



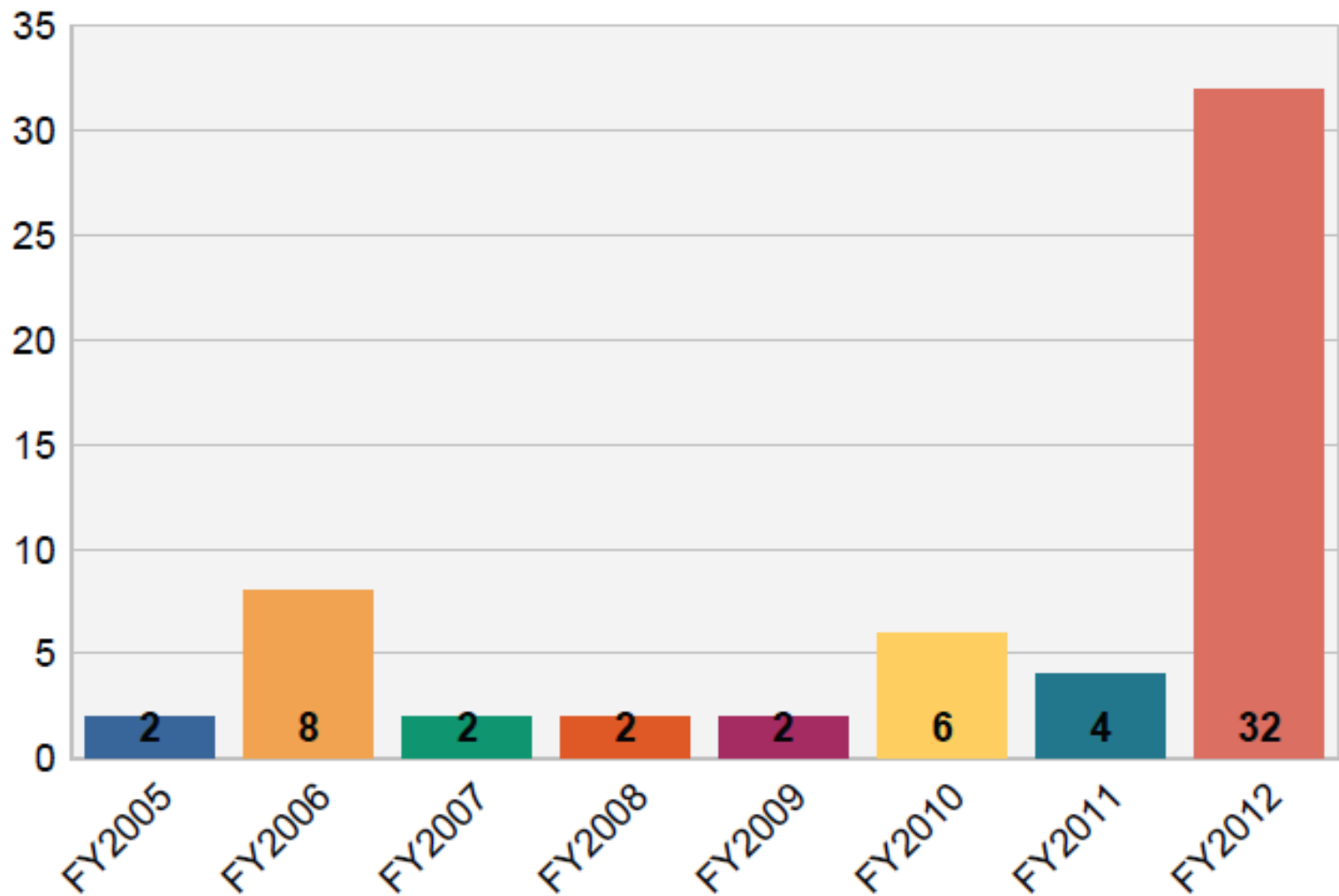
Office of

# Intellectual Property and Commercialization

