

# The IP/Technology Development Spin-Out: *a new model for corporate IP monetization*

*Presented at:*

## **Strategies for Commercializing IP**

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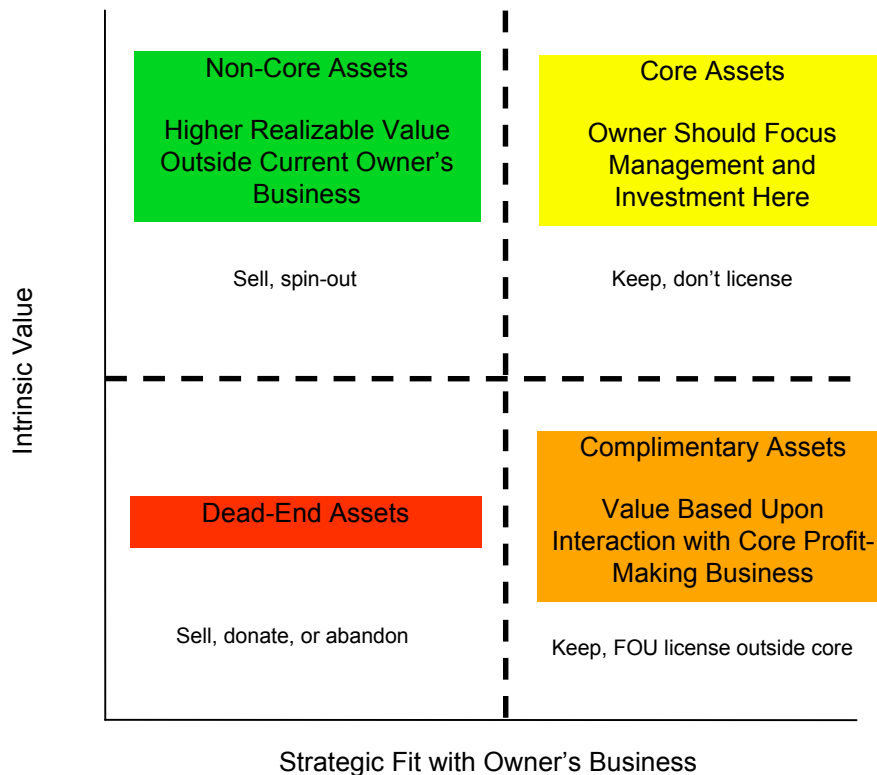
Craig Stauffer and Joe Pellegrini  
Analytic Capital, LLC  
Boston



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# “Stranded” Non-Core Technology and Associated IP Represent a Valuable and Highly Qualified Source of Corporate Assets

## Asset Characterization



## • Non- Core Assets

- Analytic estimates US Public companies have sunk investments exceeding \$900B\* in the class of Non-Core Assets
- These assets generally consist of current/active IP with some level of proof-of-concept or productization
- The asset owner has no plan to continue pursuit of the opportunity and no plan for value extraction

\*Analytic Capital internal estimate based upon survey of U.S. public company 10-k filings from 1995 to 2005



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## Where do Non-Core Assets Come From?

