signature of an agreement or over a reasonable period thereafter) and should be responsible for all future patent costs. If the licensee is unwilling to pay patent costs in any particular territory that territory should be removed from the licence.

D.4.3 Patent prosecution

The University should retain responsibility for patent prosecution, but will consult with the licensee before taking any action.

D.4.4 Royalties

The licence will contain a requirement for the licensee to pay royalties based on a percentage of the selling price of products. The royalty rate will be set by the BPU at what it considers to be reasonable market rates for the technology considering its stage of development. In setting the royalty rate BPU will consult with the academic originators of the technology and may commission external market research reports in order to help it determine an appropriate rate. Other payments such as lump sums, milestones, annual minimums, etc. may also be included where considered appropriate.

D.4.5 Improvements

Licensees should not be given rights to ongoing work in the University unless they have funded it in which case ownership will be governed by a research contract. Particular care should be taken not to inadvertently create IP "pipelines".

The University will require a licence for research and teaching purposes in respect of improvements made by the licensee.

D.4.6 Use by the University and Publication

The licence should allow the University continued use of the licensed technology for research and teaching and any restrictions placed on publication by the University should be reasonable.

D.4.7 Warranties, Indemnity and Liability

The University should not give warranties other than that it has the authority to enter into the licence agreement. The University should not give any indemnities. The University's liability in respect of matters arising from the licence agreement including breach of contract should be limited to amounts received from the licensee.

The licensee should be required to provide an indemnity to the University in respect of any claims arising from its use of the licensed IP. This should be backed by insurance but may be limited to what BPU considers to be a reasonable sum (no less than £1million).

Licensee's insurance must be with an insurer who the University considers to be reputable and evidence of payment of premiums should be available to the University on request.

D.4.8 Obligation to develop

The licensee should be obliged to take reasonable steps to develop and commercialise the licensed technology and there should be provision within the licence for it to be terminated by the University in the event that reasonable efforts are not being made.

D5 Licence agreements falling outside of the guidelines

Any licence agreement that does not fall within the above guidelines will need approval by Chief Financial Officer. All licence agreements that are concluded shall be reported to Finance Committee by the Pro-Vice-Chancellor for Business Partnerships and Knowledge Transfer.

D6 Further Research by the Licensee

If a licensee requires further work to be carried out by the University this must be the subject of a separate research agreement and any IP generated by it must be covered in the research agreement and cannot be rolled into the original licence. This is because there may be academics working on the new research who were not party to the original work and if the new work is rolled into the original licence there is a danger that their additional contributions may not be adequately rewarded. For this reason, licensees will not be given automatic rights of any kind to any future work carried out in the University unless they have funded it and it is governed by an appropriate research agreement.

E SPIN-OUT COMPANIES

E1 Introduction

A spin-out company is a company established by the University to commercialise University IP. In contrast to subsidiary companies in which the University will have a controlling interest, in a spin-out company the University is not looking to exercise control.

To the extent that it applies to spin-out companies, the University will endeavour to follow the guidelines set out in the good practice guide published by HEFCE in December 2005 (ref 2005/48) entitled “Related Companies: guidance for higher education institutions” produced for the UK funding bodies by RSM Robson Rhodes (the “HEFCE Guidelines”).

The transfer of technology to spin-out companies will be carried out under a licence and must comply with the guidelines in section D - licensing. However in this case the IP will be licensed to a vehicle that the University has established to take the IP to market, rather than to an established independent company.

Spinning-out from the University is an attractive commercialisation route for University IP with broad potential applications in novel and/or large market areas. The rewards can be great. However, the risks are greater than those seen in other routes of commercialisation and the process requires a great deal of time on the part of the inventor and University administrative staff and is associated with many additional responsibilities. For this reason before any member of staff can participate in a spin-out company they must have the permission of their Executive Dean. The commitment of the inventor to the spin-out process is essential before the spin-out route is undertaken.

It should also be recognized that spin-outs are very speculative and more than 90% will fail. There can therefore be no guarantee that a spin-out will yield a return and if there is a return it can be many years before it is realized. However, where there is a return this can be higher than with licensing.

