CREATIVE LICENSING/TECHNOLOGY TRANSFER BUSINESS ARRANGEMENTS

I. LICENSING AND TECHNOLOGY TRANSFER AGREEMENTS

A. OPPORTUNITY TO BE CREATIVE

1. WITHIN CERTAIN LIMITS (ANTI-TRUST, ETC.) CAN DO ANYTHING YOU WANT AS LONG AS BOTH SIDES AGREE.

B. A FEW BASIC GROUND RULES

1. USUALLY IS A LONG TERM RELATIONSHIP
2. HAS TO BE A GOOD DEAL (PROFITABLE) FOR BOTH SIDES
3. IF KNOW
   - A. MARKET (INCLUDING HOW PRODUCT IS OR CAN BE MARKETED)
   - B. STRUCTURES AND ORGANIZATIONS OF BOTH SIDES
   - C. CAPABILITIES OF BOTH SIDES
     1. TECHNOLOGY
     2. PRODUCT DEVELOPMENT
     3. MANUFACTURING
     4. MARKETING

THEN MAY BE ABLE TO CREATE AN UNUSUAL, SUCCESSFUL AND PROFITABLE BUSINESS DEAL FOR BOTH SIDES.

II. PAINT-BY-NUMBER

1. GENERAL MILLS
   - A. BIGGEST COMPANY IN PAINT-BY-NUMBER FIELD
   - B. WANTED A REASONABLY-PRICED PAINT-BY-NUMBER KIT MADE FROM A PICTURE SENT IN BY A CUSTOMER
   - C. TRIED CHEAP ARTISTS BUT LOST MONEY ON GOOD VOLUME
   - D. HAD NO TECHNICAL EXPERTISE IN ELECTRONICS, PHOTOGRAPH, ETC.

E. COULD MAKE AND MARKET KITS IF HAD EQUIPMENT TO MAKE PICTURE PORTION OF KITS

2. ITEK

A. HAD TECHNICAL EXPERTISE IN ELECTRONICS, PHOTOGRAPHY, ETC.

B. NO MARKETING ABILITY IN PAINT-BY-NUMBER FIELD

C. HAD EMPLOYEE WHO WAS ELECTRONICS EXPERT AND AN ARTIST WHO CREATED CONCEPT ON HOW PROBLEM COULD BE SOLVED

3. AGREEMENT

A. GENERAL MILLS GAVE ITEK SMALL CONTRACT ($33,000 IN 1969) FOR TECHNICAL FEABITILITY STUDY

B. IF GENERAL MILLS WANTED MORE TECHNICAL FEASIBILITY STUDY WOULD PAY ITEK UP TO AN ADDITIONAL $25,000, BUT AMOUNT OF SECOND STUDY WOUD BE CREDITED AGAINST FUTURE RUNNING ROYALTIES

C. ITEK GAVE GENERAL MILLS EXCLUSIVE FIELD LICENSE UNDER TECHNOLOGY AND ANY PATENTS RESULTING FROM CONCEPTS AND LATER DEVELOPMENTS

D. EQUIPMENT WHEN CONSTRUCTION ORDER IS PLACED (OR WHEN CONSTRUCTION ACTUALLY STARTS, WHICHEVER OCCURS FIRST), AFTER TECHNICAL FEASIBILITY STUDY COMPLETED, GENERAL MILLS REQUIRED TO MAKE INITIAL LICENSE PAYMENT TO ITEK. ($20,000 CREDITABLE AGAINST ROYALTIES DUE FOR FIRST SIX LICENSE QUARTERS)

