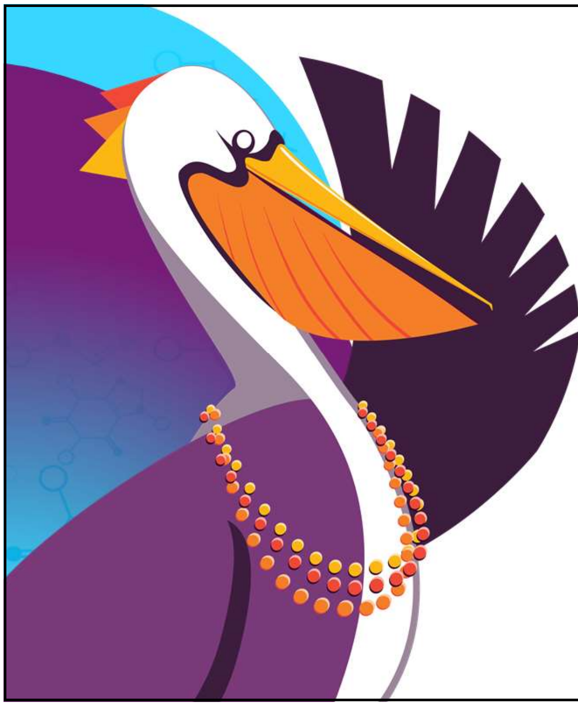

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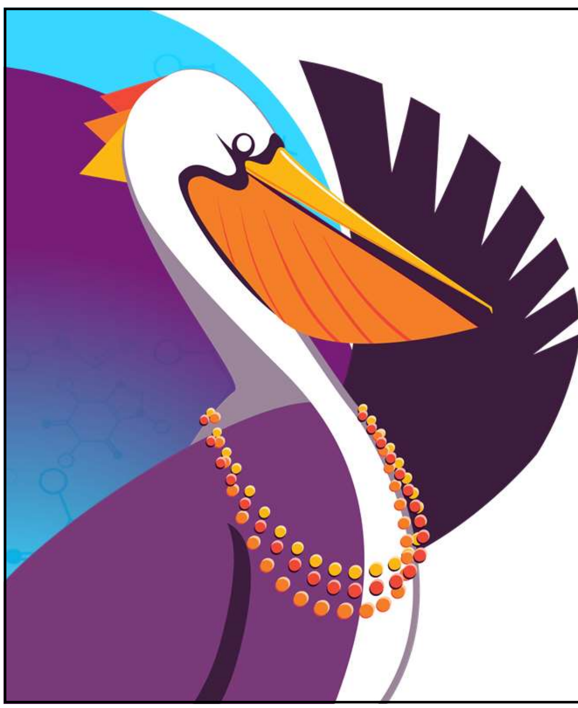

Entrepreneurship and Express Licenses

Moderator:

Hemi Chopra, UM Ventures – College Park

Speakers:

Robert Wooldridge, Carnegie Mellon University

Kelly Parson, University of North Carolina

Ken Porter, UM Ventures – College Park

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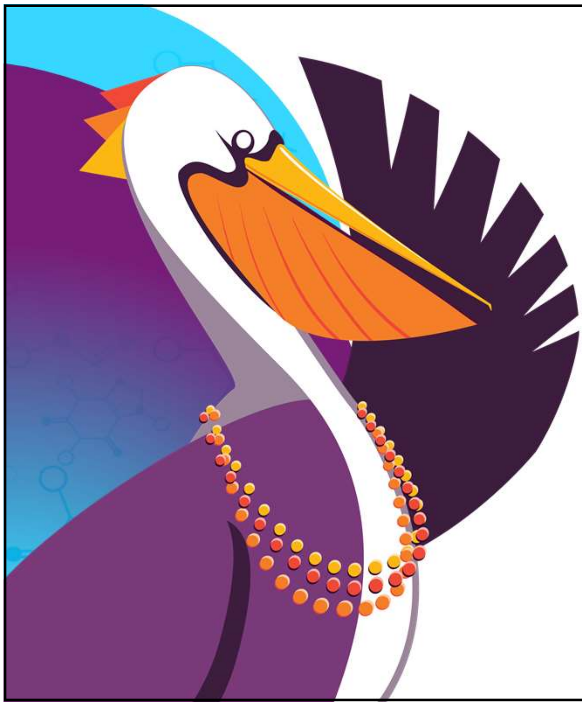