E2 Market Research

Since spin-outs are more speculative than licensing projects it is more important that the market need for the technology is established before proceeding. For this reason, prior to taking any steps to set up a spin-out company the BPU will usually commission a market feasibility study to assess the market need. Only if this is positive will the project continue on the spin-out route. Where possible the market feasibility study will be funded through an external grant or otherwise from an agreed University budget.

E3 Business Plan

Prior to incorporation of a new company an investment ready business plan should be produced.

The business plan should generally be written by the founder academics in conjunction with professional advisers (funded either through externally obtained funding or from an agreed University budget). The founders will need to be very clear what the business they are setting up is about and will be responsible for producing sections of the business plan detailing technologies to be employed and potential products. The more commercial aspects of the business plan will be written in conjunction with professional advisers. The founders will also have to be the champions for the business in the early stages and so it is important that they understand, are comfortable with and can explain the business plan including those aspects into which they have not had a direct input. Assistance in writing the non-technical areas of the business plan can be provided by the BPU or professional advisers (supported by grants where available).

The business plan should include:

- Executive Summary
- The objectives of the Company
- History
- The Scientific Background - description of the science in “educated layman” terms
- Development - describing how the IP will be developed into a saleable product
- Products and Services – describing the products and services which will be offered to customers
- Market and market strategy - identifying to whom the company is going to sell and addressing: the size of the market, the trends in the market, opportunities and threats, target market share and timescale to achieve it
- Competition - addressing why customers will buy from the spin-out rather than its competitors
- Production and distribution
- Intellectual Property – any formal applications for intellectual property that have been applied for or granted
- Details of the proposed management structure - This should also identify any gaps in the management structure and how it is intended to fill them
- Details of the proposed shareholding/ownership of the Company
- Assessment of Risks and Sensitivities
- Financial analysis – Detailing the capital required and where it is intended this will be obtained from. Detailed financial analysis including profit and loss account, balance sheet and cash flow analysis with monthly projections for at least the first 12 months and yearly projections out to 5 years. The projections should show when break-even will be achieved
- Exit Strategy

E4 Transfer of IP to the new Spin-out

There are three ways in which technology can be transferred to spin-outs:

- Assigned

- Licensed with an agreement to assign later
- Licensed

However, it is in the overwhelming interest of the University that the IP should be licensed and not assigned to the spin-out.

A young company is a risky business and there is a very significant chance that it might fail. If it fails then the investors (and other creditors) will want to extract as much value from it as possible (and if there is a liquidator they are obliged to do this). If the technology has been assigned to the company then this will be sold to the highest bidder. This means that both the University and the inventor will lose any control over it and the inventor is unlikely to receive any further royalty from it. On the other hand if the technology was licensed the license can be set to terminate automatically if the company fails thus returning the IP to the University for ongoing exploitation and giving the University control of its use.

There are a number of arguments put forward as to why technology should be assigned to spin-outs – most of these can be countered as follows

- *The company needs an assignment to be able to operate*

  An exclusive licence with an undertaking that the University will offer reasonable assistance to litigate on behalf of the company if required (provided the company pays the costs) gives the company the same powers as an assignment.

- *The investors will require it*

  They may well do, but there are other investors that will not. If the investors really insist that they need an assignment then it is possible to negotiate that the technology could be assigned on reaching certain milestones, for example, market capitalization of more than £30m or products that use the technology on the market, etc. If assignment is agreed for any reason it may still need to incorporate payment of a royalty to ensure that any inventors who are not shareholders in the company are rewarded for their input – this may also be a reason why assignment is impossible.

- *The University is getting its shares in return for the IP*

  This is incorrect. The University gets its shares for the reasons set out in section E5 below

- *There is no reason not to assign*

  This is also untrue. If the University has agreed a revenue share with a third party funding body then there will need to be revenue to share – this means that a royalty bearing licence needs to be put in place. Also if there are non-founder inventors then they must also be properly rewarded – again this means a royalty bearing licence is the best option.

E.4.1 Terms of the Licence

These are consistent with the terms of any other licence entered into by the University – see licensing section.

The licence is negotiated in the normal way and is under normal commercial terms but taking into account the fact that any young company (including spin-outs) are cash poor so payments may be “back-ended”. That is, the payments will be relatively small early on and larger later. Patent costs must be covered, but recovery of these costs could be spread over a longer period than for a standard license.

