



Royalty Rate Analysis

Royalty Rate – Software for Contact Lens Manufacturing Equipment

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Developer's NAIC: 611310

Science/Technology Fields: Software; Equipment Guidance

Arena NAIC: 339115

Technology Type: System

Supply Chain: Design and Development

International Patent Classification: A61F

Geographic Region: Global

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Foresight Science & Technology Royalty Rate Reports combine market research with expert interviews to provide a detailed estimate of an industry average royalty rate that will assist in the valuation of your technology.

<i>Description of Technology</i>
This type of technology is software for wavefront sensing that will be combined with a thin film detection system for precision measurements for contact lens manufacturing.

<i>Examples of Relevant Deals</i>		
Parties	Key Terms	Date
Licensor: Unilens Vision, Inc. And Licensee: Bausch & Lomb Inc.	Exclusive patent and technology license to develop, sell, manufacture and market a technology for modeling and molding soft contact lens. Royalty Rate: Tired: 2%-5% of net sales. Territory: Worldwide Duration: Life of Patent ¹	December 30, 2005.
Licensor: University of Minnesota And Licensee: Diagnostics, Inc.	Exclusive patent and software license to develop and sell software programs and algorithms to measure waveform. Royalty Rate: 1%-3% tiered of net sales. Tired rate as follows: 1 st year: 1% 2 nd year: 1% 3 rd year: 1.5% 4 th year: 1.5% 5 th year and each year following: 2% If obtain patent outside of United States: 3% Territory: Worldwide Duration: 10 years from commercial sale. Other Payment Terms: Royalties for 1 st year were \$14,000 paid to Licensor and for 2ndyear \$55,000 paid to Licensor. ²	September 23, 1988
Licensor: Numerical Technologies And	Exclusive software license to reproduce, market, and distribute computer software for the measurement and design of a product. Royalty Rate: 2% of net sales	December 1, 9997

¹ "20-F for UNILENS VISION INC." Morningstar web site (subscription required). <http://10kwizard.com/> (accessed September 26, 2011).

² "10KSB for DIAGNOSTICS INC. MN " Morningstar web site (subscription required). <http://10kwizard.com/> (accessed September 26, 2011).

Licensee: Technical Instrument Company	Territory: Worldwide Duration: 2.5 years Other Payment Terms: Licensee shall pay patent maintenance fees. ³	
Licensor: Centerline Engineering And Licensor: Schmitt Industries	Patent and software license to use, make sell precision guidance software. Royalty Rate: 5% of net sales Territory: Worldwide Duration: Life of patent or 2 years if patent is not issued Other Payment Terms: Upfront payments of \$75,000; \$25,000 paid to licensor once patent application has been issued. The first \$50,000 in royalties are waived. ⁴	August 31, 1998
Licensor: Shamir Optical And Licensee: Essilor	Exclusive software license to use software technology for the preparation of contact lens. Royalty Rate: 2% of net sales Territory: Worldwide Duration: 7 years Other Payment Terms: The average royalties paid to licensor were between \$1.9 million and \$1.3 million per year based on royalties paid. ⁵	January 1, 2006
Licensor: 1-800 Contacts and Clearlab And Licensee: Menicon	Exclusive technology license to make use, develop and sell manufacturing technology for disposable contact lens. Royalty Rate: Tiered rate from 2-5% increasing over time. Territory: Japan Duration: 15 years Other Payment Terms: Up-Front payment of \$5 million. Minimum annual royalties of \$5 million at beginning of second year. ⁶	December 15, 2004

Based on relevant deals it appears as though a royalty rate of around 2% would be average for measurement guidance software. All agreements look to be worldwide exclusive and the majority did not seem to incorporate additional payment terms.

³ "EX-10.22 of S-1/A for NUMERICAL TECHNOLOGIES INC." Morningstar web site (subscription required). <http://10kwizard.com/> (accessed September 26, 2011).

⁴ "EX-10.5 of 10-K for SCHMITT INDUSTRIES INC." Morningstar web site (subscription required). <http://10kwizard.com/> (accessed September 26, 2011).

⁵ "FormSC13E3/A: Shamir Optical. January 25, 2011." Morningstar web site (subscription required). <http://10kwizard.com/> (accessed September 26, 2011).

⁶ "ClearLab Grants License for Disposable Contact Lens Technology in Japan; License Summary." MedTrack web site (subscription required). <http://www.medtrack.com> (accessed September 28, 2011).

<i>Expert Opinions on Industry Standard Terms</i>		
Expert	Affiliation and Title	Key Terms
<i>[name omitted for public sample report]</i>	Chief Operating Officer <i>Optical Company</i>	Primarily, license agreements for contact lens equipment software are based on royalties of net sales. About 2% for software that is just an element of designing the contact is appropriate but for a complete design system, a royalty rate of around 10% would be more accurate. Up-front fees are usually in the range of \$15,000-\$50,000 and offered criteria on which to base the royalty below: <ul style="list-style-type: none"> ○ Level of complexity ○ Level of patent protection ○ It the technology is an element of the lens vs. the entire lens design ○ It the technology is intended for the mass-production commodity market, of the custom made-to-order market, as custom lenses will have much higher royalties.⁷
<i>[name omitted for public sample report]</i>	Director of Research and Development <i>Large Medical Optics Company</i>	An average royalty between 2% and 3% is appropriate for contact lens measurement software. The license terms usually specify that the royalty is only for the portion of the product that is covered by the applicable patent. For an instrument that has some existing capability, a new software module is priced separately to keep royalties separate. Another way to write up a license is to calculate cost over life of product and ask for that as a single up-front fee with not royalties. This can often times be more simpler. ⁸
<i>[name omitted for public sample report]</i>	Vice President of Research and Development <i>Contact Lens Manufacturer</i>	A 2% royalty rate is likely appropriate for this kind of technology. ⁹

Experts opinions seem to confirm that an average royalty rate of around 2% is fair for contact lens design software. They noted that this percentage would be if the software is just a piece of the overall system for designing the contact lens, as an entire method that designs from start to finish would reign a higher rate towards 10%.

<i>Industry Average Royalty Rate</i>
2%

The contact lens manufacturing market, which is estimated to be around \$5.845 billion, is very consolidated, with the top player being Johnson& Johnson, Novartis AG, The Cooper Companies, and Bausch & Lomb.¹⁰ There are a small number of players in the market who

⁷ *[footnote omitted for public sample report]*

⁸ *[footnote omitted for public sample report]*

⁹ *[footnote omitted for public sample report]*

¹⁰ "Glasses & Contact Lens Manufacturing in the US." August 24, 2011. IBIS World web site. <http://www.ibisworld.com/industry/default.aspx?indid=882> (accessed September 27, 2011).

actually manufacture the contact lens. Given this, along with expert opinions, it is likely that a license agreement for software that provides the measurements for manufacturing would be exclusive. Additionally, experts conclude that a software piece to the manufacturing equipment would only encompass a small value percentage of the overall end product, around 2%, which would equate to what a royalty rate would be for this kind of technology. Relevant deals support the conclusion that of a 2% royalty rate.