Standard Spin-off License Evolution

Bob Wooldridge
Associate Vice President
Carnegie Mellon University

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National Robotics Engineering Consortium – FY98 Pilot

Two Standard Deals

Type A: 10% equity, royalty at 1/2 market (typically deferred)

Type B: 15% equity, no royalty

Package of Services

Legal (ex. Incorporation)

Incubation Space @$8 sq.ft.

Line of Credit/Cash

TTO Time

Protection/Rights

Anti-dilution (clause) to $2M

Board Seat

Veto rights on transactions that would dilute equity

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CMU Prerequisites 1998-Present

- At least one founder must be CMU member/under the IP Policy
- All inventors waive proceeds under the IP Policy
- If one or more doesn't waive, then "special situation" adjustment
- Submit an acceptable business plan to CMU
- No exceptional circumstances such as a large, prior investment by the university (ex. project, technology, patents)

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Most Important Question

"What can Carnegie Mellon do to maximize the opportunity for the success of the inventor/entrepreneur and his/her startup for our mutual benefit without substantially increasing the risk to the university?"

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Comparison of Original and 2002 Guidelines

Two Standard Deals

Type A: 10% equity, royalty at 1/2 market (typically deferred)

Type B: 15% equity, no royalty

Package of Services

Legal

Incubation Space

Line of Credit/Cash

TTO Time

Protection/Rights

Anti-dilution to $2M

Board Seat

Veto rights

Standard Deal plus "Menu"

5% equity, 1% royalty for non-exclusive license; warrant

1% premium for exclusivity, both in equity and royalty

No royalties for three years

"Menu" - Creator/Founder driven choice of add'l services/items (.4-2%)

- Legal documents
- Space
- Line of Credit/Cash
- Deferred Patent Expense

No special protections or rights

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Guidelines 2008-present

Standard Deal plus "Menu"
5% equity, 1% royalty for non-exclusive license; warrant
1% premium for exclusivity, both in equity and royalty
No royalties for three years
"Menu" - Creator/Founder driven choice of add'l services/items (.4-2%)
Gap funds
Deferred Patent Expense
No special protections or rights

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Expected Effects of the 2002 Guidelines

Advantages:

- Beyond a Standard Deal, Creator/Founders determine their own "custom" deal consistent with their particulars needs and desires
- Lower "base" point and streamlined process should stimulate greater entrepreneurship resulting in a wider equity base for Carnegie Mellon
- Availability of a Standard Deal template with published (and favorable) terms should make it much easier for Creator/Founders to reach agreement with CMU and result a more satisfying experience for CMU Creator/Founders
- Removal of special rights should improve the startup's ability to get smart money faster

Disadvantages:

- Lower equity percentages could simply mean "lower returns" if the difference is not "made up in volume"; no data
- Removal of special rights and board seat could leave the university susceptible to substantial dilution and other maneuvers by outside parties

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Actual Effects and Outcomes

- Everything we expected in 2002, both good and bad
  - Increased from 2 start-ups per year to 10
  - There were instances wherein we suffered substantial dilution (and general shenanigans)
- The warrant idea turned out to be much better than expected
- Our companies have raised over $1.7B in venture capital
- Multiple acquisitions have occurred; 1-3 per year starting in ~2009
- Four companies have gone public; DUOL largest and most recent

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What's Next?