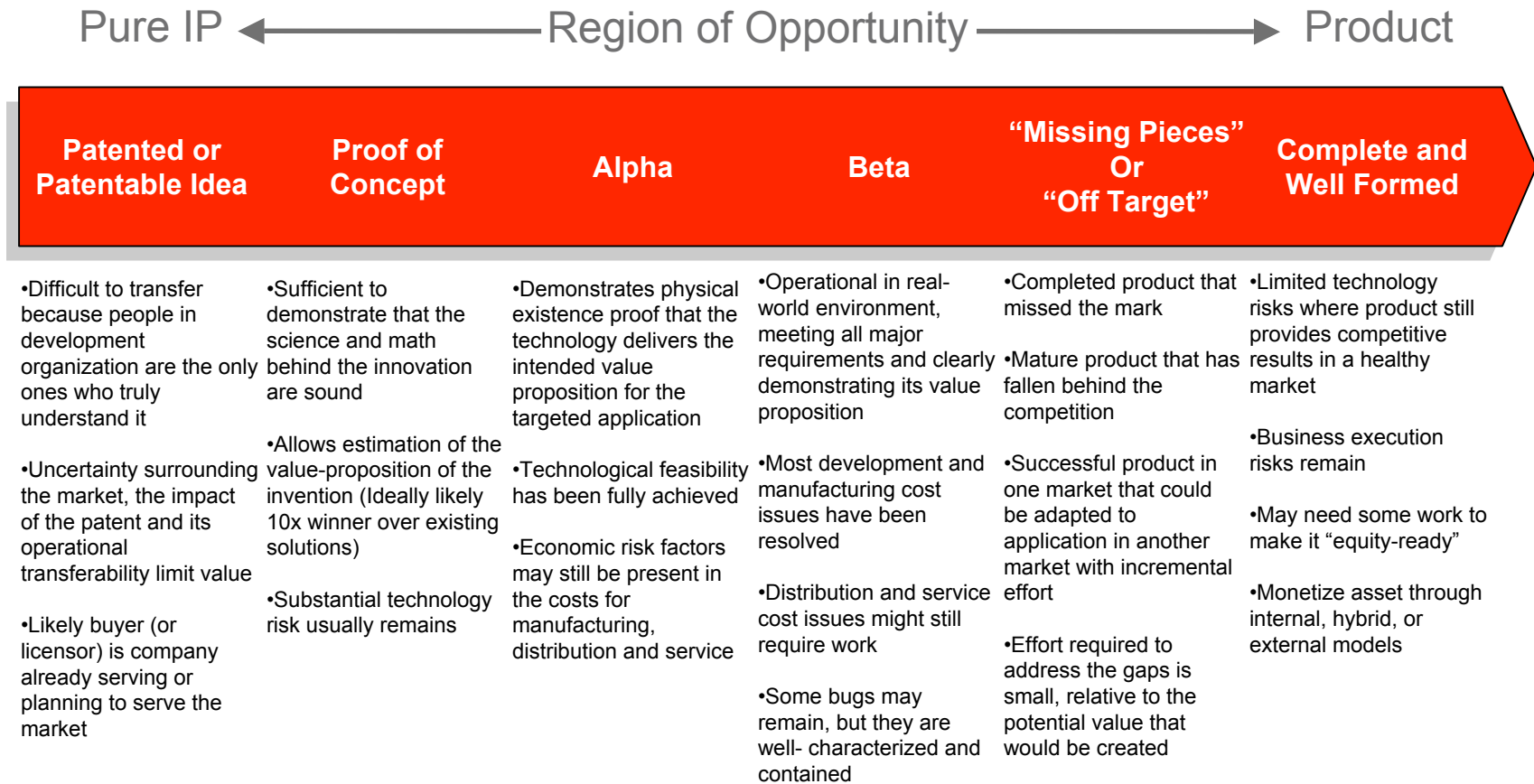
- Post merger / acquisition research and development strategy and prioritization
- Unintended discovery
- Discovery leading to multiple applications, some outside of the company's market focus
- “Pet projects” that lose sponsorship
- Change in company strategy
- Change in the target market



