

## EMPLOYEE INVENTOR AWARD SCHEME

### 1. INTRODUCTION AND SCHEMES SUMMARY

Through STFC Innovations Ltd (SIL), STFC facilitates the development and commercialisation of intellectual property (IP) developed by STFC. In order to reward its staff for the contributions which they may have made to that IP and the benefits it may get from its exploitation, STFC runs two employee innovation award schemes, (i) the Awards to Inventors (A2i) scheme and the (ii) Commercial Exploitation Incentive Scheme (CXIS).

A2i and CXIS aim to incentivise and reward innovating STFC staff and to encourage the commercialisation of valuable IP generated during the course of its staff member's employment. In accordance with the applicable criteria, STFC will identify an employee or group of employees as eligible for an award under one or both of the schemes, which employees become "Eligible Employees" for the purposes of the schemes. An "Eligible Employee" is an STFC Employee who has developed or contributed to "Intellectual Property" ("IP"); patents, copyright, unregistered design rights, technical developments and know-how that is or has the potential to be commercially exploited, by or on behalf of STFC in ways that produce a clear income or benefit. From time to time individuals who have made other material contributions to the development or commercialisation of the IP may be considered for an award. This decision is at the discretion of STFC's Executive Board (EB).

An Eligible Employee must have been an STFC employee at the time the intellectual property was created. Eligible Employees who leave STFC before any award has become payable will continue to be eligible for payments under the scheme(s). In the event of the death of an Eligible Employee, payments will be directed to the estate of the deceased.

*Being identified as an Eligible Employee and participating in either of the schemes does not necessarily result in any direct financial benefit accruing to you, but instead rewards you with the potential for such benefit.*

This note is meant to give a summary only of the two schemes, which together comprise the Award to Inventors Scheme referred to in clause 2.4.2 of the Research Council Policy on Employee Intellectual Property, Consultancy Work and Conflicts of Interest.

#### 1.1. Awards to Inventors

The A2i scheme is a mechanism by which STFC can directly reward its staff and/or departments in relation to income (after expenses) it receives from the commercialisation of its IP.

The amount of any award payment is calculated on an incremental sliding scale, depending on the net income after deduction of costs.

#### 1.2. Commercial Exploitation Incentive Scheme

CXIS offers CXIS-Eligible Employees the opportunity (either alone or with other Eligible Employees) to subscribe for shares in a new spinout company (Spinoutco), when Spinoutco is intended as the best mechanism to enable the development and commercialisation of IP owned by STFC but which the Eligible Employee(s) may have played a part in initially developing.

Under the CXIS scheme, CXIS-Eligible Employees will be offered the opportunity to *either* directly invest in Spintoutco shares (a Share Award or CXIS/S) or, instead, share in any profits and gains that may be realised by SIL from its shares in Spinoutco (a Value Award or CXIS/V).

### **1.3 Scheme interaction and management**

Employees will not be entitled to both a CXIS/S and a CXIS/V, but a CXIS-Eligible Employee may continue to be eligible to qualify for an award under the STFC A2i scheme in relation to the same IP.

CXIS and A2i are managed and operated at STFC's discretion (for the time being, on its behalf, by the Business and Innovations Directorate) and do not give any entitlement to any employee of STFC or SIL to participate in or to receive an award within the rules of the schemes unless and until identified as an Eligible Employee and notified by the award letter process explained below.

Awards are granted under the delegated authority of EB in accordance with the award criteria from time to time applicable to the schemes. EB acts in its sole discretion in selecting any employee(s) to be Eligible Employees.

After having been selected as an Eligible Employee, BID and the relevant Eligible Employee will agree on the nature of the award which best suits the circumstances of the IP taking account of BID's reasonable expectations as to its exploitation.