E5 Shareholdings

The University takes a shareholding in the spin-out in consideration of:

- Allowing its employees to set up spin-out companies (very few employers would do this)
- Allowing the founders to retain University positions whilst working for or consulting for another company (the spin-out) (again very few employers would do this)
- Allowing its employees to hold substantial shareholdings in the spin-out company (again very few employers would do this)
- The support that the University has provided in developing the company to the point where it is able to spin-out e.g., allowing its employees to spend time developing a company rather than carrying out other duties
- Use of University facilities – e.g., libraries, telephones, secretaries, etc.
- Allowing the spin-out to call itself a University spin-out (which will allow access to certain funding streams)
- Assistance provided by the BPU
- Any assistance provided with legal and other work
- Access to grants

The shareholding is NOT related in any way to the transfer of the IP to the company which must be a separate transaction.

E.5.1 Founder Shares

The University receives founder shares in the new company and participates at the point when only the founder scientists and the University have shares.

There is an assumption that the University will hold 50% of the founder shares. The University will not take an ownership stake of more than 50% as it does not wish to have a controlling interest in any spin-out. However the University shareholding could be reduced if there is a legitimate reason why it should be lower. If a shareholding of less than 50% is being proposed then the proposal and the rationale behind it should be put before Finance Committee for their approval.

Only in very exceptional circumstances will the University agree to a shareholding of less than 15% of the founder shares.

The University will take ordinary shares in the company and will not be issued with any type of preference shares as these can lead to complicated structures which can deter investors (many of the more complicated structures put the company outside the tax efficient vehicles used by many small investors). In every case a shareholders agreement will be put in place setting out restrictions on dealings with the shares and giving the University (as shareholder) the ability to veto certain activities and transactions.

E.5.2 Equity split between the founders

The founders will need to agree amongst themselves how their share of the founder equity is to be divided between them. BPU can offer some guidance if required but it must be the founders' decision.

Whatever the final agreement and however it is agreed it should be set out in writing in a Memorandum of Agreement and signed by all parties. All parties should also enter into a shareholders agreement setting out any restrictions on dealing with the shares.

E.5.3 Equity stakes for third parties

Any third party (such as investors or management) receiving shares in the company will lead to dilution of both the University and founders shareholdings to equal degrees. Thus if the founders and University have agreed that the shareholding between them will be 50:50 and have agreed that an incoming manager will be allocated 10% of the shares then both the University and the founders shareholdings will be reduced to 45%. Third parties will not be permitted to obtain a majority shareholding.

E.5.4 Dilution

The issuing of further shares, for example to investors or management will lead to dilution of both the University's and the Founders' shareholdings. In order to monitor this, the University will have a right of veto over the issue of new shares. The University will also have the right to make investments in the spin-out at the same rate as any future investors to allow it to maintain the proportion of shares it holds in the spin-out. However, it is anticipated that it will only take up this right in very exceptional circumstances and will generally allow its shareholding to be diluted as the speculative nature of spin-out companies means that further investment in a spin-out is unlikely to represent a prudent use of University resources.

E6 Board Representation

Whilst the University has a shareholding of 5% or greater the University shall be entitled to appoint a director to the board of the company. The number of seats on the board to which the University is entitled should be roughly equivalent to the proportion of the Universities shareholding. So, for example, while the University holds 50% of the shares in the company it should be entitled to half of the seats on the board. However the University's board representation should never be such that it controls the board and thus obtains a controlling interest in the company. Therefore where the University is entitled to half of the seats on the board it should not also have a casting vote.

There is no automatic right for a member of academic staff to act as a Director of a company which has spun out of their research, although in many cases they may wish to take on this role. Whether or not they are permitted to do so will be at the discretion of their Executive Dean. Where an academic founder does not take a seat on the Board they may be permitted to appoint a director to represent them.

If the University does not exercise its right to appoint a director the University shall be entitled to send an observer to board meetings who will be allowed to speak but not vote.

Management accounts, board minutes and agendas and other papers sent to directors must also be sent to the University Director (if one has been appointed) and to the BPU (in case the University wishes to send an observer).

