TTO Revenue Distribution Guidelines, Rev. 4/15/15

Title: Procedures for Distributing Net Receipts from Licensing of Patent Rights associated with University Discoveries

Purpose: This guidance document describes the Technology Transfer Office’s procedures for distributing net revenues received by TTO from the licensing of patent rights for inventions made by University inventors.

Governing Policies:

1. Distribution of net receipts under the University IP Policy

The IP Policy provides that TTO will share and distribute net receipts received under license agreements for University discoveries as follows:

- 25% to discoverer(s) personally;
- 25% to a University campus account for support of the discoverer’s(s’) research (generally, laboratories);
- 25% to an account for the benefit of the University [historically TTO]; and
- 25% to the campus Chancellor, which will be directed to research with technology transfer potential and distributed on a percentage basis as determined at each individual campus.

The typical TTO license agreement covers discoveries that are patentable inventions, and the patent rights associated with those inventions is the intellectual property that is licensed. Such patent rights include pending patent applications as well as issued patents (both US and foreign). For licenses of patent rights, “net receipts” are all sums received by TTO under a license agreement after first deducting all unreimbursed patenting or other legal expenses incurred by TTO for the licensed inventions. Where the license covers inventions with inventors from another institution and that are therefore jointly owned with that institution, TTO will typically enter into an inter-institutional agreement (IIA) that establishes the lead institution responsible for licensing and the allocation of license revenues between or among CU and the other institution(s). In such cases, TTO will also deduct from gross license receipts any payments required to be made under the IIA as well as any administrative fees provided for in
the IIA. Also, as explained in section 7, in cases where an inventor has a joint appointment with another institution, TTO will also deduct payments required to be made in such situations under an agreement with that institution.

2. Individuals eligible for distributions of revenues from patent rights license agreements

The IP Policy provides that license net receipts shall be distributed to University discoverers of the licensed discovery. For licenses of patent rights, the “discoveries” are the inventions for which patent applications have been filed, and the “discoverers” include all the University employees named as inventors on the patents. (An inventor is the one who first conceives of an invention, in detail and with enough specificity that one skilled in the field could construct and practice the invention; those who translate the concept into practice are not considered co-inventors unless they add to the original concept of the invention. However, the inventors may agree to include other individuals who made important contributions to the inventive work as discoverers entitled to receive a share of the net receipts distribution. Such agreements must be in writing, signed by all the University discoverers, and must indicate the percent allocation for all recipients.

3. Allocation of net receipts between or among inventors of a licensed invention

Under the IP Policy, the inventors on a licensed patent are entitled personally to 25% of the net receipts attributable to that invention. Where there are multiple inventors on a licensed patent, and unless otherwise specified on TTO’s invention disclosure form, the inventor’s share will be split on an equal shares basis for all inventors. If all inventors agree to different allocation percentages, those percentages will also determine the allocations of net receipts attributable to that invention to the inventors’ labs (for faculty inventors) and campuses. All inventors, including non-CU inventors, should be listed on the TTO invention disclosure form that is submitted to TTO for each new University invention.

4. Allocation of net receipts among multiple licensed inventions

Some license agreements cover multiple inventions that are the subject of separate invention disclosures submitted to TTO. These different inventions may have both common inventors and new inventors and will usually be the subject of separate patent applications. In such cases, TTO must allocate net receipts between or among the different patent rights. This is done based on the patent “families” that correspond to the different inventions. A patent family includes all patent applications that claim priority to the same original patent application (usually a provisional application). This can include a later U.S. utility application, continuation applications based on that priority application, and foreign patent applications. The way in
which net receipts are allocated among patent families will further depend on the type of license revenue being allocated and whether that revenue is attributable to a particular invention and patent family, or if it covers all of the licensed patent families. For example, net sales royalties that relate to only one invention (and therefore one patent family) will be allocated 100% to that patent family. TTO may not be able to confirm association of revenue with a particular patent family if we lack information from the licensee.

Payments that are not attributable to a single patent family, such as pre-sales minimum annual royalty payments, will as a general rule be allocated equally across all licensed patent families. This equal split will be irrespective of how many individual applications are included within each patent family. [However, the inventors may propose a different weighting for a patent family that is clearly of greater value due to its foundational, or fundamental, nature. This could involve, for example, a patent family that creates a significant freedom to operate barrier for third party patents or the other licensed patent families, or a patent family that claims a novel composition of matter with many potential applications. If a person is listed as an inventor for more than one patent family, that person will still be entitled to his or her individual and lab allocation for each such patent family.]

