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# **Non-Exclusive Licensing**

## **Making Your Customer Into a Private Equity Enterprise**

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# Introduction

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- Non-Exclusive licenses when drafted with select “target accounts” can be an extremely effective method of raising seed capital.
- We will look at three examples of the use of Non-Exclusive or restricted licenses that resulted in the successful initial funding of three of my companies – Key-Tech Inc., Poly-Flex Circuits, Sublimation Systems Inc.
- The licensees included Nellcor Division of Tyco, Apple Computer, & Nokia
- We will also review the pre-production funding of the “Mosquito Magnet” by the Home Depot in 2001
- We will also address the pros and cons of this option.

# Preliminary License Screening

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- The assumptions regarding a potential candidate for licensing are:
  - What companies might yield either a 30% increase in productivity or a 40% cost reduction via the licensing of a given technology?
  - Individuals in the candidate company should be “mined” from either engineering or marketing. In the case of licensing the “sublimation technology” to Apple the license evolved into a joint venture with the Apple Peripheral Products Group (now Alps Electric). Nellcor’s willingness to purchase a licensee from Poly-Flex Circuits Division of Cookson Plc. was driven initially by marketing and then, when the cost reductions manifested themselves, by engineering.
  - As a general rule the first licensee may be given favorable timing regarding the sale of a limited license to a competitor, but not better terms.
  - Intellectual property in the form of patents and formula/methods may be placed in escrow to protect the licensee from catastrophic failure of the licensing company.
  - Creating “dedicated advocates” within the group of potential licensees pays long term dividends once the formula, method, or product is implemented in “real time”.
  - Expect a license term of a maximum of seven to nine years

# Products Produced Under License

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## Cell phone graphics produced with Key-Tech 3-D Sublimation Printing

- Virtually any graphics, designs are sublimated to a depth of 0.004" into the plastic constructing the phone enclosure
- Process was introduced "on-line" allowing "vanilla" phones to be decorated following final assembly
- Value to customer
  - Enhanced differentiation in the market
  - Over a 50% cost savings over "traditional" marking or printing techniques

# Home Depot

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- With the opportunity to create a new “product category” in Lawn & Garden the Home Depot, with the urging of Home Depot co-founder Kenneth Langone ,issued orders and development funds prior to the final development phase of the “Mosquito Magnet”.
- The up-front payments and pre-production orders totaled \$4 million in 2001.
- In 2003, based upon surging sales at the Home Depot American Biophysics was named #1 on the Inc. 500 list of the fastest growing privately held companies in the US.
- Publicity regarding West Nile Fever and the desire to create a unique “product category” was the primary motivator for the Home Depot to finance this project.

# Inc. 500

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**INC. 500** The No.1 Company

**Growth of 25,615%!**

**I**N THE LATE '90S AMERICAN BIOPHYSICS ATTACHED THE TAG LINE "Fatal attraction for mosquitoes" to its flagship product. But when the company was just getting started, the four engineers who founded it had a very different objective—trying to keep the fragile mosquitoes alive.

• Back in 1991, the U.S. Army had issued bids for technology to survey the spread and impact of insect-borne diseases such as malaria, Lyme, and the then little-known West Nile virus. To see a virus in action, researchers needed carrier specimens alive and kicking. Thus American Biophysics rolled out the

**SWAT TEAM:** Ray Iannetta and Emma Durand have some 400,000 Mosquito Magnets in circulation—and the fastest-growing private company in America.

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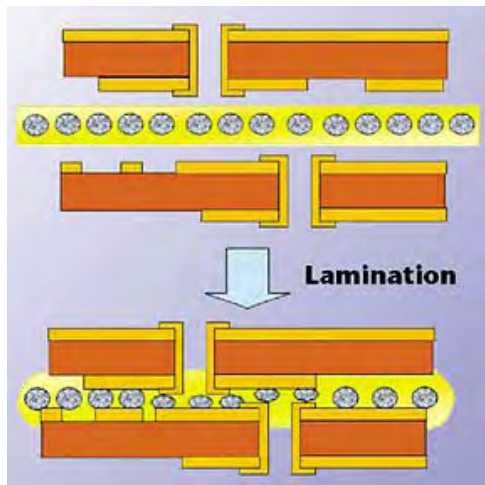
# Products Produced Under License

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## Pulse Oximeter for Nellcor

- Product introduced 0.004" thickness polyester film utilizing the following patented materials.
  - Direct attachment of LED and detector with Z-Axis Poly-Solder
  - Use of hydrophobic dielectric
  - Use of bacteria resistant conductive traces with through-hole capability
- Poly-Flex process opened up "mass use" of pulse oximetry in ER as well as OR.
- Direct LED and detector resulted in "order of magnitude" reduction in sensor thickness which resulted in a more comfortable "patient friendly" product.
- Cost reduction via licensed materials and method, enhanced by robotic assembly was remarkable.
- Nellcor ultimately invested \$2 million beyond the license fee's for R&D



# Products Produced Under License

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## **Sublimation Systems Inc. Licensee to Apple Computer** Peripheral Products Division

- Sublimation Systems process allowed for legends to be impregnated into “plain vanilla” keyboards giving Apple a significant marketing advantage for incorporating international sets into their computers.
- Process allowed legends to be impregnated in unlimited language sets on four planes of the keycap. This feature was utilized for specialized CAD systems later introduced via sub-licensee by Apple to strategic partner.
- Process license was extended to eleven years resulting in significant “free cash flow” beyond the license term. Royalty of \$0.64 per keyboard for every computer produced within term of license.

# Conclusion

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- Typical ownership breakdown: 50% Private Equity or Venture, 20% Option Pool, and 30% Founder's Stock – Licensing which requires up-front payment may put founders in more favorable negotiating position.
  - Any licensee may become long-term customer of new venture.
- Licensing and later venture infusion may obviate need for asset based lending and debt.
- Business needs may be met in year one and two via strategic partnerships that are non-restrictive.