OFFICE OF COOPERATIVE RESEARCH
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. 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.

1.2. As a general practice, when a stock held for the benefit of the University is about to go public, OCR will seek the assistance of the Investments Office and/or Investment Accounting in liquidating the stock.

1.2.1. Prior to liquidation, the stock must first be transferred to Yale’s custodian (currently Northern Trust), which typically occurs once the stock is publicly traded and freely tradable (i.e., any "lock-up" period has expired and legends have been removed). Once transferred, the Investments Office will liquidate the shares consistent with its approach to liquidating donated securities and then transfer the resulting income to the Office of Cooperative Research's account.

1.2.2. OCR will not initiate the process of transferring management of any stock to the Investments Office at any time it is in possession of any material non-public information about the stock or company. Moreover, OCR will not share any material non-public information with any member of the Investments Office or Investment Accounting with respect to any publicly traded stock or company, or with respect to any company that has filed a registration statement with the Securities Exchange Commission.

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

1.3.1. Recommendations for exceptions will be reviewed by an ad hoc review 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 ("Ad Hoc Review Committee").
1.3.2. This committee will advise the Provost on the recommendation. The Provost will make the final decision with respect to all such exceptions.
1.3.3. Exceptions will be reviewed at least annually.

2. Guidelines for acquiring equity holdings in new ventures:

2.1. OCR should not invest Yale's operating funds in the formation of companies.

2.2. Decisions to invest in later rounds of private financing for companies managed by OCR should be reviewed by the Ad Hoc Review Committee. Decisions to invest in later rounds should be made by personnel insulated from the management of the license-derived stock.

2.3. Equity positions managed by OCR should be minority positions. 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 monthly basis, the OCR shall prepare a report of portfolio holdings of both public and private companies and circulate it to the Investments Office.