





Examples of CMU license templates,

CMU's equity ownership in the spin-off at the closing of (i) the first major financing (aggregate investment into the company of \$2M) or (ii) of a change of control event (such as a purchase by another entity), whichever comes first, in a Standard Deal shall amount to --

- 5.0% if the license is non-exclusive,
- 6.0% if the license is exclusive.

(Note: The 1% difference represents the premium for exclusivity).

The calculation of such ownership percentages shall include all classes of shares, options, and warrants outstanding at the time of the calculation.

Such ownership percentages are to be accomplished by issuance to CMU, on the effective date of the license, of (i) shares in the spin-off and (ii) a warrant for the acquisition of additional shares by CMU designed to accomplish CMU's equity ownership as defined above.

The securities to be owned by CMU shall have terms, conditions, financial and other provisions that, in addition to rights described below in "Rights with Regard to Future Equity Transactions" are no less favorable than those of the securities to be owned by the creator-founders and other shareholders. Similarly, CMU's rights under the company's shareholders' agreement shall, in addition to rights described below in "Rights with Regard to Future Equity Transactions" be no less favorable than those of the creator-founders and other shareholders.

#### **c. CMU Royalties (% of revenues from sales of products based upon technology licensed)**

In recognition of the typical shortage of cash during the initial phases of a spin-off, the license agreement will provide--

1. that **no royalties** shall be due or payable to CMU (and/or any of the creator-founders) for a period of **three (3) years** following the effective date of the license or until the closing of a **change of control event**, whichever may occur sooner;
2. after such time, royalties to CMU for the remaining term of the license shall be payable quarterly in the amount of --
  - 1.0% if the license is non-exclusive,
  - 2.0% if the license is exclusive.

Such royalties will not be shared by CMU with creator-founders.

If one or more of the creators do not wish to become creator-founders and to negotiate their own financial arrangements with the spin-off, the arrangements defined under "Special Situations" will apply.

#### **d. Milestones**

An exclusive license will involve milestones that define reasonable progress of the spin-off in order to avoid the possibility of a "dead" or weakly performing license that would block the licensing of a CMU technology to others if an initial, exclusive licensee has not been able to accomplish reasonable commercialization of the technology. If such milestones are not met, an exclusive license may, at CMU's discretion, be made non-exclusive or be terminated in accordance with the provisions of the license agreement.

Reasonable milestones are to be proposed by the founders of a spin-off and must cover at least the following key events and their respective expected completion dates:

1. Completion of an acceptable business plan
2. Initial product development and market testing
3. Initial rounds for financing
4. Commercial product introduction (“first commercial sales”)
5. Minimum revenue targets during the first five years

A nonexclusive license will also involve milestones but less stringent ones that, nevertheless, will be designed to avoid the possibility of a “dead license”. Non-compliance with such milestones will be a cause for terminating the license.

#### **e. Rights with Regard to Future Equity Transactions**

As part of any deal under these Guidelines and as is not uncommon for initial shareholders of spin-offs, CMU shall also receive the following rights with regard to future equity transactions, with such rights to be in effect until a change of control event:

1. “Preemptive rights” which are the rights of current shareholders to maintain their fractional ownership of a company by buying a proportional number of shares of any future issue of common stock;
2. “Piggyback Registration Rights” which are the rights of shareholders to register and sell his/her unregistered stock in the event that the company conducts an offering.
3. “Co-Sale Rights” which are the rights of shareholders to participate in any proposed sale of the company’s stock to third parties.

#### **f. Board of Directors**

If and for as long as CMU has equity ownership in the spin-off or its successor company of 10% or more, CMU will have the automatic right to appoint a member of the board of

If, however, the creator-founders wish to use some or all of the additional services which CMU may be able to make available, they may negotiate with CTTEC for an Expanded Deal that may include one or more of the following additional services, to be paid for by additional increments of equity ownership, as applicable, to CMU beyond a Standard Deal, as follows:

**a. Access to CMU Space**

The creator-founders may request permission for the use of CMU space, equipment and



1. Since CMU's equity participation in the deals under these Guidelines does not include a split for creators, the equity participation of CMU + creators "under the IP Policy" would be twice the percentage defined in these Guidelines; for example, for a nonexclusive license the combined equity participation per IP Policy would be 5% times 2 = 10%.
2. The additional equity percentage to be assigned by the spin-off to non-founder creators will be proportionate to the split percentages of the non-founder creators.
3. The amount of royalties payable by the spin-off will be similarly adjusted.

**Example**

*Assumptions: Standard Deal, nonexclusive license, CMU equity participation = 5%, royalties (after 3 years or after change of control event.) = 1%*

*creator-founders and their splits:*

<i>Creator 1</i>	<i>40.0%</i>
<i>Creator 2</i>	<i><u>25.0%</u></i>
<i>Total</i>	<i>65.0%</i>

*non-founder creators and their splits:*

<i>Creator 3</i>	<i>20.0%</i>
<i>Creator 4</i>	<i>10.0%</i>
<i>Creator 5</i>	<i><u>5.0%</u></i>
<i>Total</i>	<i>35.0%</i>

*Equity Participation:*

*Additional equity participation to be assigned to CMU to account for the non-founder creators: 5% times 35% = 1.75%*

*Total equity to be issued by the spin-off to CMU (including equity to account for the non-founder creators): 5% + 1.75% = 6.75%.*

*Equity split to be attributed by CMU to individual non-founder creators:*

*Creator 3: 5% times 20% = 1%; etc.*

*Royalty Participation:*

*Additional royalties (in addition to the standard 1%) to be payable to CMU for distribution to non-founder creators: Total: 1% times 35% = .35%;*

*Creator 3: 1% times 20% = .2%; etc.*

*Total royalties payable to CMU (including royalties attributable to non-founder creators = 1% + .35% = 1.35%*

**c. Sharing of Proceeds from Royalties for all Creator-Founders**



As a modification to the Standard Deal, all creator-founders shall be eligible to share in net proceeds received by Carnegie Mellon from royalties (although not any net proceeds from equity) through CMU's IP Policy (i.e. they will not be required to waive their rights to share in net proceeds from royalties) provided that; (a) all creator-founders agree to the modification at the time the license is executed, (b) a creator receiving a share of net proceeds from royalties, at the time such royalties are received by Carnegie Mellon; (1) is not a full time or substantially full time employee, consultant, or subcontractor of licensee, (2) is not being paid by Licensee under any type of non-compete or other arrangement, and (3) the creator's equity position in licensee is below 5%, and (c) the royalty rate will be 4% instead of 2% for an exclusive license and 2% instead of 1% for a non-exclusive license. insnsMhC /\*T1 (ns)h/MCID 5 -1At(1)-16 (-10 (a)-o)-14 ( (5 ( ))TJ -tw 9.3

