

## Policy on Distribution of Royalties, Fees, and Other Financial Returns from Inventions Owned by the University

**Unit:** Office for Research and Economic Development

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### Purpose

The University of Alabama Patent Policy (Appendix G to the Faculty Handbook) provides that fifty percent (50%) of royalties, fees, and other financial returns received by the University from inventions assigned to it pursuant to the Patent Policy shall be paid to the inventor after the deduction of a 15% overhead charge and other expenses incurred by the University in the patenting and protection of patent rights. The purpose of this policy is to provide additional guidance in the application of the Patent Policy to the receipt of various forms of financial returns and to the distribution of those financial returns to the inventor or inventors and within the University.

### Policy

- A. Financial Returns:** Financial returns from an invention shall include all cash (royalties and license fees) and non-cash (equity in a company) consideration received by the University in exchange for the grant of any rights to a third party in the invention owned by the University, except for the following:
1. Research support in any form (e.g. from sponsored research agreements or grants), tuition income, or any contract income received by the University, including contract income in lieu of tuition.
  2. Reimbursement by a licensee of the expenses incurred by the University in the patent protection or commercialization of the invention or the value of those expenses that the licensee agrees to assume as part of its agreement with the University.
  3. Equity received by the University as a founder or co-founder of a company.
  4. Pre-paid fees received as a result of the Office for Research and Economic Development's Tide Research Partnership (TRP) Program. TRP Program fees and royalties will be distributed per the TRP policy.
- B. Distribution of Financial Returns.** After the deduction of the 15% overhead charge and expenses incurred in the patenting and protection of patent rights, the balance of any financial returns derived from the licensing of intellectual property owned by the University shall be divided 50% to the inventor or inventors and 50% to the University. Normally, distributions shall be made of the inventor's share and the University's share at the end of the University's fiscal year. The University may elect to make such distributions more frequently or may elect to hold distributions beyond the end of any fiscal year in the exercise of its reasonable discretion. For inventions that result from the TRP Program option (Section A, 4), the inventors are eligible to receive 60% after expenses are paid (an increase from the traditional percentage as described above).
1. In the case of a single inventor the entire balance of the inventor's share, after deduction of appropriate charges and expenses, shall be paid to the inventor. In the case of more than one inventor, the inventors' share shall be divided in accordance with a written agreement signed by each inventor allocating their respective interest in the financial returns from the invention. In the event the inventors cannot or do not reach such an agreement after reasonable efforts to do so, the financial returns shall be divided equally between or among the inventors.
  2. If any inventor entitled to share in the distribution of financial returns is also a founder of the business entity to which the University has licensed the invention of such inventor, or has an immediate family member who is a founder of such business entity, that inventor shall be ineligible to receive any distribution of financial returns, regardless of form, received by the University under the terms of such license. Such ineligibility may be abated to reflect special circumstances surrounding the formation and the business plan for a particular business entity to

be founded by an inventor, such as a case in which the inventor intends to divest himself of any initial ownership of the business entity at an early stage of development of the entity and will not assume management responsibilities in the business entity. In such case, the special circumstances shall be documented and a written agreement reflecting the nature of the exception to the ineligibility shall be executed by the inventor and the University before the events that would create the ineligibility occur. Any financial returns not distributed to any inventor for this or any other reason shall revert to the University. For purposes of this section, a founder is any person who participates in the creation, formation, establishment, initial fundraising, or initial management of a new business entity and who holds an equity position in that entity. An immediate family member is any person having a relationship by blood, law, or marriage of spouse, child, parent, or sibling.

3. The University's share shall be divided equally among the College where the inventor or inventors are employed, the Department where the inventor or inventors are employed, the Center where the inventor or inventors are employed, and the Office of the Vice President for Research and Economic Development. In the event the inventor or inventors are not employed in any Center, that portion of the University's share shall revert to the Office of the Vice President for Research and Economic Development. In the event the inventors are not employed in the same College, Department, or Center, that share shall be divided between the respective Colleges, Departments, or Centers in the same proportion as the allocation of interest made by the inventors. Any financial returns not distributed to the inventor or inventors shall be distributed within the University as set out above.
4. In all cases and in accordance with 37 CFR Part 401.5(g)(3), after payment of patenting costs, licensing costs, payments to inventors, and other expenses incidental to the administration of the subject inventions, the balance of any royalties or income earned and retained by the University during any fiscal year on subject inventions shall be used by the University for scientific research, development, and education consistent with the research and development mission and objectives of the University, including activities that increase the licensing potential of other University inventions.

**C. Equity in Business Entities.** The University may take an equity position in a company whether or not license fees or royalties are paid to the University as part of a negotiated agreement. A typical circumstance under which the University might receive equity would be as part of an agreement licensing a University-developed invention to a start-up or developing business entity. To ensure a balance of interests for the business venture as well as for the University, the University will generally require that it receive an equity position in such circumstances. This equity interest is managed and disposed of by the University in accordance with the policies and procedures stated in this and the following section.