E. GENERAL MILLS COULD MAKE EQUIPMENT ITSELF OR HAVE ANOTHER COMPANY (INCLUDING ITEK) MAKE IT

F. RUNNING ROYALTY 2-1/2 PERCENT OF SALES OF KITS

G. ITEK GOT K TO MAKE EQUIPMENT

III. PHOTOTYPESETTER

I. ITEK'S BUSINESS
   A. COMMERCIAL (75%)
      1. EYEGLASS BUSINESS
      2. GRAPHICS BUSINESS
   B. GOVERNMENT BUSINESS (25%)
      1. OPTICAL SYSTEMS DIVISION
      2. APPLIED TECHNOLOGY DIVISION
II. ITEK'S GRAPHICS STRATEGY
   A. PRESENT BUSINESS
      1. CUSTOMERS
         A. INPLANT PUBLISHING
         B. SMALL PRINTERS
            1. NEWLY ISSUED U.S. PATENTS PRINTED ON ITEK EQUIPMENT
   B. FUTURE BUSINESS
      1. PHOTOTYPESETTING
         A. SALES TO SAME CUSTOMERS
         B. COULD BE MARKETED THROUGH SAME ORGANIZATION
III. HOW TO GET INTO PHOTYPESETTING BUSINESS
   A. TALKED TO PHOTOTYPESETTING COMPANIES ABOUT ITEK DISTRIBUTING THEIR PRODUCTS. NO INTEREST.
   B. IN DISCUSSIONS WITH OTHERS, HEARD OF TWO ENGINEERS WHO MIGHT BE INTERESTED IN DEVELOPING A PHOTOTYPESETTER FOR ITEK
   C. CONTACTED ENGINEERS WHO LEFT THEIR EMPLOYER, SET UP A SMALL COMPANY (D COMPANY) AND OBTAINED A RELEASE FROM THEIR EMPLOYER

IV. WHY DIDN'T ITEK HIRE THE ENGINEERS?
   A. ENGINEERS WANTED TO BE INDEPENDENT AND NOT BE EMPLOYEES
   B. ALSO THEY WERE PREPARED TO TAKE A RISK IF THERE WAS A POTENTIAL PAYOFF AVAILABLE
   C. ITEK DIVISION COULD NOT HAVE GOTTEN PERMISSION TO SET UP A R&D GROUP TO DEVELOP SUCH A NEW PRODUCT
   D. ARRANGEMENT ADOPTED APPEARED TO BE ABLE TO PROVIDE A REAL PRODUCT FASTER AND CHEAPER THAN IF ITEK DOING IT ITSELF

V. BUSINESS ARRANGEMENT
   A. FOUR PHASE DEVELOPMENT AGREEMENT
      1. DEVELOPMENT ITEMS SPECIFIED IN AGREEMENT
         A. LENGTH OF PHASES
         B. GENERAL GOALS OF PHASES
            1. SPECIFIC GOALS TO BE NEGOTIATED AT START OF EACH PHASE
         C. FINAL SPECIFICATIONS OF PRODUCT TO BE DEVELOPED
         D. MONEY TO BE SPENT IN EACH PHASE
         E. MONEY PAID MONTHLY AGAINST INVOICED SPECIFIED EXPENSES + OVERHEAD + SMALL PROFIT
         F. MONEY OVERRUNS AND UNDERRUNS COULD BE CHARGED AGAINST OR CREDITED TOWARD OTHER PHASES, IF POSSIBLE
         G. PERSONNEL SPECIFICATIONS
            1. WORK UNDER AGREEMENT TO BE UNDER FULL TIME DIRECTION OF G WHO SHALL ACT AS GENERAL MANAGER OF PROJECT
            2. SHALL HIRE A PART-TIME ADMINISTRATOR ACCEPTABLE TO ITEK TO MAINTAIN BOOKS AND RECORDS
      2. TERMINATION
         A. COULD BE TERMINATED BY ITEK ON 45 DAYS NOTICE
         B. RIGHTS OF PARTIES UPON TERMINATION WERE SET FORTH

I. INCLUDING, IF ITEK DECIDED NOT TO PROCEED WITH DEVELOPMENT OF SYSTEM, ITEK WILL BE REIMBURSED IN AN AMOUNT EQUAL TO 200% OF ALL PAYMENTS MADE BY ITEK TO D COMPANY

A. AT A ROYALTY RATE OF 1% OF NET SALES ON SALES MADE BY D COMPANY

B. AT A RATE OF 25% OF WHAT D COMPANY RECEIVES FROM OTHERS IF D LICENSES OR SELLS RIGHTS IN SYSTEMS TO OTHERS

3. PATENT CLAUSES

A. ITEK OWNED ALL INVENTIONS MADE

B. ITEK MAKES ALL DECISIONS RE PATENT FILING AND PROSECUTION AT ITEK'S EXPENSE (10 ISSUED U.S. PATENTS AND 1 APPLICATION ALLOWED)