In order to avoid any actual or potential conflicts of interest it is recommended that members of the BPU or anyone else within the University involved in decision making on spin-outs does not act as a spin-out director. A panel of individuals should be formed from which the University may appoint representative directors to the boards of spin-outs. Suitable individuals would be senior members of the University not involved in decision making on spin-outs or individuals associated with the University who are not employees (e.g., lay members of Council or 'friends' of the University). If lay members of Council or friends of the University are used a formal agreement should be made between them and the University as to remuneration and reporting and other obligations to the University. The University director should also possess sufficient business knowledge to be able to provide real input to the company.

The University Director will be responsible for reporting to the University the progress of the company unless agreed otherwise. Reports should be made on a quarterly basis to the Pro-Vice-Chancellor for Business Partnerships and Knowledge Transfer including a summary of the activities of the company over the previous month and the most recent management accounts. Such reports should also include details of any matter for which permission from the University is being sought. The Pro-Vice-Chancellor for Business Partnerships and Knowledge Transfer will make an annual summary report to Finance Committee on the activities of all spin-out companies.

Since the number of spin-outs is likely to increase steadily and there is no desire to burden the activities of the Pro-Vice-Chancellor for Business Partnerships and Knowledge Transfer or of Finance Committee with excessive reporting from spin-outs, the University should consider appointing at the appropriate time, a "portfolio manager" to whom the University director on each spin-out will report progress and who in turn will be responsible for reporting such matters to Finance Committee.

The University may replace any University nominated Director at any time.

The University Director should monitor whether the managing director and other directors are adequately performing duties and should recommend to the Board their replacement if they are not so performing.

The University should also ensure that a suitable person has been appointed to act as the Company Secretary.

Unless Finance Committee approves to the contrary, academic staff should not be appointed to executive positions in spin-out companies. External, competent and qualified managers should be appointed in general.

Other functions such as financial management may be covered by one person providing services to more than one spin-out company provided that there is no conflict of interest in doing so.

E.6.1 Duties and Responsibilities of Directors

Any individual appointed to the board of a spin-out must ensure that s/he is able to reasonably fulfil the duties of a director.

E.6.1.1 Fiduciary duties

Directors must act in good faith in the best interests of the Company (and not in their own interest, or the interest of a third party such as the University).

Conflicts of interest may occur in particular in relation to contracts and finances. Directors must make full disclosure before voting on an issue in which they or a third party they are acting on behalf of has an interest.

E.6.1.2 Duties of skill and care

Directors must show such skill and care in the exercise of their duties as a director as may be reasonably expected given his expertise.

E.6.1.3 Statutory duties

Directors must ensure that statutory obligations are fulfilled.

In order to exercise their duties in a satisfactory manner the board should meet regularly; there should be clearly defined and accepted divisions of responsibility; procedures to be followed where decisions are required between board meetings should be clearly set out and all directors should have access to the company secretary. Failure to adequately carry out these duties will be examined on a case by case basis depending on the severity of the action and whether there is any impact on the University. However as a result of such failure a Director may be required to undergo suitable re-training, may be removed from the board, or, in exceptional circumstances, where the Director is also a University employee and where his or her actions have had consequences for the University, may be involved in disciplinary proceedings.

More detail on the duties of directors and other company officers can be found in Appendix III of the HEFCE Guidelines

E7 Professional advisers

The new spin-out will need its own professional advisers (such as lawyers, accountants, bankers, etc.), these should not be the same as University’s to avoid conflict of interest – some of these advisors will be required before spin-out, others may not be needed until later.

The spin-out should be encouraged to identify its own advisers and not rely on University recommendations. However, the spin-out should consult the University and gain its approval before appointing lawyers, accountants or patent agents; the University’s approval will not be unreasonably withheld.

E.7.1 Professional fees prior to securing investment

The company will be responsible for paying its own professional fees (such as those for incorporation, legal or company secretarial services). However, the University may agree to underwrite these fees for a limited period or until the spin-out has secured investment.

All underwriting of professional fees will need to be approved in writing and in advance by Finance Committee. If Finance Committee agrees to underwrite the fees then these will need to be repaid either in cash or in an equivalent number of shares (the number of shares is decided at the point where the spin-out secures external investment and is determined as if the University had invested an amount of money equal to the unpaid fees at the same price as the initial investors).Whether repayment is required in cash or in equity will be at the discretion of Finance Committee taking into account the need to keep the University' shareholding at or below 50% of the issued share capital.

