

Making the right call

> BOULDER, COLORADO-BASED CELLPORT SYSTEMS WAS ONCE A MANUFACTURER OF MOBILE PHONE AND NETWORKING TECHNOLOGY. AFTER MORE THAN A DECADE OF UPS AND DOWNS, THE COMPANY HAS FOUND ITS TRUE CALLING—AS A LICENSOR. BY DAVID RAPP

1 The accidental manufacturer

When Cellport Systems CEO Pat Kennedy started his mobile phone and networking technology company in 1991, he didn't intend for the company to become a manufacturing entity at all. Indeed, for its few years in business, Cellport tried to stay away from manufacturing altogether—until its first licensee, New Hampshire-based telephone equipment company Hello Direct, suddenly changed its business model. "They lateraled the product back to us, which was kind of an accidental way of finding yourself in manufacturing," says Kennedy. Nonetheless, Cellport concentrated on building up its patent portfolio. "We went through, essentially, a six-year period where we had products developing concurrently, and the orders were relatively small." Two patent portfolios came out of this early work: one involving mobile-phone hands-free connectivity systems, and another involving mobile network technologies to connect a vehicle to the internet. Cellport's handset adapter technology patents were unquestionably innovative, and soon in demand.



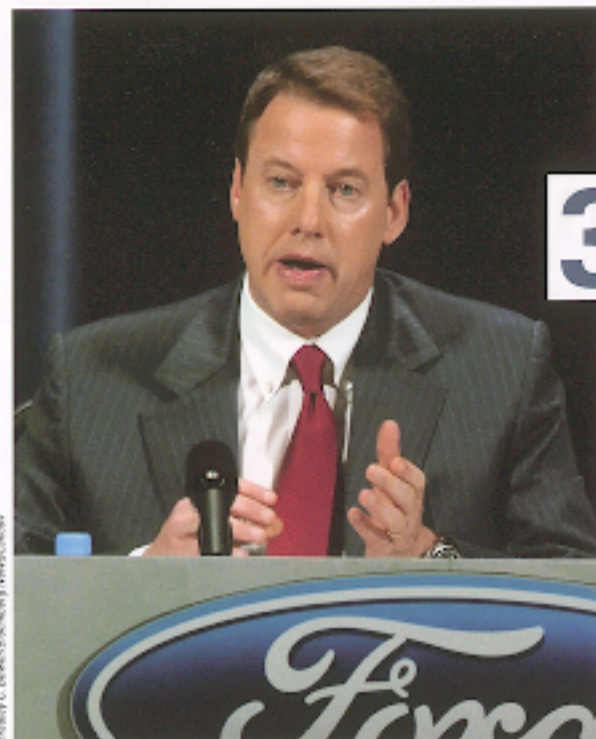
Kennedy: avid outlicensor

The big money

"For the first five years, we had no outside investors," says Kennedy. "It was all research money or founders' capital, which is an oddity of the business. Of the \$50 million that we raised over the fundraising period, which was 1995 to 2001, virtually all of it came from strategics, so there's almost no venture money in the firm." In 1995, AT&T Wireless became Cellport's first strategic investor, and soon the company received sizable research grants from a number of telecom companies, including GTE, Bell Atlantic, Ameritech, and Bell Mobility, among others. "[They] gave us significant, seven-digit amounts of money to research interfacing wireless devices to vehicle networks," says Kennedy. Among these early investors was information-technology giant Cisco Systems, which invested in 2000.



Box social: Cellport technology drives these mobile phone connectivity systems. The Motorola box (top) is used for OnStar and BMW systems.



Ford: 'basics' instinct

3

Ford tough

On the heels of all this funding, Cellport received an enormous manufacturing order, worth approximately \$58 million, from automotive giant Ford Motor in 2000. Ford wanted Cellport to manufacture a universal hands-free mobile phone system for Ford vehicles. But shortly after this windfall for Cellport, Ford underwent a change in leadership. "Bill Ford [Jr.] came in," says Kennedy, "and his first strategic initiative announcement was 'back to basics'—which meant they did wholesale shutdowns of all new technology initiatives." Ford canceled the Cellport order, along with a variety of other projects. "As a result we got stuck with \$8 million worth of costs related to the Ford program," says Kennedy. After a large layoff, Cellport left manufacturing behind, and decided to go back to its simpler roots: designing and outlicensing.

4

Declaration of independence

Cellport licensed its mobile network technology to Motorola in 2001, and soon thereafter, licensed them the handset connectivity portfolio as well. "From Motorola's standpoint, it was defensive," explains Kennedy. "At that point, when Ford canceled, it put us in a crisis, and there was a chance, as Motorola clearly understood, that Cellport would put itself up for sale to pay off its debts." Motorola likely wanted to license the portfolio, in large part, so that it wouldn't fall into some other company's hands. But the licensing deal allowed Cellport to press on. Motorola paid a generous per-unit royalty to Cellport on units they were shipping in Europe, as well as on units that Motorola would eventually ship to OnStar for internet-connected General Motors cars.



Dock workers: Cellport's own mobile-phone dock (left), and three others from German licensees

5

Global communication

Thereafter Cellport aggressively pursued a host of European and American companies to license its patent portfolio, and a number of European companies bought in. Today, virtually all Mercedes, Audi and BMW vehicles use the Cellport-patent-based handset adapter connectivity system. Since switching over to a licensing model, Cellport has brought in some \$30 million in licensing revenue, with last year's total "over eight digits," says Kennedy, who is optimistic that Cellport network connectivity technology will spread as mobile handsets become more like multimedia computers. Meanwhile, the licensing-only model Cellport has pursued has a bright future. "One portfolio's got another 10 years of life [left], and the other portfolio's got another 14 years of life," says Kennedy. "So we continue to invent. And now that it's an outlicense model only, our life is much more simplistic. This is a much cleaner play."