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Meeting the Challenges of TTO Royalty & Equity Distributions

Welcoming remarks will begin at
11:55 a.m. Eastern Time.

The formal presentation will begin at Noon Eastern

FOR AUDIO:

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For a list of **international** toll-free numbers check your confirmation email for the direct link.



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Meeting the Challenges of TTO Royalty & Equity Distributions

Speakers:

Mary Albertson, *Stanford University*
Jennifer Folger, *Michigan State University*
Maureen Upshaw, *University of Florida*

August 12, 2015



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Questions?

**We will be taking questions at the
conclusion of the presentation.**



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Audio difficulties: Dial 0 0

Other issues: +1-847-559-0846



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- *AUTM Better World Report*
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- AUTM Licensing Activity Survey (currently for United States and Canada)
- AUTM Update

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- Access to post data on the [Global Technology Portal](#)



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Mary Albertson,
Stanford University



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Jennifer Folger,
Michigan State University



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Maureen Upshaw,
University of Florida



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The following presentation reflects the personal views and thoughts of Mary Albertson, Maureen Upshaw and Jennifer Folger and is not to be construed as representing in any way the corporate views or advice of Stanford University, the University of Florida or University of Florida Research Foundation, or Michigan State University or their Affiliates, Subsidiaries or Divisions, nor the views or advice of the Association of University Technology Managers (AUTM). The content is solely for purposes of discussion and illustration, and is not to be considered legal advice.

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Policies and Best Practices

KNOW THE RULES!



University policies

- Policies vary by institution
- Change over time via official revisions
- Do not cover all scenarios
 - Need BEST PRACTICES to provide consistent and equitable procedures

Stanford Royalty Sharing

After deductions for overhead (15%) and expenses, the net cash royalties are divided:

1/3 to inventors

1/3 to inventors' departments

1/3 to inventors' school





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MSU Patent Policy:



After expense recovery:

- * First \$5,000 goes to inventors
- * Next \$100,000 split evenly between inventors, inventors' colleges and the University
- * Next \$400,000 split 30% inventors, 30% colleges, 40% University
- * Next \$500,000 split 20% inventors, 20% colleges, 60% University
- * All additional net licensing proceeds split 15% inventors, 15% colleges, 70% University.



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UF Distribution of Income Policy

For net adjusted income up to \$500,000 (Schedule A):

- 40% individual creator(s)
- 10% program(s)
- 7.5% creator(s)department
- 7.5% creator(s) college
- 35% UFRF



For net adjusted income \$500,000 or over (Schedule B):

- 25% individual creator(s)
- 10% program(s)
- 10% creator(s)department
- 10% creator(s) college
- 45% UFRF



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Recouping Unreimbursed Expenses

- Legal expenses that are not reimbursed by the licensee must be recouped before license income distribution can occur (per policy).
- Legal expenses may be marked as non-billable due to the type of expense or the dates of the expense may fall outside of the range of billable expenses as negotiated in the license. These must come from license income.



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Recouping Unreimbursed Expenses