E8 Investment

The spin-out company will generally need to secure external investment to cover its initial running costs. University spin-out companies should be discouraged from attempting to carry on their business without any external finance.

Finance should preferably be obtained through sale of equity but grants and loans may also be used subject to solvency considerations.

E.8.1 Grants

Grants may be obtained through a number of external sources such as the Technology Strategy Board, the Research Councils and charitable bodies. These are usually granted for specific activities which the grant giving body believes will result in a benefit. Such activities may include development of technologies or employment of under-privileged groups. However grants are rarely available to cover all of the activities of a company and the spin-out company should not therefore rely on grants for its initial investment.

E.8.2 Loans

Loans are available from a number of sources and may be backed by the small firms' loan guarantee scheme. These may provide useful if only modest amounts of finance are required. Before taking on any debt the spin-out company must ensure that this will not lead to insolvency issues.

E.8.3 Equity

E.8.3.1 Sources of investors

There are a number of sources of contacts for potential investors. Before approaching any of them a business plan, an executive summary (one or two page non-confidential information on the business), copies of patent applications and relevant publications, and a presentation which can be given to potential investors will be required. Spin-outs should be encouraged to take advantage of programmes such as the Connect InvoRed programme to prepare pitches for investors. The spin-out company should present its investment pitch to members of the BPU prior to contacting any potential investor. The BPU can advise whether any element of the proposed pitch is likely to be problematic for the University.

The spin-out company is ultimately responsible for securing its own investment. However assistance may be available on request through the BPU, although the BPU may reserve the right to charge for such services on the basis of a fee for success. In any case any external investment into a spin-out must be approved by the University.

Investors may be identified through any of the following means:

- Mercia Fund
- Angel investors
- Personal or BPU contacts
- Investors in existing spin-outs
- Contacts at other technology transfer offices
- BVCA website and directory
- Other leads

The academic inventors should be encouraged not to think of equity investment as “giving away” part of their company as this will lead to a very negative attitude to investment. The existing members of the company are selling a proportion of the company in return for the money for further development, without which the company is very likely to stagnate.

E.8.3.2 Terms of investment

Interested investors are likely to require some form of due diligence process before making a decision on whether to invest. How detailed this is will depend on the investor but it is likely that they will at least require copies of any patent applications that will be licensed into the company and CVs for the key personnel. If there are a number of potential investors one “lead investor” may carry out the due diligence and will lead the investment negotiations.

The terms of the investment are largely dependent on what the spin-out, the founders, the University and the investors agree but as a general rule anything that involves an ongoing obligation by the University should be avoided. Ratchets should also be avoided where possible as should complicated or unusual share structures as these may deter later investors or make exit difficult.

The University will not generally participate in investment rounds through cash investment. However the right for the University to participate must be maintained through all subsequent investment rounds. The University may agree to make “in-kind” investments in return for equity. These will be agreed on a case by case basis.

Where a fee is charged to gain investment, for example for presentation at an investment forum, the University may agree to cover this, but it will be treated in the same way as other professional fees and must either be reimbursed or the University provided with additional shares in lieu of reimbursement within a reasonable time.

E.8.3.3 Solvency

The spin-out company must ensure that whatever form of capital it obtains it remains solvent at all times. If at any time a spin-out becomes aware of the likelihood that it may become insolvent the University nominate director must inform the University's Chief Financial Officer immediately and in writing.

E9 Management

The success of a spin-out company depends on the management team. The academic founders rarely have all of the skills necessary to run a small business and also have other commitments. They should not therefore attempt to run the business themselves. Instead, experienced professional operational or general management should be identified who can run the company and secure the necessary investments. These people should have a track record of working with small businesses in the start-up phase. Managers coming out of larger institutions are rarely suitable.

Interim management can either be secured through consultancy companies or through personal contacts.

Management will be remunerated through packages negotiated on a case by case basis with regular performance reviews and structured incentive schemes where appropriate.

Any management role taken on by a member of University staff must first be approved by their Executive Dean.