It is the policy of the University to liquidate such equity position as soon as reasonably practicable, usually in the public market, rather than to seek to maximize the return on equity by trying to time the sale of the equity. The University does not act as a fiduciary for any inventor concerning such equity, and no inventor will have any right to vote or direct the disposition of such equity. The University has no duty or obligation to an inventor regarding the value realized upon liquidation of such equity, or with respect to any personal tax obligations that may arise as a result of any distribution described below.

There may be situations in which both the University and its employees separately own equity interests in a business entity. In such circumstances, the employee's equity interest is considered to be independent of the University's equity interest and is not held, managed, disposed of, or distributed by the University. An example would be a case in which the University receives an equity interest in a business entity as a result of licensing certain innovations developed by one of its employees and in which the same employee also owns an equity interest as a result of being a founder of the business entity receiving the license. In this example, the employee's equity interest is not held or managed by the University but rather by the employee; however, to the extent required under section B.2. above, the employee's status as a founder having an equity interest in the business entity renders the employee ineligible to receive a distribution of a portion of the University-owned equity interest, the proceeds from the sale of such equity interest, or other financial returns received by the University.

**D. Disposition and Distribution of Equity Interests.** Prior to any distribution of any equity interest acquired by the University under the terms of a negotiated agreement, the University shall be considered the sole legal and beneficial owner of the equity interest and shall have the sole right and authority to manage all equity interests, including, without limitation, the right to make all decisions concerning the timing, manner, and method of any distribution described below. Such distributions shall be made in accordance with all federal, state, and other applicable securities and tax laws and regulations and shall be made on the condition of compliance by the recipient of such distribution

with all such laws. An inventor entitled to a distribution under this policy shall not have any right to participate in the management of the equity interest, and shall have no right to approve, consent to, or receive notice of any transactions regarding the equity interest held by the University. Any distribution as described below will be net of any costs to the University to acquire, manage, transfer, or liquidate the equity interest held by it. Distributions of an equity interest shall be made in one of the following ways:

1. A distribution may be made to an inventor in the form of cash. In most cases, distributions will be made in cash following a liquidating event selected in the exercise of the discretion of the University as set out above.
2. A distribution may be made in the form of securities that may be freely traded without restriction on a public securities exchange or market (hereinafter referred to as a “marketable security”) when the University determines in the exercise of its sole discretion that such distribution would be lawful, consistent with University policies and procedures, and not create an undue administrative burden on the University. In those cases where the opportunity will exist to receive all or part of a distribution in the form of marketable securities as part of a liquidating event, the University will notify an inventor at least ten (10) days prior to such liquidating event of such opportunity. If the inventor and prospective recipient of marketable securities desires to receive a distribution in the form of marketable securities, such inventor must:
  - a. Execute an irrevocable written request for such distribution; and
  - b. Make satisfactory arrangements with a duly licensed stock brokerage firm to accept and clear the stock transfer; and
  - c. Make satisfactory arrangements with the University for the payment of administrative charges, costs of patenting and protection of patent rights, and any tax or tax-withholding obligations.

A distribution of marketable securities as set out above shall fully satisfy the University’s obligation regarding the distribution of the equity interest held by it to the inventor. Subsequent sales or other transactions of any marketable securities obtained by the University as part of the liquidating event shall not be subject to any further distribution to the inventor.

3. An early distribution of the equity interest held by the University may be made to an inventor prior to an liquidating event if the University finds in the exercise of its sole discretion that such distribution would be lawful, consistent with University policies and procedures, not be contrary to any securities laws nor likely to create a violation of any such law, not be in breach of or inconsistent with any agreement to which the University, the company in which the equity interest is held, and the inventor are parties, and not create an undue administrative burden on the University. If an inventor desires to receive an early distribution of an equity interest held by the University, such inventor must:
  - a. Execute an irrevocable written request for such distribution; and
  - b. Execute any written agreements required by the University or other interested parties, which may include custodial agreements, restriction-on-transfer agreements, and agreements containing appropriate indemnification provisions in favor of the University; and
  - c. Make satisfactory arrangements with the University for the payment of administrative charges, costs of patenting and protection of patent rights, and any tax or tax-withholding obligations.
  - d. Provide satisfactory and acceptable information to the University to enable the University to fulfill any tax reporting obligations, including information regarding the fair market value of the equity interest subject to the early distribution.

## Scope

This policy applies to all University inventors.

## Approved by:

Russell J. Mumper, Ph.D., Vice President for Research and Economic Development. The TRP Program policy and procedures will be reviewed at least annually and are subject to modification. The Vice President for Research and Economic Development oversees this program, policy and procedures.