

The TACL*
***A New Model of Corporate Spin-Out
for “Stranded” Technology and IP***
(*Technology Acquisition Cultivation and Licensing Company)

Corporate Perspectives on IP Monetization Strategies

**International Business Forum
Tenth Annual Corporate Venturing & Strategic Investing Conference
Palm Springs - February 5, 2008**

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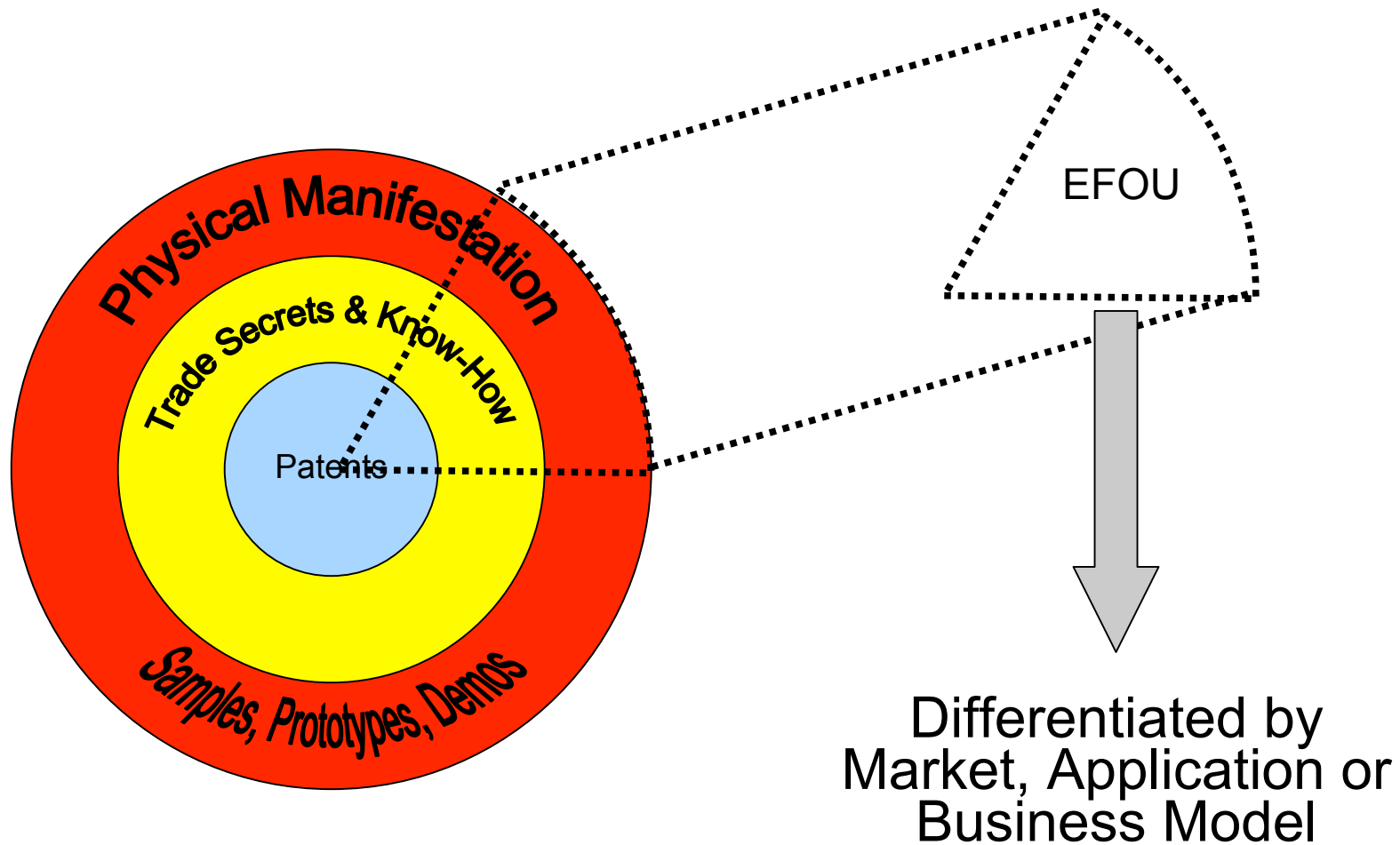
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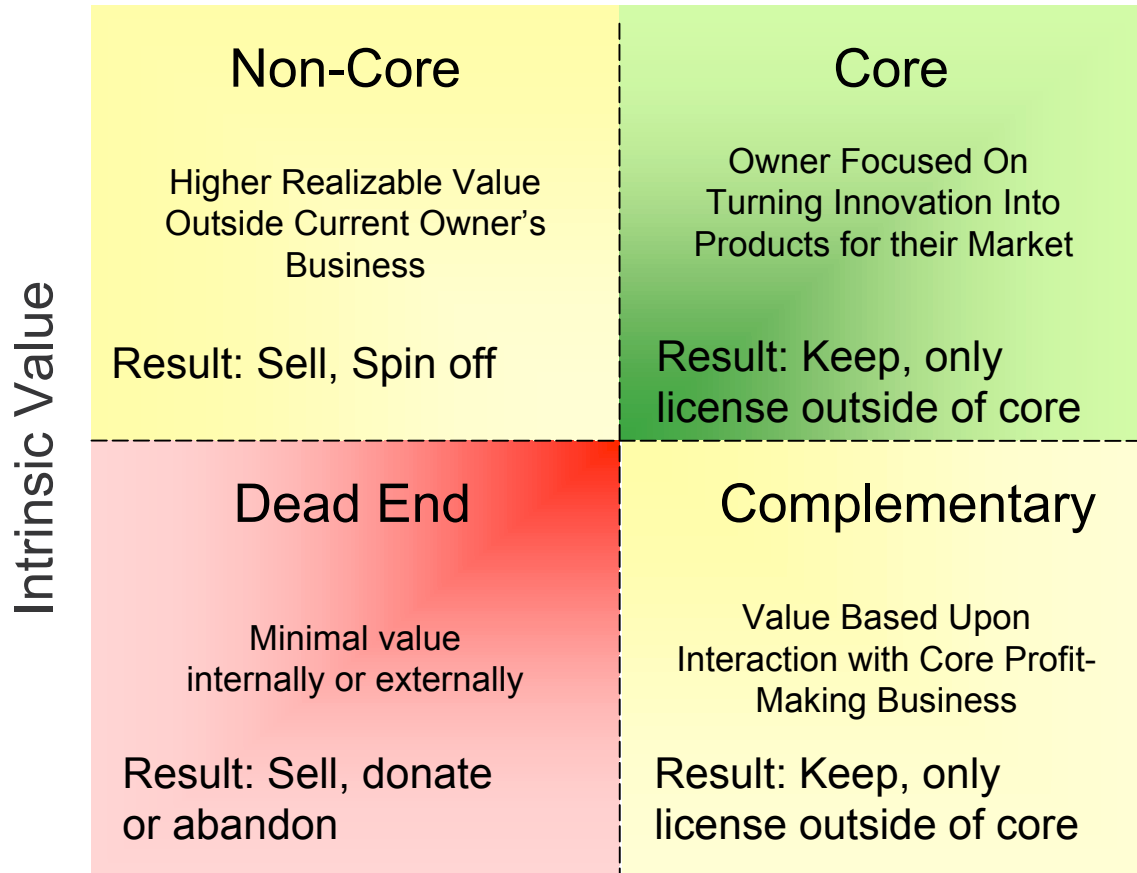
TACL Discussion Topics

