OPEN CHANNEL SOFTWARE
A Commercialization Alternative

University faculty and researchers create a lot of software in the course of normal research. Most of the software created is designed to solve a problem the faculty or student is faced with. As a technology transfer professional, you know that most of this software is rarely disclosed to your office. In fact, many of these solutions are released "out the back door". You probably also suspect that there is real value in at least some of the code being created, but software licensing and distribution just doesn't fit into an easy licensing package. We believe that we have an alternative that will help the author/developer publish their work while preserving the potential for revenue creation.
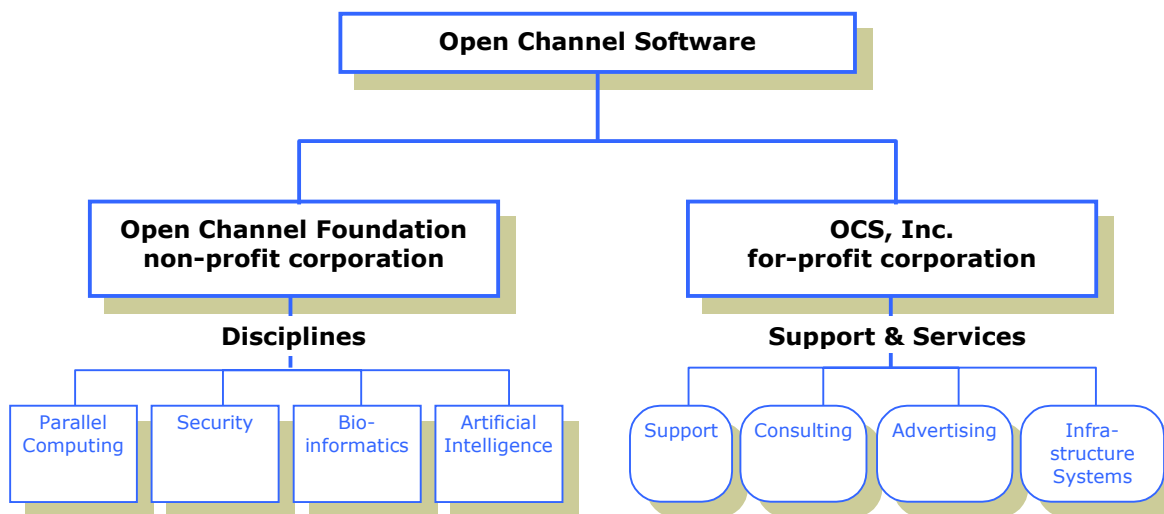
Open Channel Software (OCS) would like to establish a publishing partnership with your institution through the technology licensing office, by providing a publishing outlet for this software. OCS is an Internet-based organization that publishes, distributes and commercializes software emanating from academic and research institutions. OCS, through its Open Channel Foundation publishing arm, serves as a central clearinghouse for high quality, technically advanced scientific applications. By publishing and hosting these, we will be able to monitor the market activity and identify highly break-through solutions with strong commercial potential. Revenue will be generated by supplying support and related services for those programs sponsored commercially.

What's in it for you?

1. We provide a means for your software to be published without the time investment in setting up and maintaining a site. Your author will remain the chief developer and moderator, but their involvement with day-to-day administration issues will be greatly reduced.

2. Your software will be grouped with other related software by Discipline. This categorizing will give your software higher exposure because users interested in similar problems will also review your solution, causing your community to grow.

3. We are implementing programs to encourage the active participation of the user community in supporting and enhancing the application. The result will be a more active open source community involved with your software, which will increase the rate of adoption and development.

4. If your program has commercial value, Open Channel Software, Inc. will provide the resources to ready the program for commercial use, such as enhanced installation routines or extended documentation. We will also position, package, and market your software to commercial companies, providing the support and service resources necessary for acceptance.

5. Subject to your institution's royalty sharing rules, a portion of the revenues will be directed back to you, either as a royalty, grant or honorarium.

Overview

Open Channel Software (OCS) is made up of two entities, a non-profit company (The Open Channel Foundation) and a for-profit company (Open Channel Software, Inc.). The Foundation focuses on the publication of software, and the for-profit company works to commercialize programs that have been released by the Foundation.

