UC RIVERSIDE | UNIVERSITY OF CALIFORNIA | Academic Senate

April 8, 2015

To: Jose Wudka, Chair
Riverside Division

From: David Lo, Chair
Graduate Council

RE: Draft Guidelines for Pilot Program to Accept Equity for Access to University Facilities or Services

The proposed pilot program would enable UC campuses to accept equity positions in start-up companies based on UC intellectual property, and allow university incubators to provide space and resources in exchange for equity in these companies. The apparent goal of this program is to encourage UC campuses to further promote the commercial development of university-based technologies. The intended goal is worthwhile, as it may encourage greater growth in commercialization efforts in campus-generated technologies to complement private investment, and there is an assumed benefit in providing exposure of graduate students and postdoctoral fellows to industry experiences in a campus setting, along with potential job opportunities for our UC graduates. However, there are serious concerns about the implementation of this program, the exposure of each campus to considerable financial risk, and the associated loss to campus educational resources.

The potential benefits of this program include enhanced opportunities for UC students to be exposed to industry experiences, leading to potential job opportunities in industry. In addition, university investment in UC-based technologies may help speed the commercialization of these technologies. So from an educational point of view as well as the worthy goal of promoting university-grown technologies to commercialization, the pilot program has some merit. This increased emphasis on commercialization and entrepreneurship on campus also has potentially negative consequences. For example, while students may gain from the exposure to industry, the relationship must be made explicitly clear so that the student's obligations to the education program are not undermined by their work at an incubator company, and their compensation must reflect these explicit relationships. In addition, there is significant potential for industry relationships to alter the focus of campus faculty away from the educational and research mission and more toward commercialization. In both cases, the potential effect on academic freedom and transparency (including the right to publish research results) are serious issues that need to be addressed.

However, the main issue in this proposal is the proposition that UC campuses be encouraged to accept a more significant stake in the start-up companies, exchanging significant equity positions in lieu of cash for provision of university space and resources. UC campuses are already able to accept some minimal amount of equity to offset the costs of intellectual property protection or other minimal costs to the start-up company. However, this proposal raises the stakes, in which equity positions of up to 10% might be accepted based on a company valuation that is at best speculative. The space and resources provided by the UC campus may be of significant real value, and considering the high rate of failure of start-up companies, the potential loss to campus finances may be significant.

So from a financial risk point of view, the program needs to incorporate far more oversight and safeguards before significant equity positions are accepted by any campus. The potential for undue influence from faculty on this process has not been adequately addressed, and the vetting of new technologies and the management stability of these new start-ups also needs to be seriously reviewed. We would support a more comprehensive oversight process in which a panel of faculty from the specific campus as well as other campuses, and external venture capital and industry consultants be established to review these decisions. The panel must have a clear charge, and processes must be in place to exclude those with conflicts of interest. Criteria for review should include the ability of the start-up company to attract outside investment (e.g., private investment, venture capital, SBIR/STTR funds), management experience and stability, as well as review of the company's IP portfolio and core technology. Finally, each campus should develop a policy acceptable to the faculty that explicitly establishes the degree of financial risk or exposure that it is willing to accept in support of these commercialization efforts.