POLICY FOR THE MANAGEMENT OF EQUITY IN NEW VENTURES

In our efforts to identify the optimal approach to commercialize Yale's scientific discoveries, a start-up company can sometimes represent the best opportunity for the development of early-stage technology. In fact, in some cases, a start-up may 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 is focused on that technology.

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

As a result, from time to time, Yale will accept equity in the form of stock, options 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, and (4) a percentage of sublicense income. The stock is viewed as a reasonable business solution to enhance the overall financial package - acceptable to the company and its investors, while providing an opportunity for the University to increase its potential return.

In those instances when Yale does accept equity in a new venture, the following policies and guidelines will apply:

**1. General policies for the management of equity in new ventures:**

1.1. Stock acquired through the activities of the Office of Cooperative Research shall be subject to the same policies and procedures as govern other equity holdings of the University.

1.2. If the stock is received in lieu of cash in consideration for a license, the stock will be treated as royalty income and distributed to inventor(s) in a timely manner in accordance with the University's Patent Policy. For the purposes of this distribution the stock will be valued at the per share value that it held when originally issued to the University. Following issuance of the stock to the inventor(s), it shall be the sole responsibility of the inventor(s) to manage their shares and to comply with any tax, legal, or contractual obligations associated with the distribution, ownership or disposition of those shares.

1.3. As a general practice, stock held for the benefit of the University will be transferred to the Investments Office as soon as it is possible to sell it in the public market (i.e. once the stock is publicly traded and any “lock-up” period has expired). The Investments Office will manage the stock in the same manner as it handles other equity holdings in the University's portfolio.

1.4. The Investments Office will transfer to the appropriate income accounts funds equal to the value of the stock at the close of trading on the day of transfer.

1.5. On a case-by-case basis, the University may wish to make exceptions to this general practice in order to fulfill other strategic goals.

   1.5.1. Recommendations for exceptions will be reviewed by an ad hoc investment committee including the Director of the Office of Cooperative Research, and representatives from the Vice Presidents for Finance and Administration, and for New Haven and State Affairs.
   1.5.2. This committee will advise the Provost on the recommendation. The Provost will make the final decision with respect to all such exceptions.
   1.5.3. Exceptions will be reviewed at least annually.

**2. Guidelines for acquiring equity holdings in new ventures:**

2.1. Yale should not financially invest operating funds in the formation of companies. This does not preclude investments by venture capital funds in which the Yale Investments Office has holdings since those investment decisions are made at "arms length".

2.2. Yale should not invest in later rounds of private financing for companies unless the investment is part of the Investments Office's normal investment activities or other special initiatives of the University. Decisions to invest in later rounds, however, should be made by personnel insulated from the management of the license-derived stock.

2.3. Yale's equity position should be a minority one. Yale should accept that its position may be diluted as the company raises additional capital.

2.4. Yale, as an institution, may retain the right to designate a representative to the Board of Directors of new ventures in which it holds equity.

   2.4.1. If Yale designates a Board member, the representative will resign from the Board prior to the company's registration with the Securities and Exchange Commission for an initial public offering.
   2.4.2. During the term of Yale's Board participation, any fees or other forms of compensation accruing to the Board member shall be the property of the University and will be credited to OCR's general account.
   2.4.3. The individual designated to serve on the Board will be eligible for mandatory indemnification to the extent permitted under Connecticut law.

2.5. Faculty and staff participation in new venture activity (whether by stock ownership, Board membership, consulting agreement or otherwise) is governed by the University's policy on Conflicts of Interest and Conflicts of Commitment, and must comply with that policy in all respects.

2.6. On a quarterly basis, the OCR shall prepare a report of portfolio holdings of both public and private companies and circulate it to the Provost, the Vice President of Finance and Administration, the Investments Office, Investments Accounting Office, and the Office of General Counsel.