



THE ROYALTY DISTRIBUTION PROCESS

A Brief Overview



TECHNOLOGY TRANSFER SPECIALIST
NAVAL MEDICAL RESEARCH CENTER
Office of Legal & Technology Services
Integrity | Quality | Advocacy | Respect | Excellent Service

How Royalties are Calculated

- The NMRC PATENT LICENSE ROYALTY INCOME POLICY (31 Aug 2009) states that each year, inventors shall receive the first two thousand dollars from each licensed invention receiving royalty payments and **twenty percent** of the remaining royalties received for that invention during that year provided that the inventor has assigned his or her rights to the United States.

How Royalties are Calculated

For example:

- *Invention X receives a \$10,000 royalty payment.*
- *Invention X has one inventor.*
- *\$2,000 is to be distributed to the inventor (first payment per year).*
- *From the remaining \$8,000, 20% (\$1,600) will also be distributed to the inventor.*
- *Total amount to be distributed is \$3,600.*
- *The inventor of invention X will receive a \$3,600 royalty distribution from the royalty payment of \$10,000.*
- *Remaining royalties in the amount of \$6,400 will be distributed to the affiliated lab.*

How Royalties are Calculated

Licensee ABC Laboratories
Invention X
Inventor - Joe Public

Payment Received	\$	10,000.00	
First Payment for Year	\$	(2,000.00)	To be Distributed to Inventor
Subtotal	\$	8,000.00	
Twenty Percent of Remainder	\$	(1,600.00)	To be Distributed to Inventor
Subtotal	\$	6,400.00	
<i>Therefore,</i>	\$	3,600.00	Total to Inventor
	\$	6,400.00	Total to Lab

How Royalties are Calculated

Example 2

Licensee Acme Technologies

Invention X & Z

Invention X - Joe Public

Invention Z - Joe Public & Jane Doe

Payment Received	\$	20,000.00
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Payment is Divided

Invention X	\$	10,000.00
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Invention Z	\$	10,000.00
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How Royalties are Calculated

Invention X - Joe Public		\$10,000	1/2 of 20k payment
First Payment for Year	\$	(2,000.00)	To Inventor
Subtotal	\$	8,000.00	
	20% \$	(1,600.00)	To Inventor

Joe Public's Share	\$	(3,600.00)
Remaining to Lab	\$	6,400.00

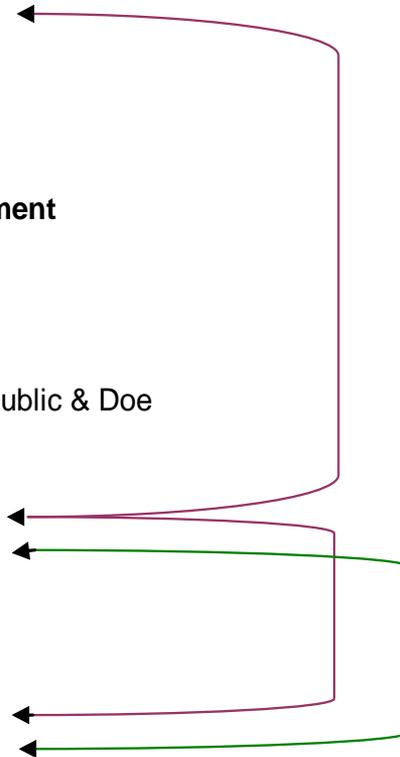
Invention Z - Joe Public & Jane Doe

		\$10,000	1/2 of 20k payment
First Payment for Year	\$	(2,000.00)	To Joe Public
	\$	(2,000.00)	To Jane Doe
Subtotal	\$	6,000.00	
	20% \$	(1,200.00)	Split Between Public & Doe

	\$	10,000.00	
	\$	(2,600.00)	To Joe Public
	\$	(2,600.00)	To Jane Doe
Remaining to Lab	\$	4,800.00	

Therefore,

Total to Joe Public	\$	6,200.00
Total to Jane Doe	\$	2,600.00
Total to Lab	\$	11,200.00





Royalty Cap

- The total amount of royalties an inventor may receive per year is limited to \$150,000.00 unless the inventor receives presidential approval under 5 U.S.C. § 4504 for additional funds.



How Inventors Receive Royalty Distributions

- Inventors are notified by letter when royalty distributions have been calculated and will be distributed to their account.
- Royalty distributions are electronically deposited to a checking or savings account only. Royalty payments are not distributed in check form.