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# Technology Asset Types

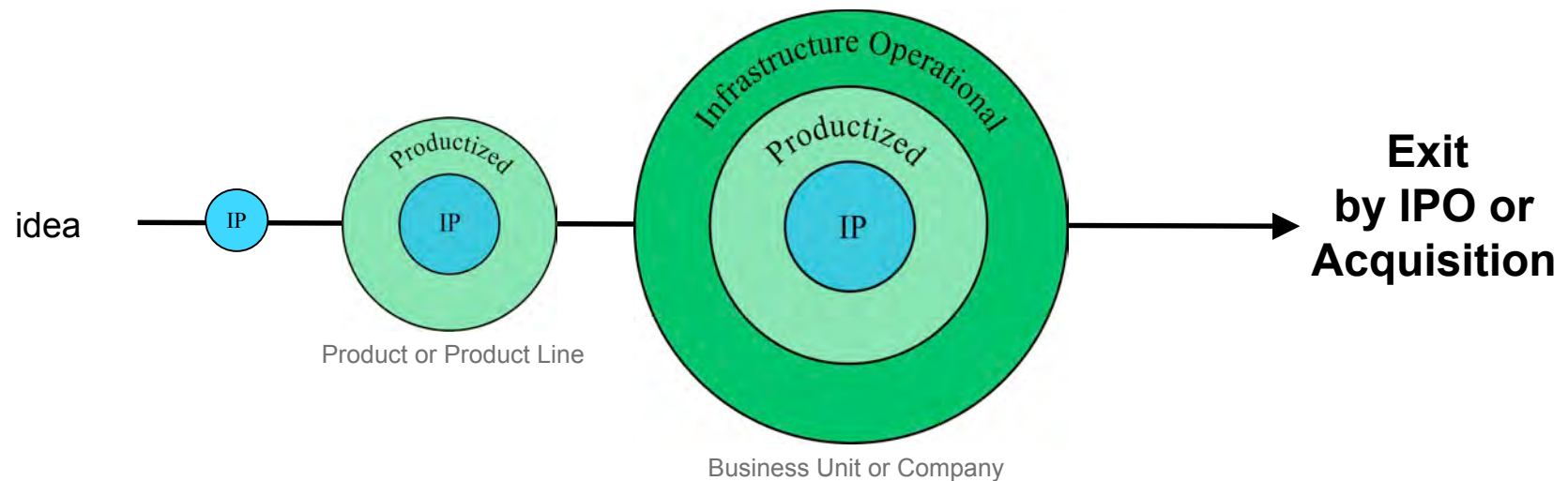


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# Product Development Company (IP Supports the Product)

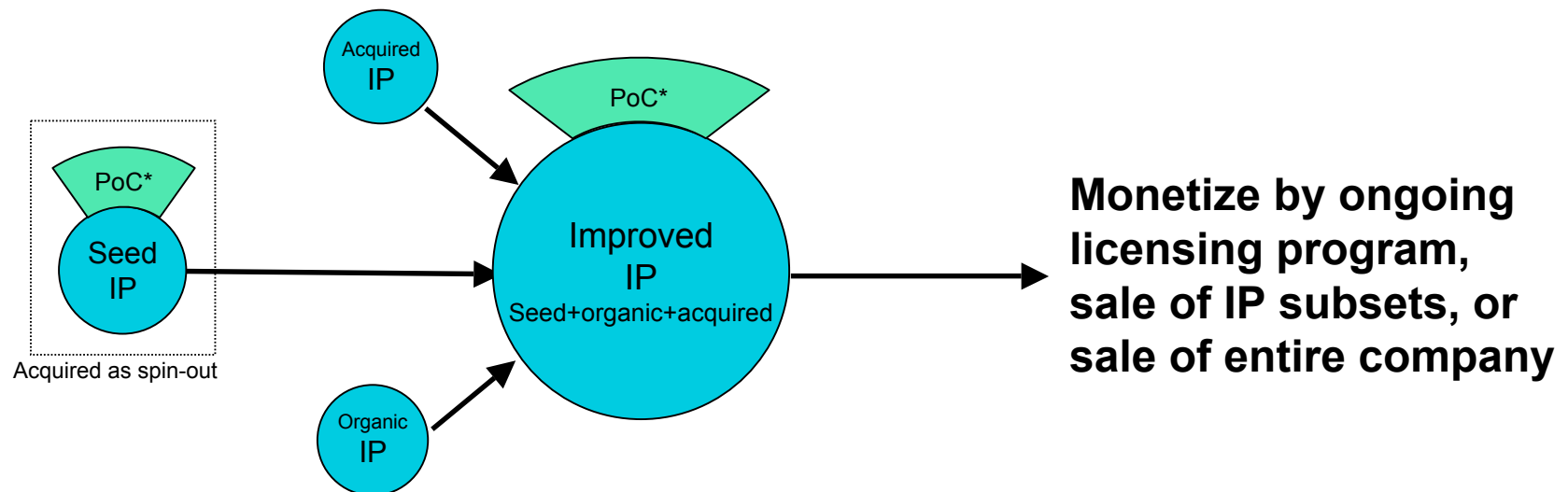
- A market need or trend is postulated, studied, and defined
- Often the core idea can be protected under forms of enforceable IP
- Product definition evolves, product is created, and innovative approaches are developed that are the subject of patent applications
- Product is introduced, with its position protected by the combination of innovation and IP (patents)
- Company grows and returns on investment



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## IP Development Company (IP is the Product)

- Seed IP with validation on Proof-of-Concept level is acquired as a spin-out
- Additional supportive IP is acquired in the marketplace
- Continuing technology development creates additional organic IP and product example(s) that is/are close to market ready
- IP monetized through licenses or sale
- Independent patent aggregators are a variant of this approach



