



Accepting Equity When Licensing University Technology

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I. POLICY SUMMARY

The University of California recognizes the importance of encouraging the practical application of the results of University research for the benefit of the general public. One important way in which the University supports this transfer of technology is through an active technology licensing program. Under certain circumstances, licensing involves the need to accept equity in the licensee in order for the University to realize the full potential of the technology. Accordingly, the enclosed Policy permits the acceptance of equity in a company as partial consideration for technology licensing-related transactions. The principles set forth in the Policy establish parameters for entering into such arrangements.

II. DEFINITIONS

III. POLICY TEXT

The University of California recognizes the importance of encouraging the practical application of the results of University research for the benefit of the general public. One important way in which the University supports this transfer of technology is through an active technology licensing program.

Technologies disclosed by University faculty, research scientists, and other staff are offered to potential licensees, often during the early stages of developmental research. These technologies typically require a considerable amount of additional research to prove the value of the technology or to support good patent protection, if appropriate. Therefore, the University seeks licensees able to demonstrate that they currently are adequately financed or that adequate financing will be available, and that they are willing to focus such resources on the developmental research necessary to advance the technology to a marketable condition. Further, such licensees must be able to meet regulatory requirements for introduction of the technology into the marketplace and to satisfy adequately the market demand for the technology.

The University generally will seek from the licensee the costs of obtaining patent or other intellectual property protection and other customary financial considerations. The resulting licensing income provides an incentive to University inventors and authors (hereafter, inventors) to participate in the complex technology transfer process, funds further University research, and supports the operation of the University technology transfer program.

The combination of developmental costs and risk, and uncertainty as to the potential value of the technology, occasionally make it difficult for the University to identify a licensee possessing both the requisite capabilities and willingness to assume such financial risks. Small or startup companies may find it particularly difficult to commit significant cash outlays for both developmental and licensing costs.

Accordingly, the University may accept equity in a company as partial consideration for technology licensing-related transactions in appropriate circumstances pursuant to the following provisions of this Policy:

1. When the company selected to develop, market, and deliver the technology to the marketplace is not reasonably able to provide adequate compensation for licensing in cash, the University may choose to accept equity in that company, in partial lieu of cash, to facilitate the practical application of a University technology for the general public benefit.
2. University acceptance of equity in consideration of licensing a University technology shall be based upon the principles of openness, objectivity and fairness in decision-making, and preeminence of the education, research, and

public service missions of the University over financial or individual personal gain, such licensing activity shall be conducted in accordance with the University Guidelines on University-Industry Relations, the Conflict of Interest Policy, the University Policy on Integrity in Research, and related University policies and guidelines.

3. The University shall neither seek nor accept representation on the board of directors of a licensee in which it holds equity, nor exercise any voting rights on board actions, regardless of the level of its equity interest.
4. The University shall handle all subsequent relationships with a licensee in which the University has accepted equity in a business-like manner pursuant to relevant University policies and guidelines.
5. The terms of a technology licensing-related transaction, other than those related to the acceptance of equity in the company by the University, shall be consistent with University transactions for comparable technologies.
6. University investigators on the campus/Laboratory that generates a licensed technology may perform clinical trials or other comparable licensed-product testing for companies in which the University holds equity as part of the technology licensing-related transaction only upon the specific approval of a campus/Laboratory independent substantive review committee or other body authorized by the Chancellor/Director to assess any real or perceived organizational conflict of interest in the performance of such trials or testing activities.
7. The University generally shall not accept more than a ten percent (10%) share ownership in a licensee.
8. When the University accepts equity in a company as partial consideration for a technology licensing-related transaction, the University, taking into account any legal restrictions and the wishes of each inventor involved, shall:
 - a. arrange for the inventor(s) to receive his or her share of equity directly from the company upon execution of the relevant agreement; or
 - b. take all equity, including the inventor(s)' share, in the name of The Regents of the University of California; in which case, the Treasurer will make decisions regarding equity disposition based upon sound business judgment and publicly available information, and will coordinate with the appropriate University officials if necessary; the inventor(s)' sole right being the receipt of the appropriate share of such equity or its cash equivalent at such time and in such form as the Treasurer shall deem appropriate.

The University shall determine the inventor(s)' share of equity consistent with formulas established in the University of California Patent Policy or other relevant policies, with the exception that expenses identified in such policies will not be applied to any inventor(s)' share distribution made in the form of equity.

The University shall distribute cash proceeds, upon conversion of equity to cash, in accordance with the schedules and formulas established in the University of California Patent Policy, or other relevant policies, recognizing the inventor(s)' equity distributions, if any, already made pursuant to a. or b., above.

This Policy applies to licensing-related transactions concerning University rights in patents, copyrights, and tangible research property at the Office of the President, individual campuses, and all other University facilities and locations. Applicability to the Department of Energy (DOE) Laboratories is to the extent that this Policy does not conflict with the contractual obligations of the University to the DOE.

The Executive Vice President, Business Operations shall issue administrative guidelines for use by campuses, Laboratories, and the Office of the President in implementing this Policy. Such guidelines shall require compliance with this Policy and approval by the Executive Vice President, Business Operations of each University licensing-related transaction involving the acceptance of equity. Exceptions to this Policy shall be approved by the Executive Vice President, Business Operations.

IV. COMPLIANCE / RESPONSIBILITIES

V. PROCEDURES

VI. RELATED INFORMATION

On February 15, 2002, Senior Vice-President Mullinix issued [Business and Finance Bulletin G-44, "Guidelines on Accepting Equity When Licensing University Technology"](#) (Bulletin). The Bulletin includes a simplified checklist to assist the authorized licensing offices in preparing requests for the acceptance of equity and addressing conflict of interest issues as prescribed under the October 11, 2001 University of California Guidelines on Managing Potential Conflicts of Interest in Licensing.

VII. FREQUENTLY ASKED QUESTIONS

VIII. REVISION HISTORY

This Policy was formatted into the standard University of California template effective July 1, 2012.

On May 1, 2007, the newly created position of Executive Vice President, Business Operations assumed responsibility for implementation of the Policy on Accepting Equity When Licensing University Technology, with the elimination of the Senior Vice President, Business and Finance position within the organizational structure of the Office of the President. The Policy has been updated on June 18, 2008 to reflect this reorganization.

On February 16, 1996, President Atkinson issued the Policy on Accepting Equity When Licensing University Technology (Policy). The Policy superceded Guideline 13, "Organizational Arrangements," of the Guidelines on University-Industry Relations, issued on May 17, 1989 by President Gardner, to the extent Guideline 13 is applicable to the acceptance of equity when licensing University technology.