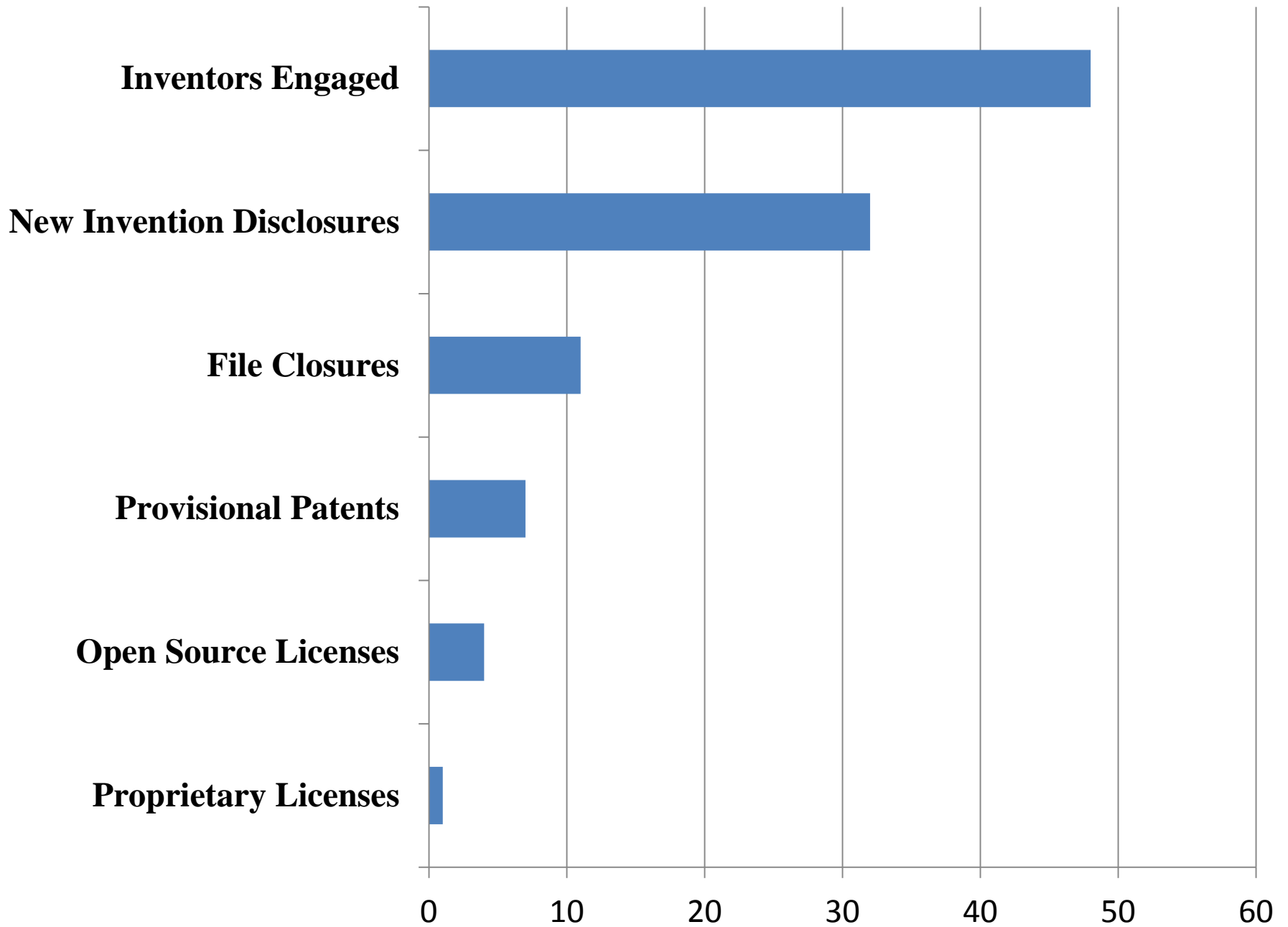
## The Path To University Startups

**A Launchpad for Innovators at  
the University of Alaska  