Agreement Legal Expenses

Agreement Number: A11106

Date of Service	Reference/Law Firm	County Code	Amt Bill'd to UFRF	UFRF Amt Pd	Bill'd to Reimbursed by Licensee(s)	Deducted from Lic Inc	Write Off
09-27-12	20440981 Haynes and Boone LLP	SO	\$117.50	\$117.50	\$117.50	\$117.50	\$ 0.00
09-27-12	20440981 Haynes and Boone LLP	KR	\$117.50	\$117.50	\$117.50	\$117.50	\$ 0.00
09-21-12	20440951 Haynes and Boone LLP	PCT	\$70.00	\$70.00	\$70.00	\$70.00	\$ 0.00
09-19-12	20440951 Haynes and Boone LLP	PCT	\$70.00	\$70.00	\$70.00	\$70.00	\$ 0.00
09-19-12	20440951 Haynes and Boone LLP	PCT	\$70.00	\$70.00	\$70.00	\$70.00	\$ 0.00
09-06-12	20440921 Haynes and Boone LLP	PCT	\$117.50	\$117.50	\$117.50	\$117.50	\$ 0.00
08-01-12	20440921 Haynes and Boone LLP	PCT	\$654.00	\$654.00	\$654.00	\$654.00	\$ 0.00
07-03-12	20483210 Haynes and Boone LLP	PCT	\$184.00	\$184.00	\$184.00	\$184.00	\$ 0.00
07-03-12	20483210 Haynes and Boone LLP	PCT	\$129.00	\$129.00	\$129.00	\$129.00	\$ 0.00
02-09-12	20481120 Haynes and Boone LLP	PCT	\$70.50	\$ 0.00	\$ 0.00	\$70.50	\$ 0.00
01-23-12	20483979 Haynes and Boone LLP	PCT	\$70.50	\$70.50	\$ 0.00	\$ 0.00	\$70.50
01-17-12	20483979 Haynes and Boone LLP	PCT	\$35.00	\$35.00	\$ 0.00	\$ 0.00	\$35.00
12-19-11	20482240 Haynes and Boone LLP	PCT	\$70.00	\$70.00	\$ 0.00	\$ 0.00	\$70.00
12-02-11	20482240 Haynes and Boone LLP	PCT	\$185.00	\$185.00	\$ 0.00	\$ 0.00	\$185.00
11-28-11	20397882 Haynes and Boone LLP	PCT	\$282.00	\$282.00	\$ 0.00	\$ 0.00	\$282.00
11-22-11	20397882 Haynes and Boone LLP	PCT	\$446.00	\$446.00	\$ 0.00	\$ 0.00	\$446.00
09-03-11	20381170 Haynes and Boone LLP	PCT	\$117.50	\$117.50	\$ 0.00	\$ 0.00	\$117.50
08-19-11	20384003 Haynes and Boone LLP	PCT	\$423.00	\$423.00	\$ 0.00	\$ 0.00	\$423.00

Inventor Distribution Challenges

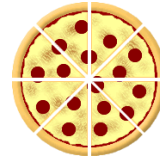


Inventor splits

- Need an agreements between all inventors (Creator Income Distribution Agreement –UF; Proceeds Distribution Forms – MSU)
- Splits should be determined at the time of disclosure or at the time you decide to go forward on a technology

Why? – BECAUSE MONEY CHANGES EVERYTHING

When inventors can't come to agreement on split of license income....



- MSU and UFRF asks for splits (% contribution) at the time of disclosure. If the inventors cannot mutually agree, an equal split will be used.
- Stanford uses an equal split unless inventors agree, in writing

Missing Inventors

- Co-inventors are often a good point of contact
- Reach out to the inventor's department for any forwarding information.
 - Search Google, LinkedIn, Facebook, etc.
 - Set standards to verify the "John Doe" you found is the correct "John Doe"





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Foreign National Inventors

- As former faculty or former students move outside of the US, we must determine if their distribution payment requires a W-9 (US citizen or resident alien) or W-8BEN (foreign person) for vendor set-up and IRS reporting.
- Some countries no longer use paper checks. Consider electronic payments to foreign inventors.



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Deceased Inventors

- When an inventor passes away, royalties are still due to their estate or their heirs
- Work with your institution's General Counsel to determine documentation needs for proof of inheritance
- Adjust records and calculation method to include new payees


What happens to undistributed income when you can't locate the inventor?

- In the US, unclaimed property (such as royalties) must be escheated to the state.
 - Laws vary state to state
- UF and MSU hold the income to distribute for one year; at that point we start the process of transferring income to the State.

MSUT escheats through the main Accounting office at the end of every fiscal year.



The screenshot shows the Michigan Department of Treasury website. The main navigation bar includes links for Treasury Home, Contact Treasury, Online Services, Forms, and FAQ. A search bar is present. Below the navigation, there are several featured sections: 'Unclaimed Property', 'Claiming Unclaimed Property', and 'Reporting Unclaimed Property'. The 'Claiming Unclaimed Property' section includes a link to 'Michigan Department of Treasury' and 'Reporting Unclaimed Property'.