C. IF ITEK DOESN'T FILE U.S. OR FOREIGN PATENT APPLICATION, D COMPANY CAN DO SO, AT D'S EXPENSE WITH ITEK GETTING NON-EXCLUSIVE LICENSE

4. ROYALTY CLAUSES

A. D COMPANY GETS ROYALTIES ON SALES OF FIRST 10,000 (SYSTEMS SELL FOR 10-15K) SYSTEMS WHETHER OR NOT ANY PATENTS EVER ISSUE

B. ROYALTIES ARE PERCENTAGE OF NET SALES STARTING VERY LOW AND RISING AS MORE SYSTEMS ARE SOLD

I. ROYALTIES ARE STRUCTURED SO THAT WHEN ITEK HAS SOLD 10,000 SYSTEMS, EACH OF THE TWO ENGINEERS WILL HAVE RECEIVED 1 MILLION DOLLARS

C. IF

I. OTHER NON-SYSTEM PRODUCTS SOLD BY ITEK OR

II. SYSTEM PRODUCTS ARE SOLD AFTER THE FIRST 10,000 SYSTEMS

AND ARE COVERED BY THE CLAIMS OF AN ISSUED, AND NOT INVALIDATED U.S. PATENT OBTAINED BY ITEK UNDER THIS AGREEMENT, ITEK AGREES TO PAY A ROYALTY AT REASONABLE RATE

I. ROYALTY BETWEEN 1 AND 5%

II. IF CAN'T AGREE, ROYALTY WILL BE DETERMINED BY THREE-PERSON LES PANEL

D. ROYALTY PERIOD UNDER C. ABOVE
   I. STARTS UPON THE LATER OF
      A. ISSUE DATE OF U.S. PATENT INVOLVED OR
      B. DATE OF FIRST COMMERCIAL SALE OF EQUIPMENT INVOLVED
   II. ENDS ON THE EARLIER OF
      A. TEN YEARS FROM START OF ROYALTY PERIOD OR
      B. FIFTEEN YEARS FROM DATE OF AGREEMENT

E. ROYALTY PAYMENTS TO OTHERS
   I. IF ITEK MAKES ANY ROYALTY PAYMENT TO OTHERS BECAUSE OF INFRINGEMENT BY THE SYSTEM OF PATENTS OF OTHERS, ITEK MAY DEDUCT 50% OF PAYMENTS TO OTHERS AND 50% OF ITEK'S OUT-OF-POCKET COSTS RELATING THERETO
   II. D COMPANY HAS RIGHT TO PARTICIPATE IN SUCH NEGOTIATION OR LITIGATION, BUT ITEK HAS RIGHT TO MAKE FINAL DECISION.

IV. BRONZINI

A. ITEK WAS A MAJOR FACTOR IN THE EYEGLASS BUSINESS (#3), INCLUDING EYEGLASS FRAMES

1. TOOK AN EXCLUSIVE TRADEMARK LICENSE UNDER "BRONZINI" TRADEMARK AND LOGO FOR MEN'S FRAMES
   A. "BRONZINE" WAS A WELL KNOWN MARK IN MEN'S TIES AND SHIRTS.
   B. MINIMUM ROYALTY REQUIRED
   C. RENEWABLE IF MINIMUMS WERE MET
2. AFTER A FEW YEARS, ITEK CONSIDERED TAKING A LICENSE IN WOMEN'S EYEWEAR, USING "LADY BRONZINI" AND LOGO
3. BRONZINI WAS NOT IN WOMEN'S WEAR AT ALL, BUT WELCOMED AN OPPORTUNITY TO GET INTO THIS FIELD.
4. WOULD REQUIRE MORE ADVERTISING TO BE SUCCESSFUL IN NEW FIELD THAN IN MEN'S EYEWEAR FIELD BECAUSE:
   A. BRONZINI WAS NOT A FAMILIAR MARK TO WOMEN
   B. LADY BRONZINE WAS A NEW MARK

5. FOR THE ABOVE REASONS, ITEK WAS ABLE TO NEGOTIATE AN AGREEMENT PROVIDING:

   A. PAYMENT OF 5 PERCENT ROYALTY OR NET SALES

   B. RETENTION OF UP TO 1/2 THE ANNUAL ROYALTY TO PAY OUT-OF-POCKET MEDIA ADVERTISING COSTS OF "LADY BRONZINI" EYEGLASS FRAMES, BASED ON ACTUAL PAYMENTS AGAINST INVOICES

   C. BECAUSE OF VARIABILITY OF ADVERTISING COSTS DURING THE YEAR, ITEK COULD RETAIN 1/2 ROYALTY PAYMENTS UNTIL END OF EACH LICENSE YEAR AND USE AS CREDIT VS. ADV.