Fairbanks**

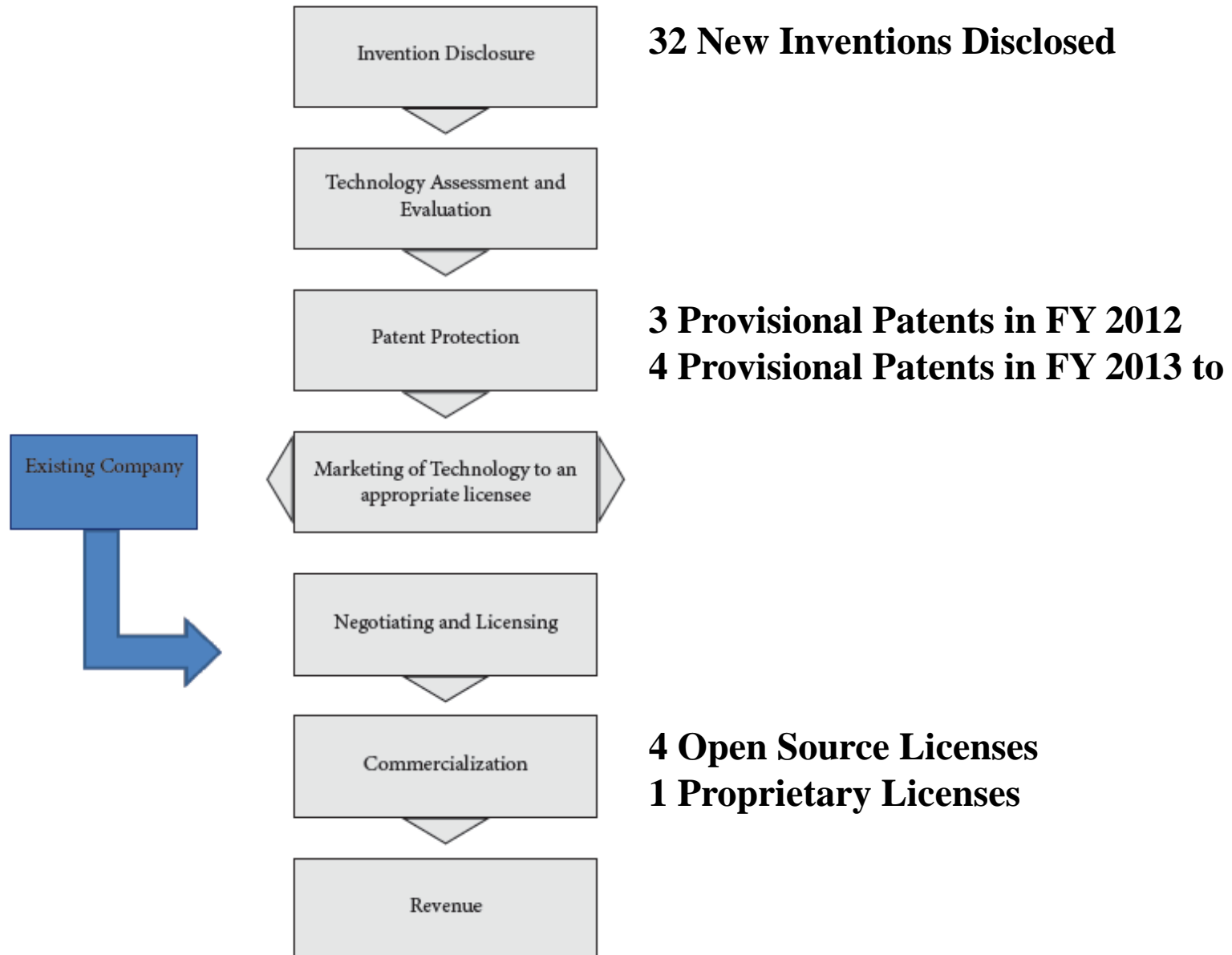
## Side by Side Comparison of Technologies per Year