The screenshot shows the Florida Unclaimed Property website. The header includes the logo for 'FLTreasureHunt.org' and the name 'JEFF ATWATER'. Below the header, there are three main sections: 'SEARCH Unclaimed Property', 'CHECK Unclaimed Property', and 'NOTICE Unclaimed Property'. A central text block states: 'Currently, the Chief Financial Officer holds unclaimed property accounts valued at more than \$1 billion, mostly from dormant accounts in financial institutions, insurance and utility companies, securities and trust holdings. In addition to money and securities, unclaimed property includes tangible property such as watches, jewelry, coins, currency, stamps, historical items and other miscellaneous articles from abandoned safe deposit boxes. Unclaimed money is deposited into the state school fund, where it is used for public education. There is, however, no statute of limitations, and citizens have the right to claim their property any time at no cost.' Below this text, there is a link for 'AUCION - July 31st & August 1st 2015'.

Communication



Improves Customer Service

- Inventors know what they're getting without asking
- Easy to use for their future reference
- Source may be needed for Conflict of Interest disclosures later



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Keep It Simple

- Policy
- How it translates into reality
- Don't give them choices that are exceptions
- Be prepared to discuss sources and amount prior and post distribution



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Researcher Portal

S95	1,062.50
S95	605.17
S02	70.42
S05	30.75
S06	<u>183.60</u>
Total	\$6,368.20

2014*	S83-	\$1,303.21	View 2014 Sources of Income
	S87-	245.67	
	S91-	1,087.63	
	S93-	640.83	
	S95-	1,328.13	



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Distribution by Source

Sources of Income

This information is provided to you on a confidential and personal basis only in order to help you complete any conflict of interest disclosures you may need to make to Stanford.

The income by company is "Gross Income" received by OTL. The income you receive personally as an inventor depends on many factors e.g., patent expenses, the number of inventors, if there are other organizations involved, the royalty sharing agreement etc.

Detailed information about any of these figures can be obtained by contacting OTL by phone at 723-0651 or by email at info@otlmail.stanford.edu.

For information on Stanford's royalty sharing policy, please see <http://otl.stanford.edu/inventors/policies.html>

<u>Company Name</u>	<u>Docket</u>	<u>Income</u>
Actimis Pharmaceuticals	95-006	
Amgen, Inc.	95-006	
BioLegend Inc.	06-328 83-075 87-057 90-088 91-031	



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Set expectations

- Be up front with faculty regarding timing of royalty payments
- Be consistent in how and when you distribute
- Be as open and honest as possible with faculty regarding any unexpected delays

Inter-Institutional Agreements



Inter-Institutional Agreements

- Inventors from other institutions sometimes collaborate on their works or inventions which may result in joint owned technology. This type of teamwork can prove successful in developing marketable technologies, so an Inter-Institutional Agreement (IIA) is executed.
- The lead institution must be sure to include the co-owner in the distribution of any license income. The IIA should include information on unreimbursed legal expenses, administrative fees, and the % split of income for each institution.

Potential Co-Owner/IIA Issues

- An IIA was put in place. The shared technology was not yet licensed and the IIA allowed for shared patent expenses, so the IIA was billed at 50%.
- A License was later executed, but the licensing officer did not factor in patent expenses paid by the IIA, so the new licensee reimbursed the lead institution for the remaining expenses only.
- The co-owner contacted the lead institution and wanted the legal they had paid to be reimbursed, so the lead institution had to reimburse the IIA from their portion of license income.

Co-Owner/IIA-Legal Report

- The below legal expense report was modified to add “Amount reimbursed by co-owner (cost sharing)” in order to be sure we do not forget about co-owners when we license a technology.