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                    │    Open Channel Software      │
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    │   Open Channel Foundation │      │        OCS, Inc.          │
    │    non-profit corporation │      │    for-profit corporation │
    └──────────────────────────┘      └──────────────────────────┘
            Disciplines                      Support & Services

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  │Parallel│Security│ Bio-   │Artificial│ │Support │Consulting│Advertising│Infra-│
  │Computing│       │informatics│Intelligence│          │          │        │structure│
  └────────┴────────┴────────┴────────┘   └────────┴────────┴────────┴────────┘ Systems
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Structure of Open Channel Software

The **Open Channel Foundation (OCF)** is a non-profit corporation responsible for the acquisition and publication of software from academic and research institutions. The Foundation groups hosted software into 'Disciplines' or fields of related endeavor. A noted expert in the field will serve as the Commissioning Editor for each Discipline and will be supported by OCS staff. Editorial Review Boards will be established for each major Discipline to evaluate and comment on the published software, awarding "Editors Choice" awards for those programs that are deemed significant. These boards will be made up of distinguished professors and researchers chosen from a diverse selection of institutions. Together they will function as "curators" for the growing portfolio of programs. Their objective is to increase the portfolio with quality solutions and to create positive community activity around the Disciplines.
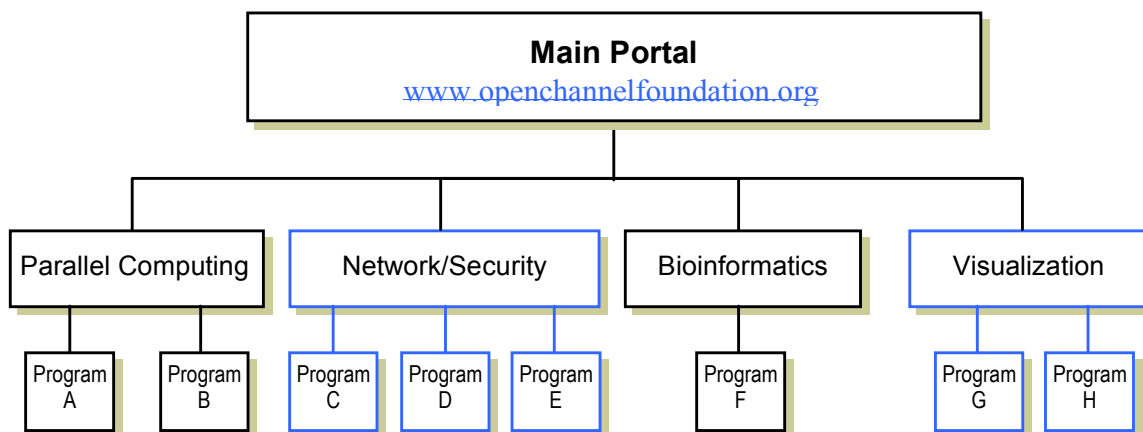
The Foundation provides an attractive place for developers to host their software applications by providing: 1) a user-friendly hosting infrastructure, which removes the headaches involved in self-hosting software; 2) broadened recognition among peers due to the increased activity around the Discipline; and 3) increased potential to earn revenue through consulting and possible commercialization.

Open Channel Software, Inc. is the for-profit arm of OCS. Its mission is to produce revenue by providing licenses, support and services to companies that want to utilize applications of academic origin. When software released by the Foundation has demonstrated commercial

potential sufficient to warrant a more proactive support structure than that provided by the community environment of the Foundation, the for-profit OCS, Inc. will provide paid services to organizations requiring such commercial support. Such services can include support and maintenance, consulting and implementation, documentation, and contract programming. Since most of the software will require additional development before commercial acceptance, Open Channel Software, Inc. will provide the investment required and manage this enhancement process.

Business Summary

- **General Framework –** We seek to create a relationship with the institution and the author/developer that is fair to all sides. We take a long-range view that the creation of a strong reputation as a good partner is more important than 'scoring big' on any given release. To build long-lasting relationships that work, OCS has developed a unique Relationship Agreement. This Agreement enables OCS to publish your institution's software and to begin to run it through the commercial marketing process. Once the agreement is completed, OCS will work with your office to announce this relationship to faculty and researchers on your campus.