Royalties v. Salary

- The amount of royalties an inventor may receive will not always be the same each year and may not always be distributed at the same time each year.
- Unlike salary, royalty earnings rely on many factors such as the commercial success and timely payment from the licensee.
- Also, financial terms may vary from one license agreement to the next. While some licensees may have agreed to send royalty payments once a year, others may have agreed to send royalty payments bi-annually or even quarterly.



The Royalty Distribution Process

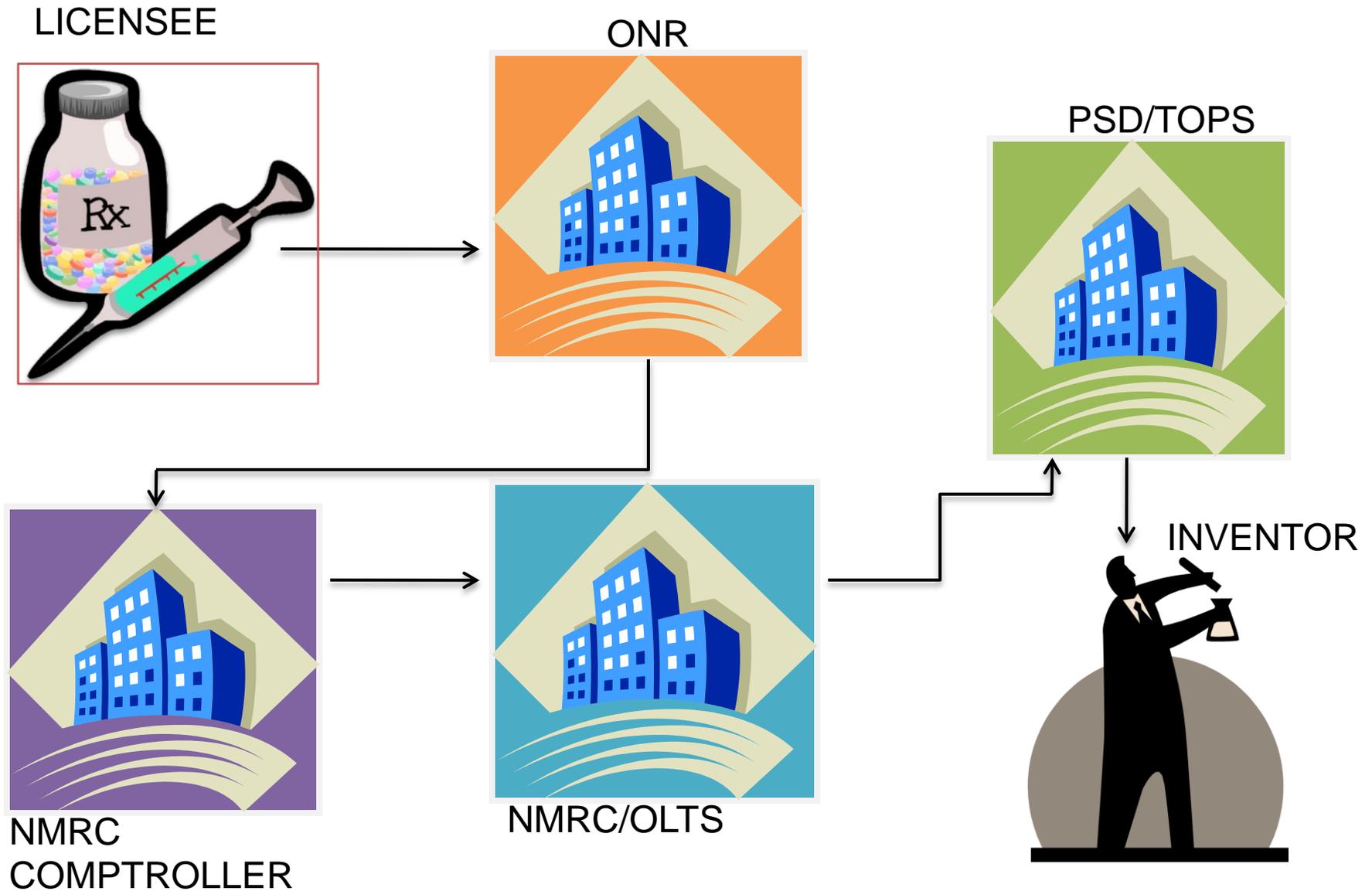
- In order to get royalty distributions out to the appropriate inventor, royalties must be routed through several departments for approvals, checks and balances, etc.
- This helps to insure that inventor distributions are accurately calculated.