## 2 AWARD TO INVENTORS

### 2.1 THE AWARDS TO INVENTORS (A2i) SCHEME

#### 2.1.1 GENERAL ARRANGEMENTS

The A2i awards are distributed to the Eligible Employee, Eligible Employee's Departments and Business and Innovation Directorate (BID) on an incremental sliding scale. After meeting any direct professional fees and expenses incurred in protecting and maintaining the IP (as set out in section 2.2) BID will distribute the income from commercialisation of the IP among the relevant eligible employees, their departments, and BID as per Section 2.2. This covers the following forms of income:

- a) Royalties, minimum sums and licensing payments.
- b) The outright sale of intellectual property asset rights.
- c) Advance or milestone payments for a licence.

Unless agreed, this agreement excludes any other form of income not covered by points a) to c).

### 2.2 Level of Awards

Direct costs including (but not limited to) patent prosecution, official fees and maintenance costs, other professional fees and expenses incurred in protecting, maintaining and defending the IP and establishing and maintaining any corporate ownership structure are deducted prior to distributing the revenue. After costs have been deducted, a further 5% deduction (to cover statutory deductions such as employers NI and the other taxes that may be introduced from time to time, and some of the associated administrative costs in making the award) will be made on the total income to be distributed.

Net income will be shared, between the Eligible Employees, their Department(s) and BID on the basis of the award levels illustrated in Table 1:

Income(cumulative)	Employee(s) (Jointly) %	STFC Department(s)%	BID%
Net Income			

**Table 1: Level of Awards**

### 3. COMMERCIAL INCENTIVE EXPLOITATION SCHEME (CXIS)

#### 3.1 Share Award (CXIS/S)

This award may be made when STFC, through discussions with an Eligible Employee, considers that the formation of a Spinoutco will be a useful mechanism for the development and exploitation of IP. The mechanism for contractual arrangements with Spinoutco will be through STFC's wholly owned company, STFC Innovations Ltd (SIL), and it is SIL that would own shares in Spinoutco rather than STFC. Eligible Employees should note that they could be invited to form and/or subscribe for shares in Spinoutco before arrangements have been agreed for the relevant Spinoutco to acquire STFC's IP.

BID will assist in the formation of a Spinoutco and Eligible Employees (alone or together with other parties who need not themselves be Eligible Employees) will be entitled to subscribe for an agreed number/proportion of the Founder Shares in Spinoutco at or around the time of its formation. Subject to circumstances, BID may also agree to the Eligible Employee forming Spinoutco themselves.

Due to the variety of precise circumstances that the CXIS may encompass, it is impossible to set out the exact structure of any offer in this policy, but Eligible Employees will be guided through all stages of the process.

##### 3.1.1 FORM AND DETAILS OF THE CXIS/S AWARD

Following the determination of an Eligible Employee, the person to whom the award is made will be notified by letter. This initial award letter will trigger the commencement of discussions about the formation of Spinoutco and will contain the following information:

- (i). outline details of the IP in respect of which STFC is making the award and the contribution made by the particular Eligible Employee, as recognised by STFC;
- (ii). details of the number (if any), of other Eligible Employees being awarded the right to participate in the same Spinoutco;
- (iii). notification that BID intends for Spinoutco to be formed, together with either (a) the right for the recipient (together with others, if applicable) to set up Spinoutco themselves or (b) provision for BID to set up Spinoutco with Eligible Employees subscribing for shares therein, in each case also setting out the anticipated mechanism for transferring the IP rights from STFC into Spinoutco;
- (iv). the anticipated shareholding which SIL expects to hold in Spinoutco in return for transferring in the IP rights (which amount/proportion may be subject to revision during the process and circumstances of establishing Spinoutco) but will not usually exceed the equivalent in aggregate of ■■■ of the shares issued); and
- (v). the terms and conditions applicable to the award (which shall, so far as applicable, include the contents of this information note).