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Co-Owner/IIA-Legal Report

Agreement Legal Expenses

Agreement Number: A7042

Date of Service	Reference/Law Firm	Country Code	Amt Billed to UFRF	UFRF Amt Pd	Billed to Lic(s)/IIA	Reimbursed by Lic(s)/IIA	Deducted from Lic Inc	Write Offs
04/23/12	153068 Saliwanchik, Lloyd & Eisenschenk	US	\$450.00	\$450.00	\$337.50	\$337.50	\$112.50	\$0.00
02/17/12	150870 Saliwanchik, Lloyd & Eisenschenk	US	\$30.00	\$30.00	\$22.50	\$22.50	\$7.50	\$0.00
02/08/12	149444 Saliwanchik, Lloyd & Eisenschenk	US	\$990.00	\$990.00	\$742.50	\$742.50	\$247.50	\$0.00
02/08/12	149444 Saliwanchik, Lloyd & Eisenschenk	US	\$65.00	\$65.00	\$48.75	\$48.75	\$16.25	\$0.00
02/08/12	149444 Saliwanchik, Lloyd & Eisenschenk	US	\$530.00	\$530.00	\$397.50	\$397.50	\$132.50	\$0.00
02/08/12	149444 Saliwanchik, Lloyd & Eisenschenk	US	\$150.00	\$150.00	\$112.50	\$112.50	\$37.50	\$0.00
02/07/12	149444 Saliwanchik, Lloyd & Eisenschenk	US	\$120.00	\$120.00	\$90.00	\$90.00	\$30.00	\$0.00
02/06/12	150870 Saliwanchik, Lloyd & Eisenschenk	US	\$30.00	\$30.00	\$22.50	\$22.50	\$7.50	\$0.00
01/18/12	149444 Saliwanchik, Lloyd & Eisenschenk	US	\$30.00	\$30.00	\$22.50	\$22.50	\$7.50	\$0.00
01/17/12	149444 Saliwanchik, Lloyd & Eisenschenk	US	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
08/15/11	149444 Saliwanchik, Lloyd & Eisenschenk	US	\$60.00	\$60.00	\$45.00	\$45.00	\$15.00	\$0.00
06/13/11	149444 Saliwanchik, Lloyd & Eisenschenk	US	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<i>Summary for 'Case' - 14125 (25 records)</i>								
Totals for Technology:			\$3,205.00	\$3,205.00	\$2,231.25	\$2,231.25	\$718.75	\$0.00
<i>Amount Unbillable:</i>			<i>\$0.00</i>					
Grand Totals:			\$68,055.70	\$67,973.20	\$50,079.58	\$50,079.58	\$16,472.98	\$0.00
BALANCE FOR OUTSTANDING LEGAL:				\$1,303.14				
<i>Amount Unbillable:</i>				<i>\$82.50</i>				
*AMOUNT DEDUCTED FROM LICENSE INCOME (INCLUDES UNBILLABLE):				\$16,472.98				
Amount reimbursed by co-owner (cost sharing):				\$2,344.89				



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Interpreting License Terms





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Milestones

- If credited against earned royalties, should they be distributed as earned royalties?
- If not creditable and there are multiple patents in the license, do you try to weight the distribution based on relative value of different IP?



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New IP added to Agreement

A new invention with multiple inventors

- Past revenue is distributed per original formula
- Future revenue is distributed by new formula – usually just divided evenly
- If weighting revenue, licensee is the one to determine how much more valuable one technology is over another
- Earned royalties and milestones may be distributed differently from annual minimums



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IP Removed from License

- Past revenue distribution left as is
- Current and future equally divided unless weighted distribution specified by licensee
- Earned royalties distributed based on technologies used in licensed product



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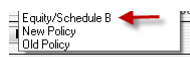
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Equity Distributions

For Net Adjusted Income \$500,000 or over (Schedule B):	
25%	individual Creator(s)
10%	Program
10%	Creator(s) department
10%	Creator(s) college
45%	University or UFRF

Notwithstanding the above, all Net Adjusted Income from UFRF's sale of equity or other ownership interests originally granted to UFRF by a licensee in lieu of cash royalties or license fees shall be distributed according to Schedule B.

- In order to calculate equity distributions based on our IP policy, a threshold "Equity/Schedule B" was created for distributions





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Case study including Startup and Co-owner

- In this example, 26 cases are licensed! Our Co-owner shares in 17 of the 26 cases. There are also multiple inventors with various % they contribute on each case.