\*Proof of Concept



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# Product-only and IP-only models are inherently limited

## PRODUCT DEVELOPMENT

- Requires an IP basis for protection
- Core idea ultimately requires infrastructure for market penetration
- Needs follow-on products and follow-on IP to enhance value
- Operational issues can override IP value mining
- Likely exit limited to M&A or IPO

## IP DEVELOPMENT

- Initial IP requires PoC
- IP value has product dependence
- Subsequent acquired and organic IP requires product for validation
- Marketing of product requires partner
- IP value depends of acceptance of a product based on it and validation of market
- Exit is through sale or license of IP which generally requires an assertion model to yield value



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## TACL - a High Capital-Efficiency Alternative Spin-Out Form

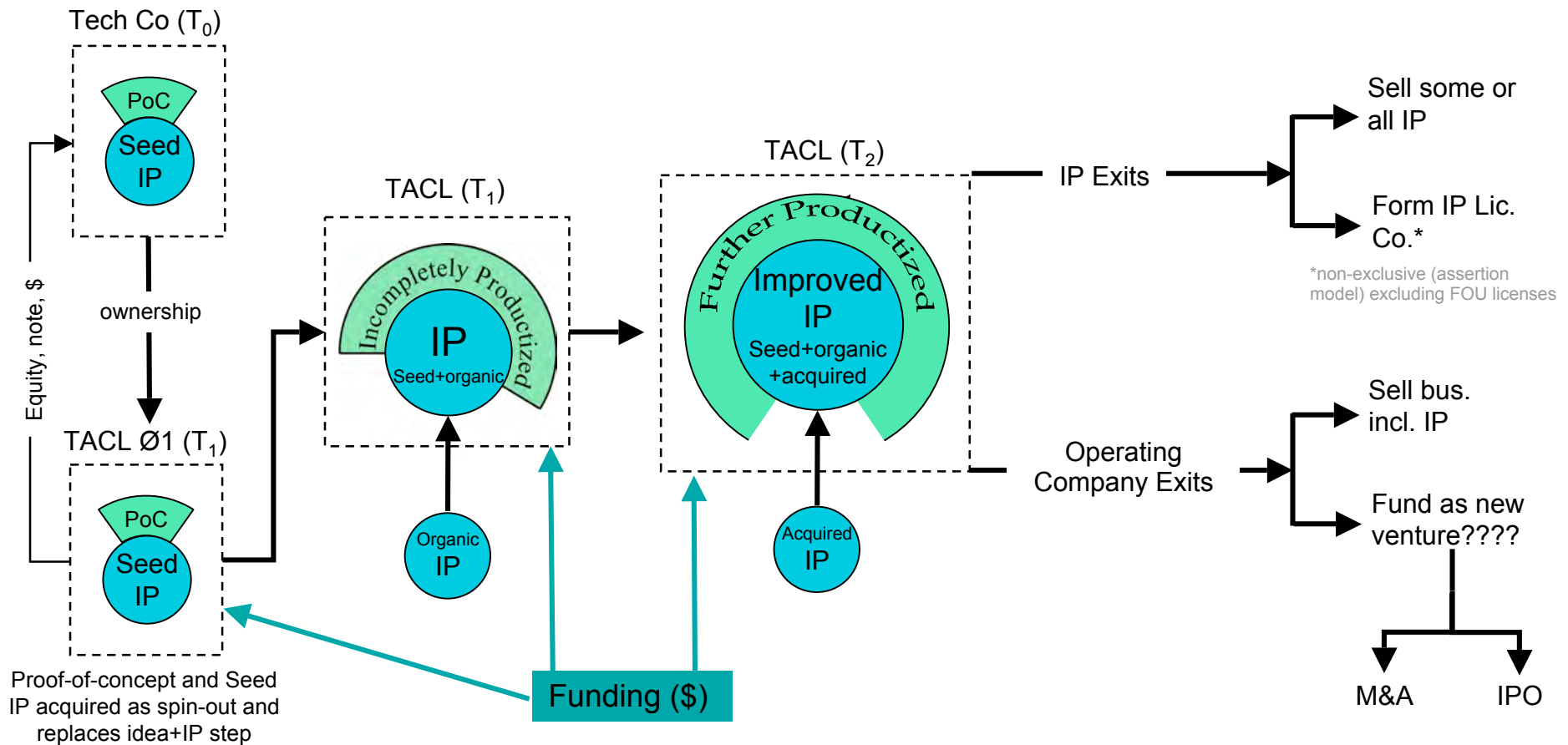
- TACL is an acronym for Technology Asset Cultivation and Licensing company
- TACL is a new investment vehicle for capital sources
- It is the manifestation of the combined IP and Product Development models
- TACL spin-out candidates contain:
  - Compelling technology representing a clear competitive advantage to an existing market
  - Intellectual property position that offers protection against fast-following competition
  - Proof of technological feasibility
  - Assets that are clearly in the engineering and/or commercialization phase
  - Clean title with no liabilities or obligations to 3<sup>rd</sup> parties
  - Validated exit strategy.
- Originating asset owner receives a minority interest in TACL
- Invested capital in the TACL is deployed solely for asset and IP development and completion