E10 Premises

The spin-out company should not have offices within the University to avoid jeopardizing the Universities charitable status and should not carry out any trading activity within the University. If premises are provided within the University these must be provided on an arms length basis to avoid legal issues. If further development work is required this can be contracted back to the University through a research or consultancy agreement.

E11 Ongoing research and consultancy

Where the technology forming the basis of a spin-out requires further development or research work and this is to be done by the University this work must be fully costed and the spin-out charged the full economic cost of the work. This is necessary to avoid conflicts of interest and avoid providing State Aid to the spin-out company which may contravene European regulations. There could also be tax implications to the academic founders of providing research at less than the full economic cost, particularly if the results are owned by the new spin-out.

E12 Risks to the University of Establishing Spin-out Companies

The speculative nature of spin-out companies means that establishing such companies is not without risk. Some of the potential risks and the measures that can be taken by the University to mitigate them without stifling the process of "spinning out" are as follows:

Potential Risk	**Measure to reduce risk**
Founders may be distracted from research activity	Ensure appropriate management and support are provided. Permission of

	Executive Dean should be gained for staff involvement in spin-outs
Inappropriate selection of manager to effectively exploit commercial opportunity	Ensure that an experienced commercial manager is used, not a member of academic staff
Unplanned or unknown financial liabilities	An outline business plan should be presented to Finance Committee for review including financial summaries All decisions should be documented External advice may need to be taken on employment related liabilities
Undue or insufficient influence (e.g., through shadow directorship)	A University nominated Director should be appointed to the board Vetoes in the shareholders agreement should protect the University from unauthorised dilution of its share capital and other key matters All directors should receive training All directors of the company should sign a declaration of interests The University should avoid attempting to exert control over spin-out companies' activities other than set out above
Inefficient use of resources	University approval to ensure that a spin-out is the best vehicle for commercialisation of the technology
Commercial opportunity not optimized	The relevant business case needs to be made before the spin-out is established
High risk or unnecessary investments are made	The University should not invest its own capital in the spin-out as the venture is too speculative.
Exit strategies not implemented	Exit will be dependent on market conditions but the University should ensure that the shareholders agreement allows it to fully participate in any exit should it wish to do so
Expected financial contributions to the University not achieved	Spin-out companies are very speculative and may never achieve a financial return. The University should not therefore set up a spin-out with the expectation of

	making a financial return
Culture of institution does not support staff in development of spin-out	Staff should be given appropriate support through BPU
Delays in decision making leading spin-out to fail	University should avoid unnecessary powers of veto. University should avoid lengthy decision making processes Company should not be subjected to unnecessary reporting obligations
Tax and NI liabilities on liquidation of shares	University should take appropriate tax advice

E13 Tax implications for the Academic Founders

In setting up spin-out companies and providing shares to the academic founders, consideration should be given to the implications of Schedule 22 of the Finance Act 2003 as amended from time to time and whether the shares amount to a taxable benefit in kind. An amendment to this Act has within certain limits exempted the transfer (whether by licence or otherwise) of the IP to the spin-out from incurring a taxable charge on the founder shareholders. However other activities that could potentially increase the value of the founder shares (such as the providing of premises, or research facilities at less than full economic cost) could still result in a tax liability to the founder shareholders. For this reason, in particular the University will not provide any spin-out company with subsidised facilities or research capabilities. The University will seek advice on such matters from time to time from its tax advisors. Whilst the University can take steps to minimize these risks the founder academics must seek independent taxation and legal advice. The University cannot provide legal or taxation advice and can accept no liability for personal taxation incurred whether or not independent advice has been obtained.

In addition to the tax and national insurance liability on founders the University may also incur an employers' national insurance liability in respect of the founder academics. The University should therefore take independent tax advice to avoid this issue and where the problem is unavoidable should consider seeking an indemnity from the academic founders to cover the NI liability.

E14 University Permission

Due to the time requirement for members of academic staff any proposal to begin work on a spin-out opportunity will be passed to the Executive Dean of the relevant School of study for his/her approval. University permission (through Finance Committee) must also be sought for the setting up of the company.

The Executive Dean will be presented with a summary of the proposal including the members of staff who will be involved and the technology that will be utilised.

