

UNIVERSITY OF SOUTH ALABAMA EQUITY POLICY

I. Preamble

In the course of fulfilling the University's research and educational missions, a faculty or staff member (hereafter referred to as *inventor*) may create valuable intangible property that may have the potential to benefit society and further the University's educational goals. This property may include patentable inventions, copyrightable works, and unpublished know-how (hereafter referred to as *University-owned intellectual property assets*, or *assets*). As they emerge from the University's inventors, many of these assets are considered early stage. Accordingly, financial resources and management expertise outside of the University may be required to move these assets to the marketplace in the form of licensed products and/or services. The University seeks to avail itself of these external resources and expertise by forming new business entities based on these assets, commonly known as start-up companies.

During the course of managing, protecting, and commercializing University-owned intellectual property assets, the University's Office of Technology Transfer (OTT) will occasionally find that an existing company does not have the interest, capability, or financial resources to move these assets to the marketplace. There are times when the market truly dictates that a start-up company should be formed around a collection of University-owned intellectual property assets.

There are circumstances involving start-ups that can result in unmanageable financial conflicts of interest for the inventor and the University. For both parties the potential for conflicts arises from the issuance of equity by the start-up (licensee) company. In this situation, the start-up issues founders' equity to the inventor in exchange for him or her serving as a management partner in the venture. Founders' equity is generally issued as common stock, and although there may be different vesting parameters for various founders, all have similar shareholders rights. The amount of founders' equity issued is generally outlined in an agreement between the inventor and other founders. This founders' agreement also delineates the various roles of each founding member. Founders' equity is sometimes confused with another instance in which equity in a start-up company is issued in consideration for rights to University-owned intellectual property assets licensed to the start-up company. This type of equity can be in the form of stock, options, or warrants. Although equity-only licenses are usually not contemplated, frequently upfront fees are reduced when equity consideration is part of a license package (which may include minimum payments, milestones payments, and royalties on net sales). This equity provided to the University, in lieu of licensing fees, is commonly viewed as a reasonable business solution to enhance the overall financial package acceptability to the University and other potential investors. (Note: An unmanageable conflict of interest may also arise when an inventor is appointed as an officer of an existing licensee company. Although this Policy deals with issuance of equity, it is also relevant to such an appointment.)

In the instance of founders' equity, the inventor finds him or herself in an unmanageable conflict of interest because, on one end, he or she seeks to represent the start-up company and negotiate as low an equity distribution as possible with the University, while in the role of University the inventor seeks to negotiate as high as possible equity distribution to the University in order to-maximize the inventors share of equity generated under the Distribution of Net Income section as provide for in the USA PATENT AND INTELLECTUAL PROPERTY ASSETS POLICY.

II. Equity Policy

1. Introduction

The purpose of this Equity Policy is to eliminate the unmanageable financial conflict of interest that arises when a licensee company (start-up) issues founders' equity to an inventor who is also eligible to participate in revenue sharing under the Net Income Distribution pursuant to the USA PATENT AND INVENTION POLICY. Accordingly, this Equity Policy hereby supersedes and replaces any and all other prior policies and understandings with respect to equity.

2. Policy

- A. An inventor may accept founders' equity in a start-up company in exchange for providing professional services to said company, for example, serving as its chief technology officer or chief research officer. The University may accept equity in a start-up company in lieu of licensing fees for University-owned intellectual property assets through an OTT transaction. This shall only occur with the prior written approval of the Office of the Vice President for Research.
- B. In the event of 2A, an inventor must elect, in writing, to either:
 - (a) accept founders' equity and execute the attached EXHIBIT thereby waiving his or her right to participate in the Distribution of Net Income as provided for in the USA PATENT AND INVENTION POLICY and acknowledging that he or she is an agent of the start-up company and will not be privy to any internal deliberations regarding said transaction; or
 - (b) forego his or her right to receive founders' equity thereby affirming his or her decision to participate in the Distribution of Net Income provided for in the USA PATENT AND INVENTION POLICY. The distribution of inventor's share of equity will occur simultaneously with the distribution to the University.
- C. In the event of 2B(a), the inventor's forfeited share in any University equity and the University's shares received from the start-up shall automatically transfer to the USA Research and Technology Corporation (RTC). RTC has the right to manage such equity as an RTC asset, to advance commercialization and partnership development without any other implied consideration for either the University or the inventor.
- D. All equity received by the University under 2B(b) will be transferred to the RTC to manage as an asset without any implied consideration for either the University or inventor.

- E. University nor the RTC shall neither seek nor accept voting representation with respect to equity received pursuant to technology-related licensing transactions involving University-owned intellectual property assets nor exercise any voting rights on start-up company board actions, regardless of the level of the equity interest received. RTC shall make decisions regarding the management and disposition of any and all equity received by it under this Policy based upon sound business judgment with the objective of maximizing commercialization and partnership development regardless of the impact on all remaining shares.
- F. Under this policy, any inventor receiving equity from the University has the right to manage such equity as he or she deems fit.
- G. Under this policy, all proceeds of equity shares that are liquidated by the RTC shall be split 50%-50% between the RTC and the inventors' department(s).

EXHIBIT 1

**WAIVER OF INVENTOR'S RIGHT TO SHARE IN NET INCOME
DISTRIBUTION**

Name:

School/Department:

University-Owned Intellectual Property Asset ("Assets"):

Licensee Company:

Because of the license granted or to be granted to Licensee Company by the University of South Alabama (University) relating to the Assets, and in light of the unmanageable financial conflict of interest created by Licensee Company's issuance of equity to me under Paragraph 2A of the Equity Policy, I hereby (a) waive my right to participate in the Distribution of Net Income pursuant to the USA PATENT AND INVENTION POLICY; and (b) acknowledge that, during the period of negotiation of said license, I will be considered an agent of Licensee Company and will not be privy to any internal University deliberations regarding said license.

Inventor: _____

Date: _____