University of Florida Research Foundation, Inc.
Revenue Distribution Worksheet

Date From: Mar 2011 Q01, Q2 & Q3 14 Min Run
Agreement: ALL1940
License:
Program #: 56A11940

INCOME

Decision Date	Revenue #	Description	Amount
06-23-14	14138	Minimum Royalties Fee	\$4,250.00
06-23-14	14675	Minimum Royalties Fee	\$4,250.00
12-31-14	14878	Minimum Royalties Fee	\$4,250.00
Total Revenue			\$12,750.00

DEDUCTIONS AND DISTRIBUTIONS

Legal Fee Deductions \$260.00

Shareholder	Entity	Percent %	Range	Percent %	Amount	Distribution	Amount	
University of Florida-MEDICINE	Company	100.00%	100.00%	7.50%	\$1,182.74			
University of Florida-MEDICINE-ANTHROPOLOGY	Department	7.50%	92.50%	4.50%	\$1,050.00			
University of Florida-MEDICINE-NEUROLOGY	Department	7.50%	5.75%	48%	\$69.23			
University of Florida-MEDICINE-PYCHOLOGY	Department	7.50%	1.75%	33%	\$32.47			
	Department	40.00%	5.75%	2.57%	\$302.00			
	Inventor	40.00%	4.00%	3.00%	\$120.00			
	Inventor	40.00%	1.75%	48%	\$109.18			
	Inventor	40.00%	89.81%	23.24%	\$421.40			
	Inventor	40.00%	7.50%	3.00%	\$473.18			
	Inventor	40.00%	3.80%	77%	\$131.80			
	Inventor	40.00%	6.45%	2.25%	\$404.24			
	Inventor	40.00%	77%	33%	\$88.67			
	Inventor	40.00%	7.45%	3.08%	\$481.21			
	Inventor	40.00%	1.75%	48%	\$109.18			
UT - PROGRAMS RETURN-Trademarks	Program	10.00%	100.00%	10.00%	\$1,400.00			
UT - PROGRAMS RETURN-Medicine-Medicines	Program	10.00%	100.00%	10.00%	\$100.00			
UTSP	Program	31.00%	100.00%	31.00%	\$1,168.44			
Revenue Co:					100.00%	14.71%	14.71%	\$1,720.15

Total Distributions \$18,490.00
Total Deductions and Distributions \$18,750.00

Our co-owner on this license is a start-up company with a former employee as the Owner. The start-up is allowed to see all documents related to the license, so we know they are checking our calculation every time!



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Q&A time!





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Discussion and Q&A

Click the raise hand button.

When called on, press * 7 on your telephone keypad to un-mute your phone.

Press * 6 to re-mute your phone.



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 Basic Patenting 101
 Copyright Law and Content/Software Licensing
 Equity Based License Agreements
 Financial Conflicts of Interest
 Marketing: Whether By Traditional or Social Media, the Value
 Need to Know Basics of Technology Transfer for Support Staff
 Negotiation of License Agreements
 Nuts and Bolts for Compliance Under Federal Funding Awards
 The Basics of Open Source Licensing
 Tips for Managing MTAs
 Triage
 Valuation of Inventions and Patents
 (More Added Monthly)

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Register now for AUTM's next webinar

- **Triage - How to Evaluate Early Stage Technologies**
- August 18, 2015



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- Sep 22, 2015
- **The How-To's for Improving Tech Transfer Office Legal Expense Review**
- September 30, 2015





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AUTM Region Meetings



AUTM Western Region Meeting

Sept. 10 – 11, 2015
Hyatt Regency Calgary
Calgary, Alberta Canada



AUTM Eastern Region Meeting

Aug. 31 – Sept. 1, 2015
Raleigh Marriott City Center
Sept. 10 - 11, 2015

Registration Now Open!



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Oct. 5 - 7
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Seattle, WA USA

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Sept. 1 - 2
Hosted by Kansas State University and Auburn University
Kansas City, MO USA

AUTM Business Development

Nov. 17 -18
Hyatt Regency Dallas
Dallas, TX USA



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AUTM 2016 Annual Meeting

Feb. 14 – 17
San Diego, CA USA



Registration
Open Soon!

