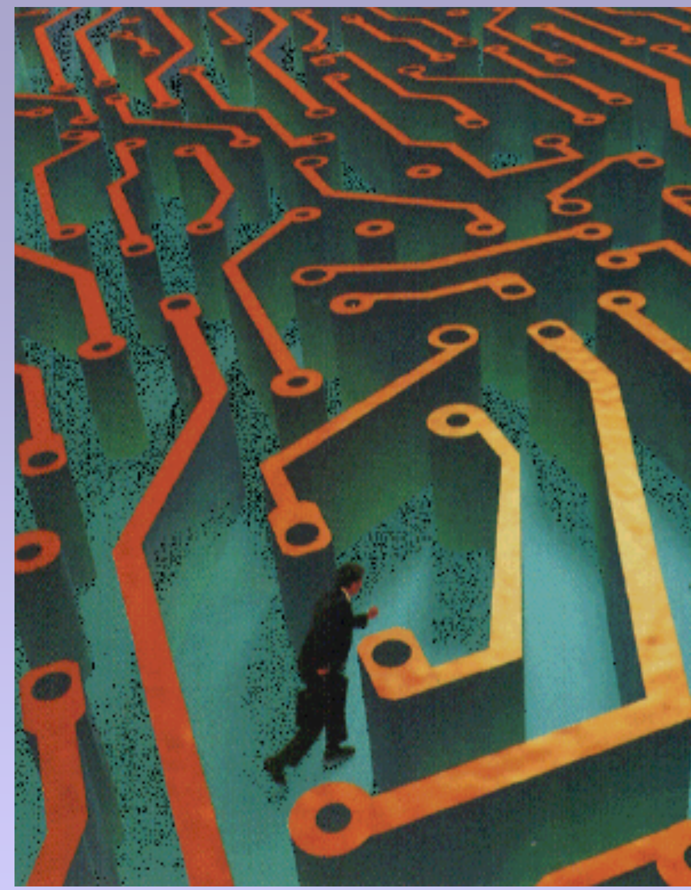
Business Opportunity Alternatives to Assertion-Based Patent Monetization

Ron Laurie
Inflexion Point Strategy, LLC
ronlaurie@ip-strategy.com

Managing and Monetizing Your Portfolio

Software IP Strategy Summit

Palo Alto - February 20-21, 2007



Inflexion Point®
New Directions in IP Strategy

Assertion vs. Business Opportunity Patent Monetization Models

The assertion-based patent monetization model results from viewing a patent as <u>an exclusionary legal right</u>

- Patent owner options:
  - exclude the competition (via injunction) or
  - tax the competition (via royalties for non-exclusive license)
- Value proposition: "*Pay us a royalty or we'll sue!*"

The business opportunity model views a patent as a <u>commercial asset</u> (like real estate or corporate securities)

- Patent owner options: multiple bus-dev opportunities
- Value proposition: "*We can both make money here.*"

Inflexion Point®
New Directions in IP Strategy

Click this Link to Return to Inflexion Point----> http://www.ip-strategy.com/

The Players - Assertion/Licensing Model

- Single Inventor Licensing Entities:
  - RAKL (Ron Katz), NTP, Lemelson, Fergason
- Institutional Patent Aggregators:
  - Offensive - Intellectual, Ventures, Acacia, BTG
  - Defensive - Open Invention Network (IBM, Novell, etc)
- Corporate Licensing Spin-outs:
  - GE Commercial Finance, Lucent,
  - AT&T Knowledge Ventures, BellSouth
- Litigation Finance Funds:
  - Altitude, Rembrandt, NW Patent Funding, Oasis
- IP/Technology Development & Licensing Companies:
  - Rambus, Tessera, Interdigital, AmberWave, MOSAID, MIPS, ARM, TPL

Inflexion Point®
New Directions in IP Strategy

The Players - Business Opportunity Model

- Operating Companies:
  - Buyers - e.g., Intel Capital, Microsoft
  - Sellers - e.g., IBM, HP, Motorola
- Patent Brokers:
  - Pluritas, iPotential, ThinkFire, IP Value
  - Semiconductor Insights, Iceberg (UK)
  - Bramson & Pressman, Fairfield Resources
- IP Investment/Merchant Banks:
  - Inflexion Point, Ocean Tomo
- IP On-Line Exchanges:
  - Yet2.com, Tynax
- IP Auctions (on-line and live):
  - Ocean Tomo, IP Bewertungs AG, IP Auctions Inc.