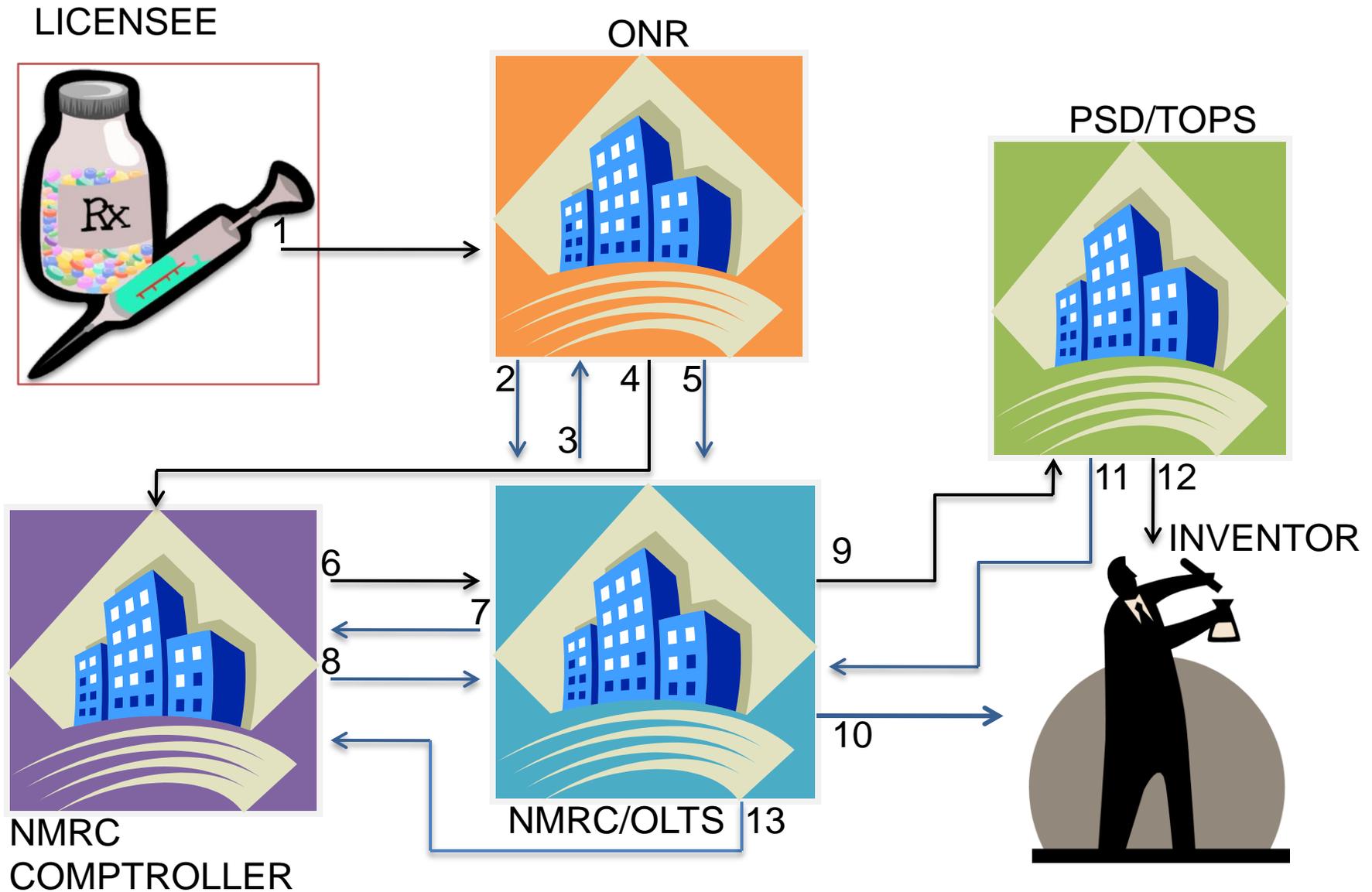
The Royalty Distribution Process

In an ideal world the distribution process would look like this...

The Royalty Payment Process



The Royalty Payment Process





The Royalty Distribution Process

- Distributions will be made to every inventor who earns royalties.
- Even though the process may take some time, inventors will not be short changed. These processes were put in place to insure the accuracy and fairness of royalty distributions.



Additional Information: Acronyms Used in this Presentation

- DOD – Department of Defense
- NMRC – Naval Medical Research Center
- OLTS – Office of Legal and Technology Services
- ONR – Office of Naval Research
- PSD – Personnel Support Activity Detachment
- TOPS – Transaction Online Processing System