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# TACL - The Technology/IP Development Spin-Out



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## Ideal IP/Technology Development TACL Candidate Profile

- Compelling technology representing a clear competitive advantage in existing or identified markets
- Strong IP basis that offers protection from fast followers:
  - Multiple patents/applications covering core technology and extensions
  - Patents issued and/or affirmative office action status
  - Umbrella for additional application
  - On-going provisionals and applications.
- Product has achieved proof of technical feasibility
- Clear path to commercialization
- Clean title & minimal encumbrances (licenses, security interests)
- Validated exit strategy



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# Value = Risk Removal

Risk Factor	IP Development Co.	Product Development Co.	TACL
Technology Risk	Fully exposed to this risk factor	Complete commercialization	Prototypes Demonstrations Samples
IP Risk (Validity, Scope & Design-Around)	Fully exposed to this risk factor	Partially exposed	Mitigated by acquisition of external IP and expanded organic IP base
Business Model Risk & Management Risk	Potential legislative/judicial backlash against non-practicing entity (Troll) model	Fully exposed to this risk factor	Freedom to market the asset to one or more organizations that have proven business models, processes, and management
Market/Adoption Risk	No mechanism to remove market risk	WIN/LOSE Bet  Marketing errors are sufficiently expensive to cause failure	Spreads bets  Able to target multiple applications in multiple markets through multiple licensees or acquirers
Fast Follower Risk	Enhanced protection via multi-pronged IP development strategy	Protection limited to organic IP	Enhanced protection via multi-pronged IP development strategy



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## Driving Forces, Benefits and Barriers

- Driving Force - monetary return on perishable asset that is stranded because:
  - Company leadership has made a judgment that it has other internal programs that will produce a higher rate of return on capital/assets
  - End product does not fit company's addressed market, business model, or sales/marketing channel
  - End product market is below necessary revenue threshold for pursuit or lacks clear path to revenue
  - Product competes with current partners or customers
  - Change in strategy.
- Benefits to Asset Owner:
  - Future upside without further investment
  - Removes R&D Expense from Balance Sheet
  - Eliminates asset related IP pursuit and maintenance costs.
- Barriers to Deal Completion:
  - IP allocation
  - Rights in future IP
  - Future competitive concerns and covenants
  - Financial and equity terms.