For Software:

- No patent/only copyrights new standard deal terms
  - One-half current rates i.e 3% equity for exclusive, 2.5% for non-exclusive, in both instances a 1% royalty
- Open Source "Good Standing" Agreement
  - 1% equity dilutable, faculty choice
  - Note: This is UC Berkeley's idea

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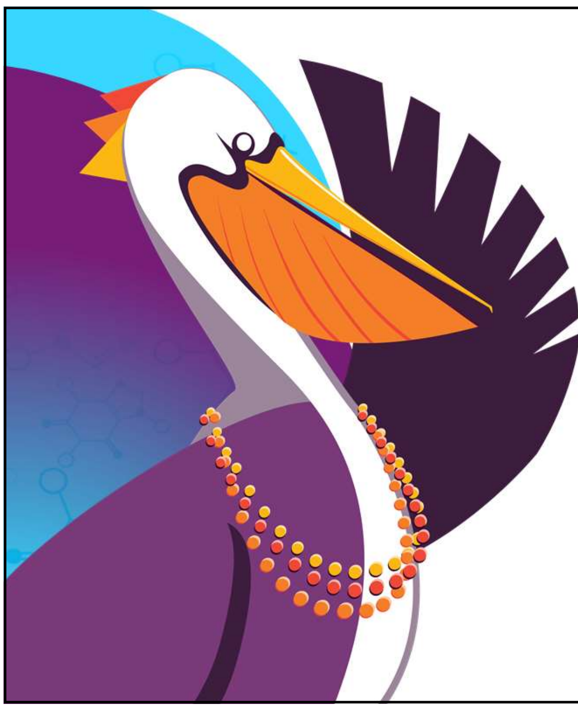

Questions?

Bob Wooldridge

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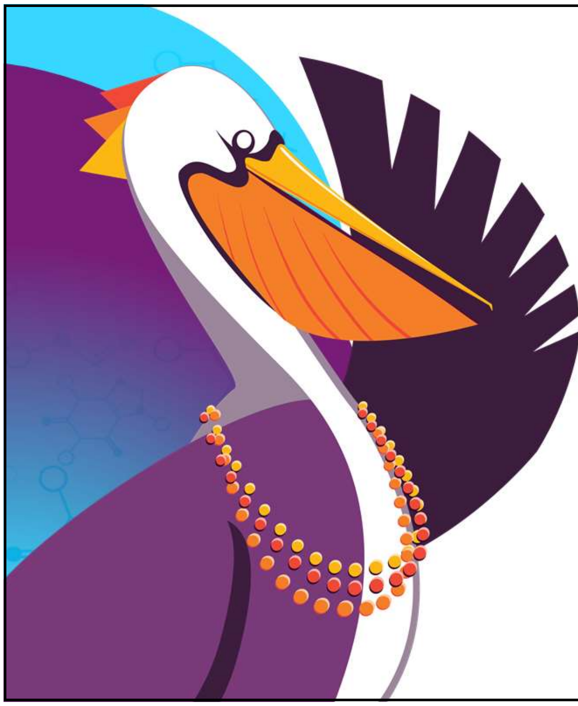

Entrepreneurship and Express Licenses

Kelly S. Parsons, PhD
Director, Technology Commercialization
The University of North Carolina at Chapel Hill

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Carolina Express License Agreement (CELA)

- Standard, non-negotiable license exclusively for use by early-stage startups at UNC's discretion
- Launched in 2009 – one of first startup express licensing programs, controversial at the time but now being adopted more broadly
- 1^{st} CELA executed March 2010
- Startups are not required to use the CELA
- Utilized by 70+ UNC startups/50+ still active

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Carolina Express License Agreement (CELA)

- CELA has met UNC's original goals for "express" licensing
  - Foster entrepreneurial culture
  - Promote transparency/equity among university inventors
  - Expedite licensing process
  - Allow startup to utilize limited resources for company grow/product development
  - Maximize use of startup funds for early R&D by back loading payments owed to UNC
  - Make UNC-based startups attractive for venture backed investors and commercialization partners

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Carolina Express License Agreement (CELA)

- CELA generally available if:
  - A detailed business plan application is reviewed and approved by UNC
  - All IP rights are owned solely by UNC, or other owning parties agree to the terms of the CELA
  - CELA is signed without modification (due diligence milestones are only negotiable term)
  - May not be available in situations where UNC has significantly contributed to the development and/or validation of the technology prior to licensing

