

APPENDIX B

Establishment of an Associated Entity – The University of North Carolina at Wilmington

In March of 2008, pursuant to and consistent with UNC Reg. 600.2.5.2 [R], the institution approved the establishment of an associated entity, the UNCW Research Foundation (UNCW-RF). The UNCW-RF is an IRS recognized 501(c)(3) charitable organization established to support UNCW intellectual property development and assist in the institution's regional economic development efforts in southeast North Carolina. The institution has further established the UNCW Center for Innovation and Entrepreneurship (CIE), serving as a catalyst for business development and promoting resources and services critical to start-up entities, including early-stage funding opportunities, Small Business Development Center support, business management, mentoring, intellectual property consolidation and protection, early-stage occupancy at the CIE, and back office advice and alternatives.

An attribute of the CIE is the co-location of a privately managed venture capital fund (Fund), to provide early, mid and late stage funding alternatives and business management support to portfolio companies selected for investment and supporting the mission and development of the CIE. The Fund has neither a formal nor contractual relationship with the university, but will contract with the proposed for-profit entity. Co-locating venture capital expertise and access with the business accelerator should improve the success of new businesses and viability of the CIE. The Fund occupies space in CIE, and in lieu of cash rent, will provide the equivalent capital credit or a profits credit to the UNCW-RF or its designee for the space and the commitment of resources. As the CIE grows and evolves, other funding groups or VC interests may also be interested in the companies and business concepts graduating from the Center, providing further funding opportunities for the new entrepreneurs.

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Because the UNCW-RF is an IRS recognized non-profit entity, it is possible a future distribution event directly in favor of the UNCW-RF may compromise the RF's tax-exempt status in the eyes of the IRS. Accordingly, to limit risk and exposure to the UNCW-RF as well as secure the profits interest in the Fund while preserving the charitable status of the UNCW-RF, UNCW requests authority to establish a for-profit entity consistent with UNC Policy 600.2.5.2[R] C(2). Establishing a for-profit corporation controlled by the RF would allow the C-corp's receipt of profits, pay applicable taxes, and distribute net proceeds to the RF as dividends.

UNC Policy 600.2.5.2[R] C(2) requires that an associated entity established on a for-profit basis must be approved by the Board of Governors. If approved, the for-profit associated entity would serve as a legitimate holding entity shielding the UNCW-RF's legitimate charitable mission, limit any prospective liability concerns for the RF, and pay any applicable tax should there be future distribution or profit events.