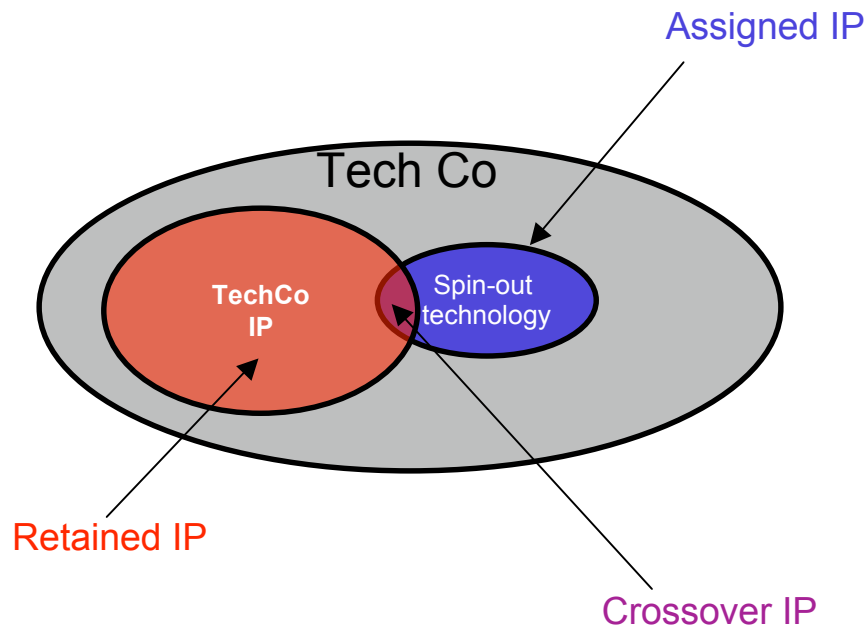


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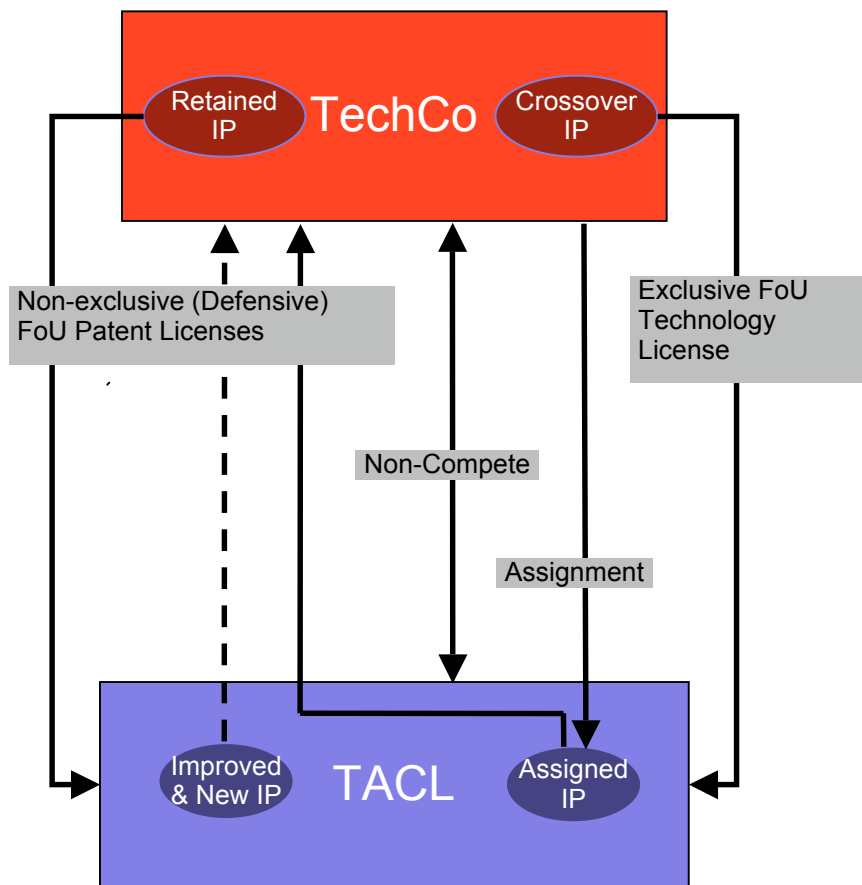
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# IP Allocation Issues



- IP sub-divides as assigned, crossover, and retained
- Crossover IP is common to both retained and spun out technologies
- TACL will improve assigned IP and develop new IP

# IP Relationships Between Tech Co and TACL



- **Retained IP**
  - Definition: Primarily (exclusively?) applicable to TechCo businesses
  - Ownership: TechCo
  - Licenses:
    - Non-exclusive FoU license to TACL
    - Usually defensive only
  - Enforcement: TechCo
- **Crossover IP**
  - Definition: Useful in both TechCo and TACL businesses
  - Ownership: Usually TechCo
  - Licenses:
    - Exclusive FoU to TACL
    - Includes technology
  - Enforcement:
    - Owner first, then Licensee
    - May be FoU specific
  - Alternative: Assign to TACL with exclusive FoU grant-back to TechCo
- **Assigned IP**
  - Definition: Primarily (exclusively?) Applicable to TACL business
  - Ownership: TACL
  - Licenses
    - May be non-exclusive FoU License to TechCo
    - No Technology
  - Enforcement: TACL
- **Non-competete**
  - Insulates TechCo and TACL from competition by other party
  - TACL Investors require non-competete from TechCo

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