- **OCS Publication Site –** Our main publishing portal gives principle access to the hosted software. This main web site provides search facilities to locate software solutions, common interest subjects, and links to related sites. From there, the site subdivides along major Disciplines such as Security, Parallel Computing, or Bioinformatics. At the Discipline level, our goal is to become the center of information and community activity around these areas of interest. Each Discipline then gives access to individual sites for associated software solutions. The grouping with other related software in an area of Discipline gives programs higher exposure to users interested in similar solutions, thus community interest increases. Our staff will work with the author/developer in publishing on the OCS site.

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                          │         Main Portal         │
                          │ www.openchannelfoundation.org│
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Parallel Computing	Network/Security	Bioinformatics	Visualization
Program A Program B	Program C Program D Program E	Program F	Program G Program H

Model of Open Channel Software

- **Activity Reports** – We provide both the institution and the author/developer with quarterly reports that cover the activity at the site, such as the number of downloads, visitors, etc., as well as a synopsis of the revenue and cost issues related to the listed software. OCS does not expect to make money on the operations of the Open Channel Foundation.

- **Commercialization Decision** – The decision to take a particular product 'commercial' will depend on a number of factors. First and foremost would be the full cooperation and support of the author/developer. Second, the 'pull' of the market must be strong enough to justify the investment required to get the software into shape for commercial acceptance and to provide the resources required to support the product in a more active manner. Before 'going commercial' we will make an assessment of the potential market, the readiness of the program for 'prime time,' the availability of support resources, and the estimated cost to successfully market the new solution. If the software needs a facelift or other modification, Open Channel Software will provide resources to accomplish this upgrade. We stress that any extension of the software into commercial applications would only be made with the full cooperation of the author/developer. We will share with you the information we have on the market prospects and the development costs we expect. We will also negotiate with you and/or the copyright owner (if not you) as to the royalty or payment stream.

- **Commercialization Agreement** – If the justification exists to commercialize a software program, we will enter into an exclusive license arrangement with the owners of the copyright that will specify the relationship going forward. The length of the arrangement will be set to provide a reasonable return to OCS given the required investment. If the commercial product envisioned will be made up of a number of integrated programs, a reasonable compromise will be negotiated to balance the value of each of the programs as part of the 'whole.'

- **Commercialization Investment** – We expect that every software program that we commercialize will require further investment in development to prepare the program for release. This development will most likely be completed by outside programmers working with the approval of the author/developer. Improvements to the program as well as any bug fixes will be provided back to the Institution for their continued internal use.

- **Commercialization Return** – Once the program has been released as a commercial product, there are a variety of service offerings that can generate revenue. They can be divided into 2 classes of revenue:

  Licensing and Support – Includes revenue generated by license fees, support and maintenance fees, and packaging and documentation charges.

  A royalty will be paid to the copyright holders after direct costs are removed. Direct costs include items such as the salary and direct overhead associated with support personnel and costs related to production of documentation and packaging. They also include a portion of the direct costs of investment in the program amortized over a three-year period. These amortized expenses would include programming to prepare the software for release and the preparation of documentation and packaging.

Services – Includes revenue generated from services sold related to the software such as consulting, implementation, training, contract programming, and hosting services.

A royalty will be paid to the copyright owners after the removal of direct costs. Direct costs include fees paid to the provider of services if they are a third party. If they are salaried employees, their 'cost' would be the equivalent of a fee paid to a third party provider of equal experience and competency. Costs associated with hosting services include cost of hardware amortized over 2 years, cost of operation, and associated staff expenses directly attributed to this service.

> Note – General overhead charges and costs associated with sales or operation of the Foundation site will not be added into the direct costs mix.

- **Commercialization Reporting and Payment** – Quarterly reports will be provided along with any royalty due. The reports will outline the activity for the quarter and YTD, as well as provide full disclosure of cost information used in the calculation of royalties.

- **Commercial Spin-Offs** – If the software meets with strong commercial success, justifying the creation of a separate company, OCS will support such a move. In this case, OCS and the copyright owners will share in the equity of the resulting enterprise at a level befitting their contribution.

Next Steps:

If you are interested in this new software publishing concept, we are actively seeking relationships with academic and research institutions to join the OCS initiative. Our intention is to build a 'win-win' partnership between OCS, the developer/author and the sponsoring institution. Contact Douglas Curry at dcurry@openchannelsoftware.com , (773) 334-8177.