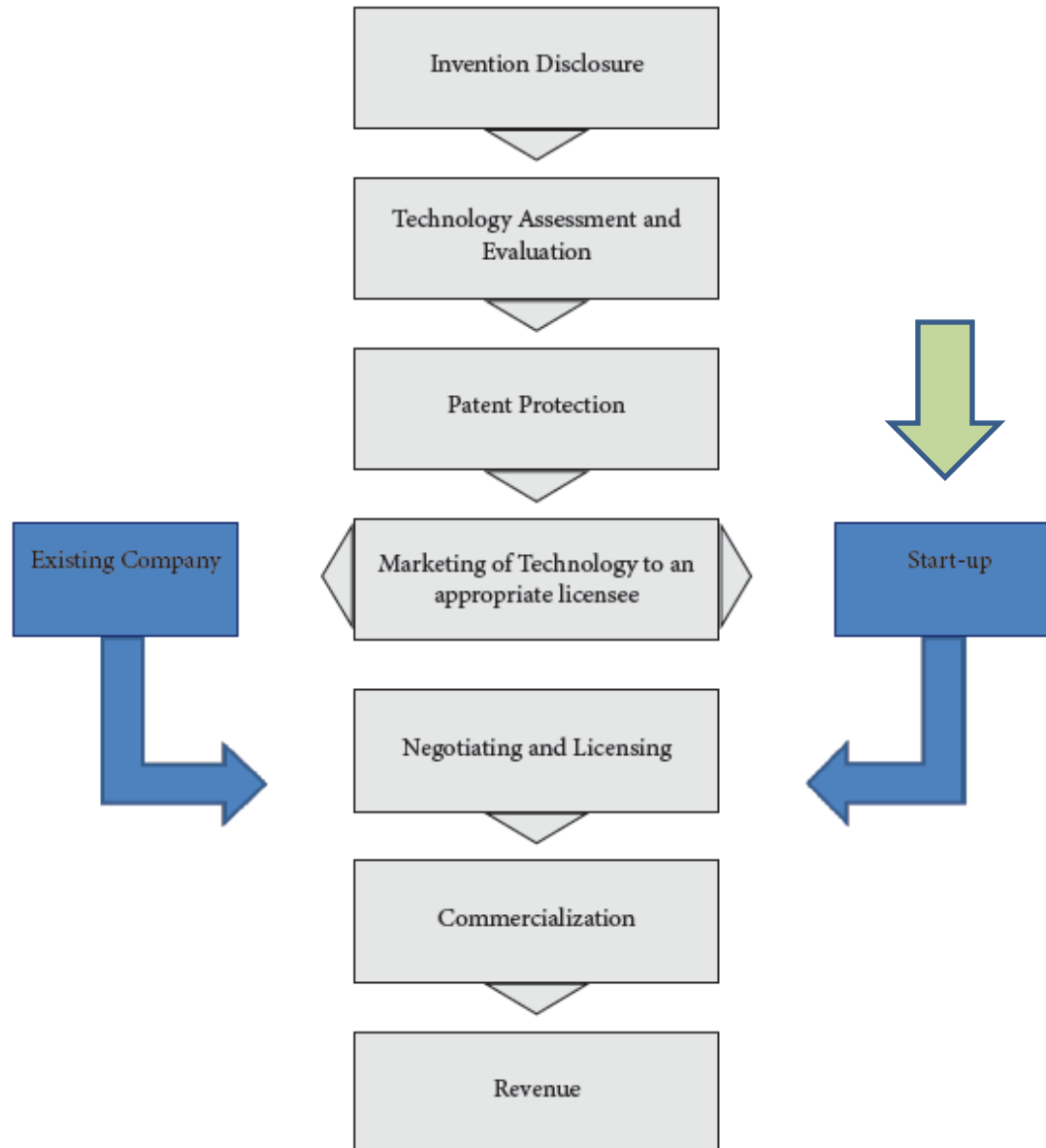
# Success of Inventions Worked on in 2012



# Steps to Commercialization



# Steps to Commercialization



# Why Create Startups?

- **Benefits our University and our Inventors**
  - Provides an alternative means of commercializing technology
  - Inventors and the university receive royalties
- **Benefits the Alaskan and national economies**
  - UAF can create sustainable jobs.
  - Consumers will get better products and services

# The Path to Startups

To have the **capacity** to build startups, we need:

- A means to take and isolate risk;
- A means to hold equity in startups; and
- The ability to work closely with the university and these companies in our community.

# Best Practices

- To properly handle these issues, other state universities have created research foundations.
- UAF has engaged an outside law firm to conduct a full analysis.