If the recipient wishes to accept the offer contained in the letter, s/he must do so within the time for acceptance and in the manner specified in that letter. In the absence of such acceptance, STFC shall be entitled to assume that the offer has not been accepted and it may lapse. The Eligible Employee may at any point after accepting the award opt not to receive it, in which case the offer will lapse but in any event where the offer lapses as a result of the recipient's actions, STFC will not be liable to that recipient for any costs which he/she may have incurred in respect of it.

### **3.1.2 RIGHTS ATTACHING TO SHARES**

At the date of formation of Spinoutco or, as part of the transfer of the IP rights into Spinoutco from STFC and/or SIL, SIL will usually require particular rights and restrictions in respect of the founder shares, covering matters including (but not limited to): voting/control, the right to dividend, return of capital and share in any surplus on a winding-up, restrictions on share transfers and limitations on the right to retain the founder shares following ending of employment with STFC. In the event of a CXIS/S award, such provisions will be determined by SIL with the co-operation of the Eligible Employee and established in Spinoutco's corporate structure and founding documentation.

Any Eligible Employee acquiring shares in Spinoutco will be doing so at his or her own risk. Spinout Co may be incorporated and its shares be made available before any agreement or arrangement is in place for the acquisition by Spinoutco of any IP belonging to STFC or SIL. The founding corporate documentation of Spinoutco and/or any agreement amongst its shareholders and/or funders may impose restrictions on those shares and the running and functioning of the company itself and the value of any shares in Spinoutco may rise or fall.

Financial regulations prohibit STFC from advising recipients of awards as regards any legal matters associated with the award and the setting up or investing in Spinoutco. An Eligible Employee is strongly recommended to seek independent professional advice before committing themselves to any course of action. STFC/SIL will not nominate or suggest an appropriate advisor, nor reimburse the costs of such advice.

### **3.1.3 PAYMENT TRIGGER**

Payments to any Eligible Employees under the CXIS/S scheme will be made in accordance with standard corporate practice, by virtue of their shareholding in Spinoutco (for example, profits by way of dividends, or receipts in respect of the sale of those shares).

## 3.2 Value Award (CXIS/V)

The CXIS/V is an award that provides the opportunity for an Eligible Employee to receive one or more cash payments when SIL (usually, but sometimes STFC, depending upon how the particular reward is set up) realises return of capital or proceeds of sale in respect of a Spinoutco in which it has an interest, which Spinoutco's value is dependent upon IP which the Eligible Employee contributed towards developing.

In the case of a CXIS/V award, the relevant Eligible Employee is given the right to a cash return on a proportion (allotted in percentage terms) of SILs Founder Shares in Spinoutco related to the IP being licensed by the Spinoutco. Any shares acquired by SIL or STFC at a later date, that are not Founder Shares will be deducted prior to the issue of the CXIS Award.

A CXIS/V award may be made at any time, either before or after the start of the development or trading activities of the Spinoutco, but no payment will become due until such time as SIL (or STFC, as applicable) has itself realised a financial return.

The aggregate proportional share that may be allocated to Eligible Employees in relation to any one Spinoutco will not usually exceed [REDACTED] of the total number shares issued and allotted or intended to be issued at or around the time of formation of Spinoutco.

### 3.2.1 FORM AND DETAILS OF THE CXIS/V AWARD

Following the determination of an Eligible Employee, the person to whom the award is made will be notified by letter. The initial award letter will trigger commencement of discussions about the formation of Spinoutco and will contain the following information:

- (i). outline details of the IP in respect of which STFC is making the award and the contribution made by the particular Eligible Employee as understood by STFC ;
- (ii). an outline of the offer comprising notification that SIL intends to form Spinoutco together with rights for that Eligible Employee to receive the benefit from a specified proportion in percentage terms of SIL's shares in Spinoutco;
- (iii). the anticipated mechanism for transferring the IP rights from STFC into Spinoutco (which mechanism may be subject to revision during the process of establishing Spinoutco and obtaining thirdparty funding);
- (iv). in aggregate Eligible Employees may receive the benefit of up to equivalent [REDACTED] of the total shares that are issued in return for SIL transferring in the IP rights and
- (v). the terms and conditions applicable to the award (which shall, so far as applicable, include the contents of this information note).