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Lessons Learned/Things to Consider

- Obtain buy-in upfront (Administration, Inventors, VCs, Attorneys)
- Decide approach for how to manage requests for negotiated terms/non-university affiliated companies requests for CELA terms
- Anticipate that startups will pivot
- Determine if different terms are needed for different technology types
- Establish a process upfront for updating express license terms

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TERM	ORIGINAL CELA	CELA 2021
Exit Fee	0.75% Fee	1.0% Fee, converts to 5% Equity upon $2M in Qualifying Investments
Royalties	Clinically Approved Product: 1% Other Product: 2%	Clinically Approved Product: 2% Other Product: 3% Licensed Services: 5%
Sublicensing Fees	10%	15%, drops to 10% following completion of Phase I clinical trial for a clinically approved product
Sublicensing Royalty Revenue	20% of royalties received by startup	Royalties paid as outlined above whether sale is made by startup, affiliate, or sublicensee
Preemptive Rights	N/A	UNC or its assignee has right to invest in future rounds to maintain its equity position
Maintenance Fees	3rd-5th year: $5K (non-clinical); $15K (clinical) 6th year+: $10K (non-clinical); $30K (clinical) [*not considered clinical product until $1M has been incurred by newco related to clinical trials]	3rd-5th year: $5K (non-clinical); $15K (clinical) 6th year+: $10K (non-clinical); $30K (clinical) [*not considered clinical product until $1M has been incurred by newco related to clinical trials]
Milestone Fees	None	None
Patent Cost Reimbursement	1-Year grace period to reimburse provisional, PCT, and US national stage patent expenses	1-Year grace period to reimburse provisional, PCT, and US national stage patent expenses

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Questions?
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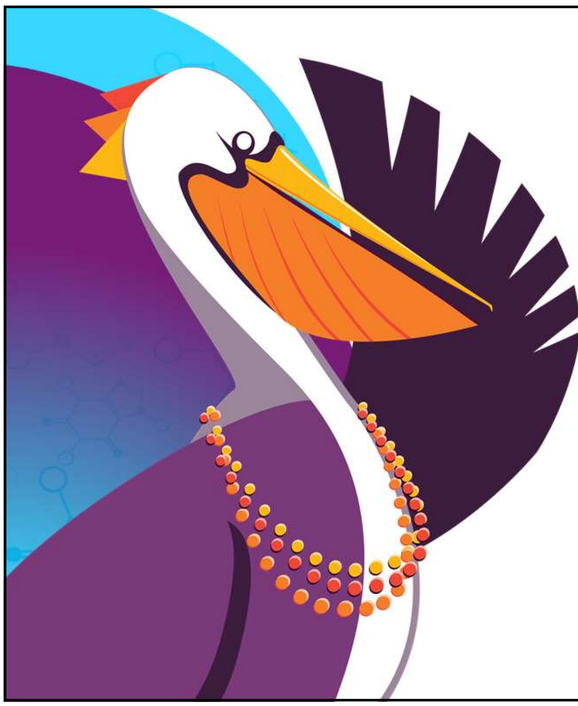

Entrepreneurship and Express Licenses

Ken Porter

Director, UM Ventures College Park

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TERM	Patented Invention	Copyright Only	Open Source
Equity	6% Founders' Shares, fully dilutable	6%	3% Acknowledge: 1) University's role 2) University's willingness for Open-Source release 3) University's statement of Company's good-standing
Exit Fee	1.5% Success Fee	1.5%	
Royalties	3% Royalty holiday until $3M annual sales	3% Royalty holiday until $3M annual sales	
Sublicensing Fees	20% of non-royalty consideration	20% of non-royalty consideration	
Sublicensing Royalty Revenue	3% pass-through	3% pass-through	
Preemptive Rights	Yes	Yes	
Maintenance Fees	None	None	
Milestone Fees	None	None	
Patent Cost Reimbursement	3-year grace period for past expenses (with a schedule); foreign expenses paid as incurred		

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Questions?
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