The following information should be presented to Finance Committee:

- A summary of the opportunity
- The Business plan (and executive summary) (as per section E-3)
- The proposed shareholding arrangements (and the rationale for the equity splits)
- The proposed make up of the board (including the identity of the University Director or a request that the University make a nomination)
- The arrangements for transfer of IP
- Analysis of risks to the University
- Resource requirement and impact on other areas of the University if any
- Recommendation from the BPU
- Formation Timetable

Finance Committee may either approve or reject based on this information and if the proposal is rejected reasons for the rejection should be given.

Once the initial proposal has been approved the University will allow the company to manage its own affairs without undue interference from the University. University permission will only then be required for the company to undertake those activities that are the subject of restrictions in the shareholders agreement.

Where no University Director has been appointed any request for permission to undertake activities the subject of restrictions in the shareholders agreement must be made to the Pro-Vice-Chancellor for Business Partnerships and Knowledge Transfer in the first instance who will refer the matter to Finance Committee .

Where the University is required to make a decision this should be made quickly and should not be unreasonably delayed.

Should the University decide not to participate in a spin-out company itself it may, on request and at its sole discretion allow a member of staff to establish a start up company without involvement of the University. However permission will still need to be sought from the University as set out in this section 14.

E15 Legal Agreements and Company Formation

Once the University has given its permission for the establishment of the spin-out company the following legal agreements should be produced and agreed between the relevant parties:

Agreement	**Parties**	**Comments**
Memorandum and articles of association		All parties should be involved and approve
Shareholders/investment agreement	University, Founder academics, Investors, any other proposed	

	shareholders, the spin-out company	
Technology licences	The spin-out company The University	Required if IP is being licensed to the spin-out
Memorandum of understanding for University nominated director	The University nominated director The University	
Director’s Service Agreements	Each director The Company	
Employment Contracts	Each employee The Company	Required if the spin-out company will employ staff
Facilities Agreements	The spin-out company The University	Required if the spin-out company will be using University premises
Property Rental Agreement	The spin-out company Property owner	Required if the company will have independent premises
Research contract	The Company The University	Required if the Company requires the University to carry out further development work
Consultancy agreements	Each consultant The company The University	Required if the company will require consultancy support from University academic staff

Each party will be required to secure its own legal advice in relation to the above agreements and the University will accept no liability for any event arising from a failure to do so. The founders may where appropriate and agreed by the members of the company use the same legal advisers as the proposed new spin-out company. The University will always secure its own legal advice. The agreements may be drafted by any of the legal advisers or University templates may be used. Not all of the above documents may be required in any particular case but each spin-out will always require Memorandum and Articles of Association, Director’s Agreements and a Shareholders Agreement. Once agreed forms of the required documents have been produced the company may be formed. The company should be formed from scratch and should not be bought “off the shelf”. The University solicitors should form the company. The required and agreed documents should then be signed immediately.

E16 Reporting of Performance

The spin-out company will be required to make reports on its performance to the Pro-Vice-Chancellor for Business Partnerships and Knowledge Transfer on a monthly basis. Reports should contain at least the following information:

- board minutes
- latest management accounts
- cash flow and profit forecast
- manager's report on activities and prospects
- key risk factors

In addition once per year (typically in May/June) the following information will be provided:

- performance against business plan for the previous year
- budget and forecasts for the coming year
- outturn for the previous year

The BPU will report progress on all spin-out companies to Finance Committee three times per year summarising the information it has received from the spin-out company.

E17 Insurance

The Spin-out company will need to take out insurance to cover the most likely risks to the business. It is expected that the company will hold as a minimum:

- Directors and Officers Liability insurance
- Key Man insurance (if the company is dependent on the expertise of certain individuals)
- Product liability insurance (as soon as the company begins selling products)

The University will also need to ensure that its Directors and Officer Liability insurance covers any University employee acting a s a director or officer of the spin-out company.

E18 Exit Strategy

The exit strategy for a spin-out company is likely to be either through trade sale or flotation on a recognised stock market (IPO). Although the University may be unable to direct the timing of either of these outcomes, if exit through either of these routes becomes likely the University must be kept informed and be allowed to participate fully.

The University may need to take external advice in respect of the tax implications of the exit and related public relations matters.