

# UNIVERSITY OF CHICAGO EQUITY POLICY

## 1. When the University takes Equity

A start-up company can sometimes represent the best opportunity for the development of early-stage technology, or in some cases, be the only avenue available. Because a start-up company's survival is tied to the development of the licensed technology, its research and development effort has the advantage of being very focused on that technology.

Typically, these new ventures have little cash and no revenues. Under these circumstances, imposing a heavy cash burden would compromise the company's ability to attract initial investors and pull critical cash from the R & D efforts. Success in such efforts is required both to meet the University's due diligence milestones and to allow the company to secure additional financing.

As a result, from time to time, the University will accept equity in the form of stock or warrants as part of the consideration for licensing intellectual property or assisting in the formation of a new venture. Such stock is not taken in preference to cash; rather, in the absence of sufficient cash compensation and where it is believed the best terms possible were negotiated, stock is taken as added compensation. License agreements with equity generally will also include such common cash considerations as: (1) up-front license fees, (2) minimum annual and/or milestone payments, (3) royalties on sales, (4) a percentage of sublicense income and (5) a current and/or future obligation to reimburse patent costs.

## 2. When Inventors Have an Interest in the Proceeds of Liquidated Equity

In the event that the University plays no role in founding a start-up company, and acts only as a licensor of new technology to the company, any equity taken in the start-up will be as part of the licensing arrangement, and consequently, will follow the University's Revenue Share Policy. Provisions of this policy include that distribution of equity liquidation proceeds to inventors will be to the inventors of record on the licensed patents at the time the equity is liquidated.

In the event that the University plays a role in both licensing to a new start-up, and co-founding the start-up with one or more inventors of the technology being licensed to the start-up, every effort will be made to distinguish between equity taken by the University for the license, and equity taken by the University for its assistance in the formation of the new venture. In the first case, inventors of the technology participate in the license equity through the Revenue Share Policy. In the second case, if the inventor / inventors are co-founders of the start-up, explicit understandings are put in place as to which parties get what share of equity for what past, current, and future contributions.

## 3. How the Interest of Inventors is Determined When There Are Multiple Inventors That Change with Time

The proceeds of liquidation of equity taken as part of a licensing arrangement will be shared, according to the Revenue Share Policy, with the inventors of record at the time the equity is liquidated.

Per section 2 above, regarding proceeds of liquidation of equity taken for assistance co-founding the start-up, in most cases there will be no interest in the University's equity by

inventors. In the event of exceptions to this general rule, revenue will be shared according to the involved parties at the time the start-up was founded, or the time the equity was taken by the University.

#### **4. Who Holds the Equity**

Equity received from licensees in connection with UChicagoTech licensing activities will be registered and held in the name of the University of Chicago and will be transferred to the Investments Office promptly upon receipt, for management by the Investments Office consistent with UChicagoTech's and the Investment Office's existing policies and practices concerning other equity holdings in the University's portfolio, to the extent applicable.

UChicagoTech and the Investments Office have established procedures for conveying certificates and other documents representing the equity to the Investments Office in a timely fashion, together with other relevant information that will aid in orderly liquidation of the equity.

UChicagoTech will refer inquiries from the licensee, its stock transfer agent and other interested parties regarding the liquidation of equity to the Investments Office or its outside investment manager, as appropriate. UChicagoTech will continue to handle inquiries from its inventors, and may ask the Investments Office for periodic updates of the status of the stock and its liquidation.

Such stock / equity or any portion of it will not be re-issued or re-assigned to any individual parties who may have an interest in proceeds following liquidation.

#### **5. When and How the Equity is Liquidated**

UChicagoTech will give the Investment Office notice of any liquidity event as soon as it is aware of such from its licensees, and will relay all necessary logistical details to the Investment Office.

Where the liquidity mechanism involves sale of equity in the public markets, in accordance with UChicagoTech policy, the Investments Office, itself or through outside investment managers or other intermediaries, will sell the equity in the public markets in an orderly fashion as promptly as reasonably possible after any "lock-up" period or other restrictions on transfer or exercise have expired and been cleared and the equity is publicly tradable.

Subject to the preceding paragraph, the Investments Office shall have sole and absolute control over the disposition of equity. In no event shall UChicagoTech or its staff, the inventors of the licensed technology, or any office, department or unit having an interest in the licensing revenue under UChicagoTech's revenue sharing policy, have any input into or control over the timing, sale price, or other conditions of sale of the equity.

The proceeds of such a sale will then be transferred back to UChicagoTech for any associated disbursements.

The Investments Office will follow its existing policies and procedures dealing with such issues as conflict of interest and insider trading.