

Exit Strategies for Equity Positions in University of Texas Licensees

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Potential Sources of an Equity Position

- Patent License Agreement
- Software License Agreement
- Research, Collaboration & License Agreement
- Donor Gifts
- Investments



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Typical License Agreement Sources of Income

- Running Royalties (% of Net Sales)
- Milestone Fees Upon Events
- Sublicensing Fees
- Expenses
- Rarely, Equity

PATENT LICENSE AGREEMENT AGT. NO. PM1207401

License Agreement is between the Licensors and the Licensee identified below (collectively, "Party").

Agreement between the Parties will exist until this Patent License Agreement is terminated by the Parties. Unsigned drafts of this Patent License Agreement shall not be considered an offer.



Why Take Equity Instead of Solely Cash Sources in a License Agreement?

- Alternate Source of Potential Revenue Within License – Place Your Bets
- Stock Certificate In a Vault With Statutory Protections
- Start-Ups Often Can't Afford Fees, Royalties and the Like – But Have Plenty of Early-Stage Equity
- Participate in the Upward Trajectory of the Licensee



Trends

- In 1999, Stanford Licensed Google for 1.8M Shares
- Google Went Public and Stanford Made \$336M
- But . . . Equity Rarely Pays Off, Cash is King
- Outright Sales of IP Can Prove Lucrative (e.g., Ziopharm, Intrexon and M.D. Anderson in 2015)
- Pressure on Tech Transfer Offices
- IPOs and Acquisitions are Very Rare
- Tech Stocks are Hard to Value (GASB 72)



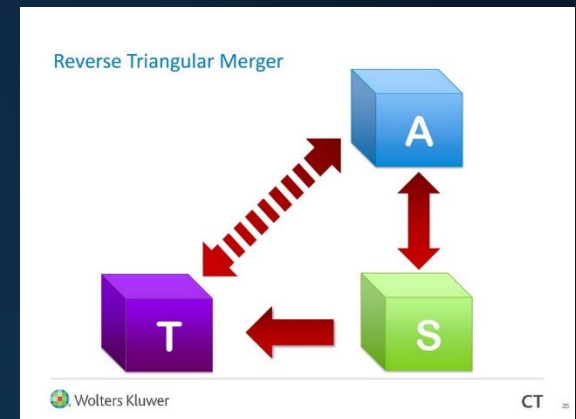
Stage Setting

- Capitalization of Licensee
- Fully-Diluted Percentage Ownership by Regents
- Existing Contractual Rights: Investors' Rights Agreement, Voting Agreement, Registration Rights Agreement
- Regental Percentage Ownership Plus Contract Rights = LEVERAGE
- Passive Investment Posture by Regents



Merger or Acquisition of Licensee

- Public Company or Private Buyer
- Stock and/or Cash Consideration
- Structured as Merger or Asset Sale
 - Triangular Merger, Stock Exchange, Tender Offer
 - Acquisition of Substantially All Assets
- Tax Treatment



Vehicle: Letter of Transmittal / Stockholder Consent

- Agree to Join 125+/- Page Merger Agreement (Privity)
- Merger Agreement Dictates Economics of Per Share Payment Based on Purchase Price and Deductions
- Preferred Stock, Common Stock and Warrants
- Earn-Outs and Contingent Payments
- Post-Closing Adjustments
- Make Reps and Warranties
- Indemnification, Caps and Deductibles/Baskets
- State Law Restrictions
- Reimbursable Escrow Fund



Letter of Transmittal/Stockholder Consent (Cont'd)

- Release of Claims, Preservation of Licenses and Other Contracts
- Power of Attorney
- Assignment of Licenses in Asset Deals
- Consent to Stockholder Representative
- Waiver of Appraisal Rights
- S.E.C. Approval if Public Stock is Currency
- Stock Certificate Exchange Procedures
- Asset Sale Requires Plan of Dissolution and Liquidation
- Time Crunch/Adhesion Contract
- Choice of Law and Jurisdiction Issues



Initial Public Offering

- SPACs, Shell Mergers, Underwritten Offerings, Direct Listings
- Description of the Business in Registration Statement
- 5% Shareholder and FINRA Questionnaire
- Registration Rights and 180-Day Lock-Up
- Rule 144 Sales and Legend Removal
- Forms 13G/13D
- Section 16
- Sarbanes-Oxley / Director and Officer Conflicts



Bad Times

- Bankruptcy
- Liquidation and Dissolution
- Secured Lenders
- Distressed Lenders and Security Interests
- Charter Protections and Preferences
- License Provisions



Questions?



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