5. Types of license revenues subject to distribution and corresponding allocations when multiple patent families are licensed

The categories of license receipts that are subject to distribution under the IP Policy, and the allocation of net receipts where multiple patent families are licensed, are:

a. **License issue fees payable in cash.** License issue fees that are payable in cash (typically at execution of the license agreement) will be allocated between or among the patent families that are covered by the license at the time the payment is due. As discussed in section 4, the allocation will be equal for all patent families unless specified otherwise.

b. **Milestone payments due upon achievement of specific performance benchmarks.** Milestone payments that relate to a specific invention/patent family (for example, a clinical milestone for a specific drug that is the subject of a single priority patent application), will be allocated entirely to that invention/patent family. Milestone payments that are not clearly attributable to a single patent family will be allocated across all then-licensed patent families.

c. **Pre-sales minimum annual royalties and license maintenance fees.** As these payments relate generically to the license, they are allocated across all patent families that are included under the license agreement at the time the payment is due.
d. **Net sales royalties.** These royalties are typically due quarterly for “net sales” (gross sales less certain exclusions) made in the previous quarter by licensee, its affiliates and (in most cases) sublicensees. Net sales royalties will be allocated to the patent family (or families) that covers the product being sold, i.e., the family that includes the patent rights that in the absence of the license would be infringed by the manufacture or sale of that product.

e. **Royalties on sublicense income.** Sublicense income includes all consideration received by the licensee in connection with the grant of a sublicense, except (in most cases) royalties due on net sales by sublicensees, which are subject to the royalty on net sales required to be paid by the licensee. As with the other types of license revenue, where the payment can be clearly attributed to a particular patent family it will be allocated to that family, and where it cannot be so attributed it will be allocated across all then-licensed patent families.

f. **Equity received in lieu of a cash license fee.** Most license agreements with a startup company will provide for a license fee to be paid in the form of equity in the company. This allows the company to preserve its limited funds for product development. The equity is held by the University License Equity Holdings, Inc. and is liquidated at the first opportunity, either when the company is sold or goes public and any “lock-up” period ends. The private equity has no liquidity until the company is sold or goes public, and prior to such an “exit” event the company will often have received millions of dollars in private investment. That investment, and the later value of the company stock at the time of a sale or IPO, will be based on the commercial prospects for the company’s technology portfolio as it has been developed over time. This portfolio may include patent rights that were later licensed to the company via an amendment to the original license. And, some initially licensed patents may have in the meantime been dropped from the license due to a lack of development or clinical success, although the prospects for those initially licensed inventions may have induced the early investment. In view of the fact that all of the University patent rights licensed into the company up to the time of the exit event will in most cases have contributed to the investment into the company and the value of the company at the time of exit, TTO’s policy is to distribute the proceeds from the sale of the equity holdings equally across all patent families that were included in the license agreement associated with the license fee at the time of the sale of the equity securities.

Occasionally, a license agreement will include, as a diligence term, a requirement for the company to enter into a sponsored research agreement (SRA) to fund the further development of the invention by the inventor at the University. The SRA is a separate agreement from the license (although it may reference the license), and the payments made pursuant to the SRA are not license revenue.
6. Lab share distributions

Under the IP Policy, 25% of net receipts shall be directed to a laboratory account designated by the inventor(s) for research activities. All inventors with standing as University faculty will receive a lab share distribution. The lab share distribution will be in the same amount as the inventor’s personal share. Non-faculty inventors, such as students, are not eligible for a lab share (unlike a personal inventor’s share, which they will receive).

The inventor lab share distribution will be to the lab where the inventive research was funded and the work performed, according to the information provided to TTO by the inventor. Where the funding or use of facilities involves multiple labs, the inventor may attribute a percentage share for each lab. In cases where those labs are in different CU campuses, the distribution to the campus Chancellors will reflect the same percentage allocation as the lab share percentage.