If the recipient wishes to accept the offer contained in the letter, s/he must do so within the time for acceptance and in the manner specified in that letter. In the absence of such acceptance, STFC shall be entitled to assume that the offer has not been accepted and it may lapse. The Eligible Employee may at any point after accepting the award opt not to receive it, in which case the offer will lapse but in any event where the offer lapses as a result of the recipient's actions, STFC will not be liable to that recipient for any costs which he/she may have incurred in respect of it.

Where an award is made according to CXIS/V, there is unlikely to be any input into from the Eligible Employee into the rights attached to the founder shares.

A notional share awarded pursuant to CXIS/V does not confer any right to participate in the profits or assets of Spinoutco or any right to attend or vote at any general meeting of Spinoutco, it is only a mechanism for determining the amount and time for payment of a Growth in Value Bonus.

### 3.2.2 PAYMENT TRIGGER

Payments to any Eligible Employees further to a CXIS/V award will be triggered at any time that SIL (as a shareholder in Spinoutco) realises any financial return from the shareholding it has in Spinoutco and the proportion will be paid from the SIL share of the profits after legal costs and other costs related to the sale of the company have been deducted.

Calculation of the amount of any CXIS/V payment will be carried out as follows:

- (i). in the event of a payment trigger event (other than payment of a dividend):-

where  $n$  = the net amount realised by SIL on sale of founder shares acquired by SIL at the point of the IP transaction into the company

$x\%$  = the percentage of Spinoutco and owned by SIL and/or STFC

$a$  = amount payable in respect of award for the relevant trigger event

Then  $a = nx\%$

For so long as the recipient remains an employee of STFC, STFC will make the payment on SIL's behalf and the payment will be subject to any tax and employee National Insurance contributions and any other taxation which it is obliged by law to deduct as a result of paying such sums. If the Eligible Employee is no longer employed at STFC, a payment will be paid directly to the individual who will have to make their own arrangements to pay National Insurance contributions and any other taxation which it is obliged by law.

If the shareholders of Spinoutco reasonably determine it to be advantageous, the listing on any stock exchange of the ordinary shares in the capital of Spinoutco (or of a holding company of Spinoutco) may take place, which may trigger a payment and in which case special procedures may will apply. Details as to these special procedures will be contained within the terms and conditions attaching to the award letter.

### 3.3 CXIS Distribution of SIL return to Departments

The CXIS-Eligible Employees Departments, at the date of the Eligible Employees Spinoutco's company registration, will be entitled to ■■■ of SIL's net realised financial return from the founding shareholding it has in Spinoutco. .

Payments made to the Department will be triggered at any time that SIL (as a shareholder in Spinoutco) realises any financial return from the sale of their shareholding in the related Spinoutco. The distribution to Departments applies to the financial return from the shares that SIL acquired at the point of the IP transaction(s) into the company.

The Department proportion will be paid from the net SIL share after the deduction of; third party revenue sharing obligations, all CXIS/V awards, legal costs and other costs related to the sale of the company and establishing and maintaining any corporate ownership structure prior to distributing the revenue and any unreimbursed patent costs including (but not limited to) patent prosecution, official fees and maintenance costs, other professional fees and expenses incurred in protecting, maintaining and defending the IP.

Where the Spinoutco CXIS-Eligible Employees are from more than one Department the distribution will be calculated pro-rata per head of Eligible Employees in each of the Departments.

## 4. GENERAL INFORMATION

Receipt of either an A2i or CXIS award will not affect any right of STFC as employer to terminate the recipient's employment, to vary his or her contract of employment or to take any other action which is lawful under his or her contract of employment nor does it constitute an offer of employment or an agreement to continue the recipient's employment.