

Technology update

Fundraising for Technology - based businesses



There is no doubt that equity funding is more challenging to find for pre-revenue technology based businesses now compared with two years ago. Funds are typically reviewing monies to

use as follow-on investment for existing investees. Where there are monies available in the open market there is increased competition for it, so does this mean fewer technology businesses and less quality IP being translated into commercialised products? Not necessarily.

The current environment means that entrepreneurs have to sit back and think more innovatively about their business; its

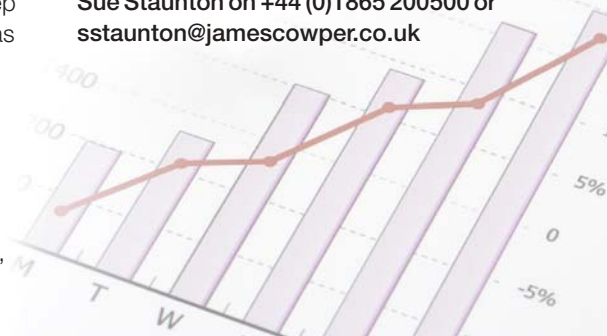
requirements for third party investment and where to look for investment if they conclude that they still require it.

Thoughts might include:

- Exploring other ways of getting the business going, potentially seek sources of revenue such as consultancy to bootstrap the company. Some subsequent funders may be dismissive of this but if that is what it takes to get/keep the company going then that's what has to be done.
- Growing the business more slowly and thereby reducing immediate cash requirements.
- Plan to outsource as much as possible, hence keeping costs flexible.

- Consider joint-venturing with a trade partner.
- Consider sourcing funding from overseas.
- Consider the benefits of locating part of the research overseas in order to access the benefits of overseas state aid in order to develop the technology.

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REVENUE 'U TURN' OPENS FLOODGATES FOR TECHNOLOGY BUSINESSES TO LARGER R&D TAX CREDIT REPAYMENTS



In a much welcomed announcement HM Revenue & Customs have published a change of view on the type of activities that qualify for R&D tax reliefs. For technology companies involved in R&D this could

significantly increase the level of R&D tax relief claims.

R&D tax incentives have helped fund the technological advances of many innovative technology companies by reducing their corporation tax bill or by direct cash payments. Previously it was only accepted that activities directly contributing to the R&D qualified for relief. Expenditure on activities only indirectly related to a R&D project could not be included when computing the size of the claim.

HMRC have announced that they intend to publish guidance to reflect that they now consider certain indirect R&D activities to be within the scope of the R&D tax legislation hence increasing the range of expenditure that can be claimed. Although the final details are not certain, examples of activities that may well qualify towards repayment in future include;

- Feasibility studies to inform the strategic direction of a specific R&D activity
- Scientific and technical information services supporting the R&D
- Staff training required to directly support an R&D project;
- Time spent by maintenance, security and administration staff supporting the R&D team

Furthermore, as this is a change of view rather than a change in legislation, companies within the statutory time limit for amending a claim can increase prior claims.

For example a company with a December year end still has until 31 December 2009 to amend R&D claims for the year ended 31 December 2007. Although final guidance on how these amendments can be made has not yet been issued, it is worth companies with November or December year ends beginning to review their prior year claims now so as not to miss the fast approaching window to gain additional cash.

Sharon Bedford, Tax Partner states "Many of our clients have considerable expenditure on activities similar to the examples above, and it has not always been clear to them why HMRC have excluded this essential expenditure from R&D claims. The widening scope is likely to be very well received and could substantially help local technology businesses in the current market conditions."

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Client Profile: Oxford RF Sensors

Oxford RF Sensors is a rapidly growing engineering technology company originating from the University of Oxford. The company has been at the forefront of the design and production of electromagnetic non-contact sensors, based on patented RF technology, for global leaders in the aerospace, automotive and industrial sectors.

Formed in September 2004 Oxford RF Sensors is the brainchild of Prof John Gregg, a fellow of Magdalen College Oxford and a world renowned expert in spin electronics. Together with CEO Ross Walker the company launched with venture capital funding of £500,000, which was quickly followed by £1.75m of further investment.

Based at Weston-on-the-Green in Oxfordshire, the company now employs around 20 staff, the majority of whom are top level physicists, chemists and electronics engineers, each bringing specialist expertise and experience to their various projects.

Oxford RF Sensors products are particularly suited to the complex and accurate measurement of speed of mechanical

systems, resolution, temperatures in excess of 1000°C and power. Its sensors are also particularly well suited to working with ferrous and non-ferrous metals, having the ability to discriminate between materials.

Its technology has a number of practical applications including:

- The real time measurement of water in oil down to 50 parts per million,
- The detection of both ferrous and non ferrous particles down to 10 microns in diameter; and
- The identification of plastics for recycling including whether materials include certain fire retardant additives.

But perhaps the most significant project the Oxford RF Sensors is involved in is the measurement of blade tip clearance in jet engines.

It is envisaged that the company's sensors will be able to accurately record data as to the distance between individual jet engine turbine blades and their outer casing. This may not sound like much but when considered that aircraft engine and thus fuel

efficiency can be significantly improved, the possibilities begin to emerge.

Oxford RF Sensors is currently involved in the development of jet engine turbine blade clearance measurement with a major aerospace manufacturer, in discussions with a major US company regarding oil in water detection, and has begun work on a hand-held water condition monitor that is particularly suited for use in third world countries.

Individually each of these projects has significant potential however, put together; the true value of the technology begins to emerge.

James Cowper is particularly proud to have been able to support Oxford RF Sensors since 2005 in the capacity of auditors, and will continue to work alongside the company as it continues to expand and reach its full potential.



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