   D. ITEK ADVERTISING PEOPLE LOVED IT. THEY WERE, IN EFFECT, REQUIRED TO SPEND 1/2 THE ROYALTY IN ADVERTISING

V. CHEMICAL HARDENING (SEE LICENSING I, PROBLEM 2, SUMMER 1987)

   A. ACTUAL SOLUTION

      1. UNIVERSAL SIGNED A NON-EXCLUSIVE LICENSE AGREEMENT.

      2. ROYALTY RATE WAS THAT WHICH HAD BEEN NEGOTIATED.

         A. HOWEVER, UNIVERSAL RETAINED THE ROYALTIES AND INFORMED BILL OF SALES AND ROYALTIES ON QUARTERLY BASIS.

         B. ROYALTIES WERE PAYABLE WHEN B & L & AO WERE LICENSED.

         C. NO INTEREST.

         D. NO ROYALTIES PAYABLE ON INFRINGEMENT BEFORE LICENSE AGREEMENT SIGNED.

      3. UNIVERSAL ALSO HAD A MOST FAVORED LICENSE CLAUSE.

      4. BELL SUD B & L & WON AFTER YEARS OF LITIGATION.

         A. COST OF $750K ON EACH SIDE

         B. B & L HAD TO PAY RETROACTIVE ROYALTIES

5. BELL WAS WILLING TO MAKE UNIVERSAL DEAL, IN ORDER TO GET UNIVERSAL TO SIGN, AND THEREFORE HAVE ONE OF THE THREE LARGEST COMPANIES IN THE FIELD RECOGNIZING THE VALIDITY AND THE VALUE OF THE PATENT.

VI. HOW TO LICENSE A WEAK PATENT THAT IS WIDELY INFRINGED. (DUPONT-CELANESE POLYETHYLENE)

A. PATENT INFRINGED BY AT LEAST 20 COMPANIES.

1. AT LEAST 10 WERE NOT LARGE FACTORS IN THE MARKET
2. AT LEAST 5 WERE LARGE FACTORS IN THE MARKET.
3. PATENT HAD VALIDITY QUESTIONS, BUT VALIDITY WAS ARGUABLE.

B. WITHIN 1 YEAR AFTER ISSUE PATENT OWNER LICENSED 13 COMPARATIVELY SMALL MARKET FACTOR COMPANIES UNDER SINGLE-PAYMENT NON-EXCLUSIVE PAID-UP LICENSE

1. $50,000 IN 1962 ($200,000 NOW?)

C. THEN APPROACHED THE BIG MARKET FACTOR COMPANIES IN 1962 WITH THEIR "STANDARD LICENSE", INCLUDING THE FOLLOWING CLAUSE:

In the event that after January 1, 1963, there is substantial infringement of any of the claims of United States Letters Patent No. 2,983,704 and DU PONT has not filed and is not prosecuting diligently suit against at least one infringer, DU PONT agrees to refund to LICENSEE said fully paid royalty. Should any claim of said patent be held invalid as a result of any such suit, by a final decision from a court of competent jurisdiction and last resort or from an inferior court from which no appeal is or can be taken, DU PONT agrees to refund to LICENSEE such fully paid royalty.

D. PATENT OWNER GAVE PROSPECTIVE LICENSEE LIST OF 13 LICENSEES, EACH OF WHOM HAD PAID $50,000, MAKING A TOTAL PAID-IN ROYALTY OF $650,000.

E. PROSPECTIVE LICENSEE

1. MADE SEARCHES
2. EVALUATED SEARCHES
3. DECIDED WAS 60-40 CHANCE OF PATENT BEING INVALID.

F. TOOK LICENSE

VII. CONCLUSION

A. LICENSE NEGOTIATION CAN RESULT IN A VERY WIDE RANGE OF LEGAL BUSINESS ARRANGEMENTS

B. LICENSING PEOPLE HAVE AN OPPORTUNITY TO BE JUST CREATIVE AS INVENTORS, AUTHORS OR COMPOSERS.