

## POLICY STATEMENT

### University of Georgia Research Foundation, Inc. Policy on Equity Acquisition in Licensing

#### I. Introduction

Through the work of the Technology Commercialization Office (“TCO”), the University of Georgia Research Foundation, Inc. (“UGARF”) occasionally has the opportunity to acquire equity in companies as consideration for a license agreement. Young companies in particular often do not have the requisite cash reserves to compete with an established company for rights to intellectual property owned by UGARF. An offering of equity is a means of enabling otherwise qualified small companies to license intellectual property from UGARF. However, UGARF’s acceptance of equity raises two concerns: risk and conflicts of interest and conflicts of commitment.

Risk is an issue because, at the time UGARF would receive equity in a young company, the equity would generally have no value. Whether or not the equity will acquire value will depend upon the overall success of the company, which is a function of many factors that may not relate to the licensed intellectual property. Therefore, in order to minimize risk, UGARF will require some cash as part of the consideration for the license agreement, except for in the case of exceptional circumstances as approved by the Director of TCO, the UGARF Investment Committee, and the Executive Vice President of UGARF.

Conflicts of interest and conflicts of commitment may arise when the inventors, authors, or creators of the intellectual property are also owners or equity holders in the licensee company. Owners or equity holders stand to gain if the company does well and therefore may have incentive to take actions and make decisions that favor the interests of the company over their responsibilities to UGARF and the University of Georgia. This Policy reduces the potential for real or perceived conflicts by removing inventors, authors, and creators of UGARF intellectual property, as well as departments, schools, and units of the University of Georgia, from decisions regarding the acceptance, management, and sale of equity. Equity is owned by UGARF and all decisions regarding the stock are made in the sole judgment of UGARF in accordance with this Policy.

#### II. Policy

In the course of intellectual property licensing, UGARF, through the work of TCO, may have the opportunity to acquire equity in a licensee company. This Policy enables UGARF to receive a benefit from acquiring equity while addressing risk management and conflicts of interest.

A. UGARF may accept equity in a company as partial consideration for licensing transactions related to UGARF intellectual property in appropriate circumstances pursuant to this Policy. TCO is given the authority to negotiate these transactions and the Executive Vice President of UGARF ordinarily will execute any final licensing arrangements on behalf of UGARF. Under exceptional circumstances approved by the

Director of TCO, the UGARF Investment Committee, and the Executive Vice President of UGARF, it may be appropriate for UGARF to accept equity as full consideration for such a transaction.

B. UGARF's acceptance of equity in consideration of licensing UGARF intellectual property shall be based upon the principles of fairness in decision-making and preeminence of the missions of UGARF over financial or individual personal gain.

C. UGARF shall neither seek nor accept representation on the board of directors of a licensee company in which UGARF holds equity, nor exercise any voting rights on board actions of the licensee company, regardless of the level of UGARF's equity interest. Exceptions to this provision require approval of the Director of TCO, the UGARF Investment Committee, and the Executive Vice President of UGARF.

D. The terms of any licensing transaction, other than those related to UGARF's acceptance of equity in a licensee company, shall be consistent with other transactions for comparable intellectual property to which UGARF is a party.

E. UGARF generally shall not accept more than a fifteen (15%) ownership share in a licensee company. Exceptions to this provision require the approval of the Director of TCO, the UGARF Investment Committee, and the Executive Vice President of UGARF.

F. Where there is a proposal for UGARF to accept equity in a licensee company as consideration for a transaction to license UGARF intellectual property, UGARF, through TCO, taking into account any legal restrictions, shall either:

a. arrange for the inventors, authors, or creators of the licensed intellectual property to receive his or her share of equity directly from the licensee company upon execution of the relevant agreement, including provisions relating to restrictions, if any, on the transfer or disposition of the share of equity acquired by such inventors, authors, or creators; or

b. take all equity, including the shares of any inventors, authors, or creators, in the name of UGARF, in which case UGARF will make decisions regarding equity disposition in its sole discretion and based upon its sound business judgment in accordance with this Policy. The sole right of any such inventors, authors, or creators under these circumstances is the receipt of the appropriate proportional share, as indicated in Section H, below, of such equity or its cash equivalent at such time and in such form as required by the University of Georgia Intellectual Property Policy and as UGARF deems appropriate.

G. Under no circumstances shall UGARF make any direct investment in any licensee company in which UGARF then holds equity unless and until UGARF's interest in the licensing transaction ends or UGARF has disposed of its equity interest. If the Director of TCO recommends to the Executive Vice President of UGARF that UGARF should vote on an issue presented to UGARF as an equity holder in a

licensee company, then the Executive Vice President of UGARF has the authority to effectuate UGARF's vote on that issue, taking into consideration the recommendation of the Director of TCO and after obtaining the approval of the Treasurer of UGARF.

- H. UGARF shall determine and distribute the shares or cash proceeds, upon conversion of equity to cash, to be distributed to any inventors, authors, or creators according to the memoranda of understanding between UGARF and the Board of Regents of the University System of Georgia and the University of Georgia Intellectual Property Policy, taking into account the distributions, if any, already made to inventors, authors, or creators pursuant to Section F, above, and deducting for expenses incurred by UGARF by reason of its ownership or administration of the intellectual property.
- I. UGARF may dispose of equity acquired pursuant to this Policy as determined by the Treasurer of UGARF, based on recommendation of the UGARF Investment Committee and UGARF's external investment consultant and taking into consideration stipulations or requirements resulting from any Initial Public Offering by the licensee company. At each regular meeting of the Board of Directors of UGARF, the Treasurer of UGARF will report upon any changes in UGARF's equity holdings.
- J. There shall be no negotiation independent of UGARF by any inventor, author, or creator regarding any license with a licensee company. Exceptions to this provision may be approved under exceptional circumstances by the Director of TCO, the UGARF Investment Committee, and the Executive Vice President of UGARF.
- K. This policy is effective April 1, 2006.