# UAF Research Foundation

Issues and Structuring Options

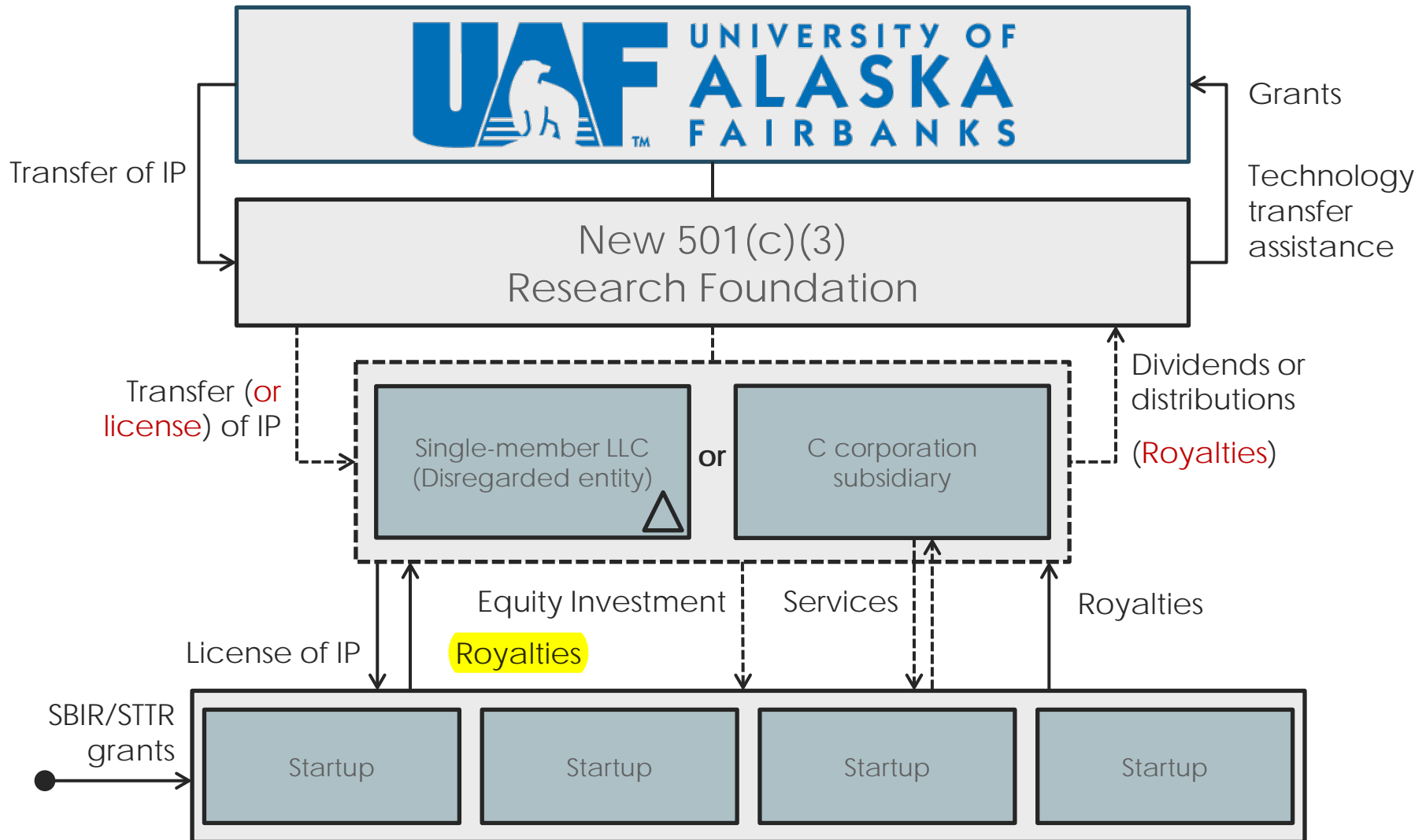
August 23, 2012



Davis Wright  
Tremaine LLP

DEFINING SUCCESS TOGETHER

# Structure of a Research Foundation



# Public Charity Classification



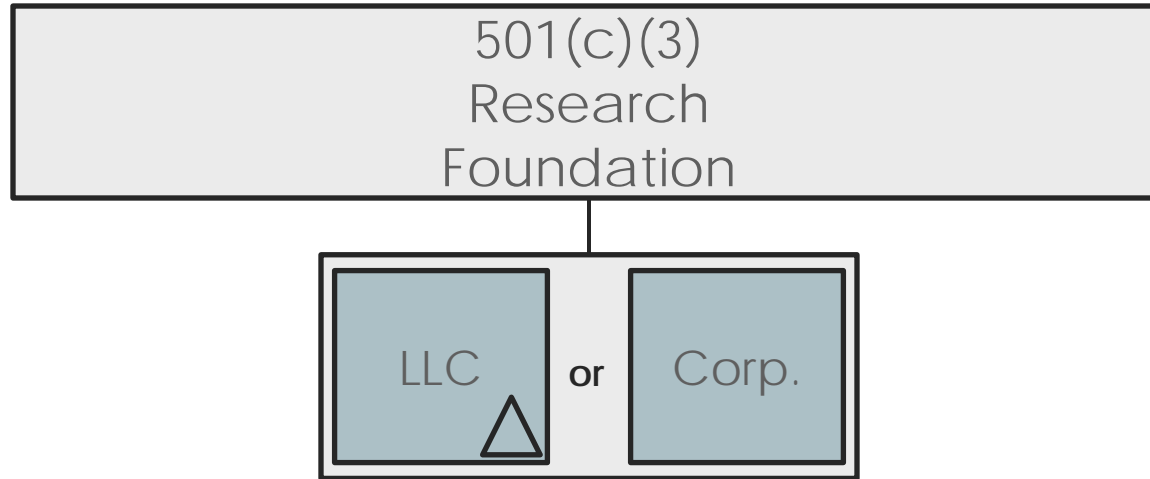
- 501(c)(3) organizations can be private foundations or public charities
- Public charity classification is best for an investing entity
  - But UAF RF likely will not generate enough public support (grants, etc.) to be a conventional public charity
- **Public Charity** – “Supporting organization”
  - Public charity that need not receive public support
  - Must be organized and operated exclusively to support or benefit one or more supported organizations

# UAF RF and Type I SO Status



- Types of supporting organizations
  - “Type I” —parent-subsidary relationship—is recommended for UAF RF
  - “Type II” (sibling relationship) and “Type III” (no formal relationship) are not recommended
- Two options for qualifying for Type I status:
  - Make UA/UAF the sole member of UAF RF
  - Have UA/UAF appoint the majority of the UAF RF board  
(Recommended for administrative simplicity)
- Why is Type I status recommended?
  - No public support test
  - Ensure that UAF RF acts only to benefit UAF
  - Simpler **administration and** IRS reporting
  - Avoid severe Type III SO regulatory headaches

# Structuring a Subsidiary of UAF RF



Two ways to organize a subsidiary:

- **LLC**, with research foundation as sole member
- **Corporation**, with research foundation as sole shareholder

# Single-member LLC



- A single-member LLC is a “disregarded entity” under federal tax law
  - The IRS considers all activities and income of the disregarded entity to be the activities and income of the member.
  - There are no tax consequences (good or bad) for a 501(c)(3) organization from forming a single-member LLC.
  - Royalty income excluded from UBTI if properly structured or not UBTI if exempt function income, otherwise taxable UBTI
- The main benefit of the single-member LLC: liability protection