7. Distributions for University inventors with joint appointments at other institutions

The University has agreements with affiliated institutions such as the VA Hospital, Children’s Hospital Colorado, Denver Health, National Jewish Health, and Howard Hughes Medical Institute that may provide for an inter-institution allocation of license revenues for inventors with a joint appointment at CU and the other institution. In most (but not all) cases, the allocation to the other institution of a share of the net receipts attributable to the joint appointee inventor will depend on the existence of some support from the other institution for the research that resulted in the invention. However, in some cases the mere fact of salary support for the inventor will be sufficient to require a distribution of a share of net receipts to the joint appointment institution. This only affects the share of receipts attributable to the inventor with the joint appointment and does not affect the distribution of the share net receipts allocated to other inventors. Inventors are encouraged to indicate any joint appointment relationships on the invention disclosure form to enable TTO to determine what obligations (if any) might exist with respect to the other institution.

8. Distributions for inventors whose University employment ends or whose department appointment changes

Faculty inventors (including emeriti with active research accounts as determined by the department chair) whose employment at the University ends will continue to be entitled to their personal inventor’s share, determined as described in section 3. In such cases, their lab share distribution will be reallocated to other labs from the same invention. Once all inventors from the same invention leave the University, their future lab share payments will be distributed as described in section 9. However, as provided in the IP Policy APS, inventors who
terminate employment at the University and who later return will be eligible to reinstate their lab share distribution on a prospective (going forward) basis.

Faculty inventors who change their appointment to a new CU department may transfer their lab share distribution to their lab account in the new department. Where the new department appointment involves a joint appointment with the inventor’s other department, the inventor may designate the percentage of the lab share distribution to be allocated to each department. However, such a transfer or re-allocation of the lab share to a new department lab account will not affect the campus distribution, which will continue to be distributed to the campus Chancellor(s) in accordance with the original lab share distribution as provided in section 6.

If an inventor dies while license revenues are still being received, the inventor’s personal share will continue to be paid to the inventor’s estate/heirs.

9. Distributions to and from campus Chancellors

For license agreements that include any inventions disclosed after January 1, 2013, TTO will distribute 25% of net receipts to the Chancellor of the campus on which the inventor has his or her departmental appointment. If an inventor has an appointment on two campuses, the Chancellor distribution will be the same as the departmental lab share distribution, as described in section 6. Where there are multiple inventors from different campuses, the campus distribution will be allocated in the same percentages as the inventor allocations described in section 3.

As provided in the IP Policy, if an inventor’s employment at the University ends while license payments are still being received, that inventor’s remaining lab share distribution will be allocated 10% to an account for the benefit of the University and 15% to the campus Chancellor, with such additional 15% share being added to the Chancellor 25% share. The distributions from the campus Chancellors will be in accordance with policies established by the Chancellors. The current policies can be found at: https://content.cu.edu/techtransfer/inv/policy.html

10. Revenue Distribution Forms

When a license is executed, TTO will send a Revenue Distribution Agreement (RDA) that summarizes the allocation of net receipts among the inventors, inventors’ labs and the campus Chancellor(s), as determined in accordance with this Guidance Document. This will be basis for distribution of net receipts (usually many years later). All inventors must sign the RDA prior to
distributions being paid. If TTO receives a written objection and accompanying explanation from an inventor, TTO will make every effort to resolve the matter with all affected inventors and will revise the RDA accordingly.

If additional inventions are later amended into the license, which includes new inventors or necessitates calculation changes TTO will send a new RDA to all inventors showing the revised distribution of net receipts.

### 11. TTO procedures for distributing net receipts payments

**For the inventors’ personal share:** After receiving a license payment and deducting any unreimbursed patent costs and payments required under agreements with other institutions, TTO will allocate the remaining net receipts to all recipients entitled to a distribution from that payment. As soon as practicable, and assuming that no outstanding issues regarding the allocations under the RDA, TTO will request a check for each inventor entitled to an inventor’s share of that license payment. TTO may hold distributions under $10 until additional license payments have been received resulting in a larger payment.

Because inventors continue to be entitled to their personal share after leaving the University, it is important that TTO be timely informed of all address changes to ensure that future payments are received.

**For the lab and campus Chancellor shares:** University labs and Chancellors receive net receipts distributions via an internal funds transfer executed by TTO. Inventors receiving a lab share must provide TTO with a department lab account speedtype to be able to receive the lab share.