

Protocol on Royalty Division

Summary

Upon filing of a patent application, the Patent Administration Office [PAO] shall suggest to the inventors that they reach agreement on royalty allocation for that invention. Then again, upon the completion of any licensing deal, STC shall consult with the PAO to help the PAO formulate a comprehensive royalty allocation plan for all licensed inventions. The allocation plan shall be based upon the principle that royalties shall be divided equally among inventors, unless the inventors otherwise agree. Generally, all inventors of the licensed inventions will share equally in the revenues from the license. In certain cases, however, revenues may be first allocated by invention, and then further allocated among the inventors to the invention.

Procedure

When the PAO receives its routine notices from STC that a utility patent application has been filed, the PAO shall request of the inventors that they reach agreement in writing on any future royalty allocations attributable to that patent application. It will send a letter and a draft agreement with the percentages to be filled in. The letter will state that the University default position is that inventors share equally, and that they can by unanimous agreement provide for a different division. It will also tell them that even if they agree on equal division, putting it in writing at the time of the patent application can avoid disputes and uncertainty later. If the inventors do not reach unanimous written agreement, the PAO will take no further action at that time.

When STC completes negotiation of a license, it will notify the PAO. The PAO will then develop the royalty allocation plan for all inventions encompassed by the license, taking into account any agreements previously reached by some or all of the inventors on the subject. Generally, the plan will be simply to allocate the royalties equally or pursuant to prior agreement, according to the principles outlined above.

In any case, upon decision by the PAO of the allocation plan, the plan shall be documented in writing, and provided to all of the creators for their written approval or rejection. Failure to respond within 90 days shall constitute acceptance of the plan. If any inventor objects to the plan, royalties shall be provisionally withheld, and the inventors will be free to negotiate among themselves. If unanimous inventor consent can not be obtained within an additional 90 days, the PAO shall, in consultation with the Intellectual Property Committee [IPC], make a final decision on royalty allocations. The IPC may, in its discretion, act in a mediation or negotiation capacity relative to the

creators. The decision of the PAO is appealable only to the President of the University on an abuse of discretion basis.

Analysis

Background

UNM's Intellectual Property Policy [IPP] governs distribution of commercialization proceeds among inventors, as follows:

- Section 2.6.3: *Prior to distribution of royalties ... the University and the STC shall be reimbursed for all costs incurred in securing intellectual property protection, all out-of-pocket commercialization costs, and any litigation costs.*
- Section 2.6.4: *Royalties received by the University from commercialization of UNM IP by the STC shall be divided as follows:*

Forty percent (40%) to be divided equally (unless unanimously agreed to the contrary by them) among the creators.

Forty percent (40%) to the STC; and

Twenty percent (20%) to the University to be ... Sciences Center).

- Section 6: *It is the University's policy that the creators share equally in division of royalties and other commercialization income unless agreed to by them in writing. ... In order to assist creators, the [Intellectual Property Committee] may, at its discretion, provide creators with informal mediation and an advisory opinion about such matters.*

Discussion

The IPP paradigm is an invention by a fixed number of inventors, who are all initially identified; the invention is patented and then licensed to an exclusive licensee. In that case, royalty allocation is unambiguous. Complications are created, at least arguably, by the following scenarios:

- multiple patents, including continuations, continuations-in-part, and divisionals (where the inventor subsets may vary)

- licensing of a subset of the above, with different inventors
- licensing of multiple inventions, with different inventors
- licensing of unpatented inventions, especially when not all of the applications are granted in full

As a general principle, when possible, the preferred approach is simply to identify all of the technology in a license deal, and then identify all of the inventors involved in that technology, and allocate royalties appropriately between them.¹ In some cases this might work a perceived inequity in that the contributions of one inventor might be perceived as of higher value than those of another, especially when one inventor's contributions are already patented. There is no uniform objective way to allocate value in these circumstances, however. Not only might each inventor have his or her own perception of relative value, so might the Patent Administrator, each different STC employee involved in the transaction, and each company representative and negotiator involved in the transaction.

On the other hand, there are some circumstances in which the equal shares for all inventors method would create an objective inequity. In particular, when the license is for a broad patent portfolio, if one inventor contributed to a number of the separate portfolio inventions, it would seem unfair for that inventor not to receive a correspondingly larger share of the proceeds. Accordingly, when the license is for independently patented inventions, the Patent Administrator will generally first recommend a division by patent or patent family, and then further suballocation by inventor.

Sometimes license agreements convey rights to a portfolio of technology, some of which is still in the patent prosecution process. Over the course of patent prosecution, the scope and validity of some of the applications may change; some may be granted, some may be denied, others may be narrowed, or divided. It is not always clear how these developments impact on the relative commercial value of the various technologies in the portfolio. In order to have some administrative or financial certainty, it is important to set royalty allocation formulae early on in the license process, and not subject the formulae to the uncertainties of the patent prosecution process. Therefore, once the royalty allocation formula is decided under the process set forth above, it will not be changed, unless there is a finding of fraud or similar improper dealings.

2219.reb

¹ For purposes of this memo, appropriately means *equally* when no written agreement between the inventors has been executed, and otherwise it means allocation based upon the percentages set forth in the written agreement.