Opportunity Model Deal Types

- Exclusive field-of use license(s)
- Non-exclusive licenses, plus technology (know-how) transfer
- Negotiated sale of patent(s)
- Patent auctions—private vs. public
- Corporate transactions involving sale or merger of entire companies, divisions or business units
- Various investment, financing and securitization vehicles

Inflexion Point®
New Directions in IP Strategy

Outright Sale

- Buyer
  - competitor
  - new entrant, start-up
  - institutional patent aggregator (IPA)
  - private equity firm
- Price
  - lump sum - cash, equity or mixed
  - up-front payment (or not) plus revenue share based on buyer exploitation (w/ or w/o reversionary interest)
- Reservation/grant-back ?
  - nonexclusive license or covenant-not-to-sue
  - exclusive field-of-use license
  - rights to improvements?
- Non-compete ?

Exclusive Field-of-Use License

- Single exclusive license to all "non-core" applications
- Multiple exclusive licenses in selected "verticals"
- Cross-EFOU licenses to obtain exclusivity within a vertical
- Grant-back rights to improvements by licensee?
- Licensee enforcement issues - standing/joinder, litigation control

Enabling-Type Non-exclusive Licenses

Non-exclusive license coupled with

- Technology transfer (trade secrets, know-how)
- Technical support (e.g., integration with licensee processes)

Emergence of the "IP Company"

- No tangible product, except for digital designs
- Typically 3 operating units:
  - R&D, IP licensing, customer support
- Examples:
  - Rambus, Tessera, MIPS, ARM, Interdigital, AmberWave

Corporate Transactions

- Sale of company
  - asset sale, stock sale, forward/reverse merger, RTM
  - payment can be cash, equity or mixed
- Divestiture of division, business unit or technology
  - spin-off vs. spin-out
  - core vs. non-core, stranded technologies
  - IP allocation is usually a contentious issue!
- Merger of Equals (MOE)
- Joint Venture
  - contractual vs. Newco
  - two-stage hybrid
  - IP may be a JV member's sole contribution

IP-Backed Financing

Using IP to obtain operating capital from institutional lenders

- Collateralization
  - Sale and license-back (off-balance sheet loan)
- Securitization of future royalty streams
  - Examples: Bowie Bonds, Bio-Pharma Trust
  - Historically limited to copyright properties & bio/pharma
  - Requires established licensing revenue stream
- Sources
  - Ocean Tomo, UCC Capital, IP Innovation Financial Services

Inflexion Point®
New Directions in IP Strategy

"Defensive Monetization"
Via Strategic Patent Acquisition

Acquisition of patents having *strategic value*,

i.e., those covering products and markets representing substantial revenue streams of major competitors

can be used to minimize or eliminate cash outflow by

- reducing cross-license balancing payments
- resolving patent infringement claims & settling litigation
- deterring infringement claims or litigation (MAD)

Strategic acquisition is based on a "pain-point" analysis of the competitor's products and markets - the most effective patents may have nothing to do with the acquiror's business, e.g., where the acquiror is a major player in a niche market and its primary competitor in that market is a broadly based manufacturer.

Click this Link to Return to Inflexion Point----> http://www.ip-strategy.com/

Concluding Thought

"When all you have is a hammer,

everything looks like a nail."

Think creatively about monetizing IP assets

—talk to an IP investment banker

Contact Info:

Inflexion Point Strategy, LLC

706 Cowper Street, Suite 200

Palo Alto, CA 94301

Tel: (650) 327-6400

Fax: (650) 745-1170

www.ip-strategy.com

Inflexion Point®

New Directions in IP Strategy