# Unrelated Business Income Tax (UBIT)



- When “tax-exempt” organizations must pay income tax
- What is “unrelated business?”
  - Trade or business
  - Regularly carried on
  - Not substantially related to exempt purposes
- Most income from unrelated business is taxable at regular graduated corporate rates
- Most royalties and dividends are excluded from UBIT
  - But royalties are taxed if paid by a fully controlled subsidiary

# C corporation subsidiary



- Net income of the C corporation is taxable. Tax will be paid one way or another.
  - If it is distributed to UAF RF as **royalties**, then the C corporation can deduct it, but UAF RF likely has to pay UBIT.
  - If it is distributed as **dividends**, then the C corporation will pay tax on it, but it will not be taxable to UAF RF.
- Reasons to use C corporation despite tax liability:
  - Protect UAF RF's exempt status from non-exempt activity
    - **Non-exempt activity (providing services or office space, etc.)** will likely incur UBIT liability if conducted directly by UAF RF, in any case
  - Allow researchers to take equity stake
  - Liability protection (as with an LLC)



# Disadvantages of a Subsidiary



- Additional administrative burden and expense
  - Operating agreement between UAF RF and subsidiary
  - Separate board of directors that must meet regularly (Corporation only)
  - Additional obligations for UAF RF as set forth in LLC agreement, such as member meetings (LLC only)
  - Maintain separate books and records
  - Account for all employee staff time spent on behalf of UAF RF and on behalf of the subsidiary
  - Do not commingle UAF RF and subsidiary funds

# Recommendations



- Structure:
  - Alaska nonmembership, nonprofit corporation
  - UAF appoints a majority of board members
- Tax status and classification:
  - Seek recognition as Section 501(c)(3) organization
  - Seek recognition of public charity status as a “Type I” supporting organization
- Subsidiary:
  - Our recommendation will depend on the particular activities UAF RF wishes to facilitate



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