- What is a “Technology Asset”?
- Sources of stranded Technology Assets
- Comparison of TACL model to IP Holding Company model
- Comparison of TACL model to Venture Spin-Out model
- When might the TACL model be a better option?
- Originator's perspective on the TACL model
- Investors' perspective on the TACL model
- TACL ownership and governance
- TACL licensing and other contractual relationships

What is a Technology Asset?



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



Strategic Fit with Owner's Business

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

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

Sources of Stranded Technology Assets

- Multiple field-of-use technology: Discovery leading to multiple applications, some outside of the company's market focus
- Unintended discovery: Technology developed for primary application or market has other markets and applications outside the company's core business
- Merger / Acquisition Fall-out: R&D priorities are usually shuffled during the corporate integration process
- “Pet projects” that lose sponsorship
- Change in company strategy
- Change in the target market

Comparison of TACL to IP Holding Company

- Similarities:
 - Principal monetization strategy is via licensing
 - TACLs may acquire additional patents
 - TACLs acts as an efficient passive tax vehicle for collecting and disbursing royalty income
 - TACLs do not incur any open-ended financial obligations
- Differences:
 - TACLs are structured to raise capital from and provide returns to pure-play financial investors
 - TACLs may use capital to improve, validate or market prototypes, demonstrations or products
 - IP Holding Companies are a “patent pure play”
 - Combination of EFOU license plus technology transfer means that licensees accurately described as “commercialization partners”

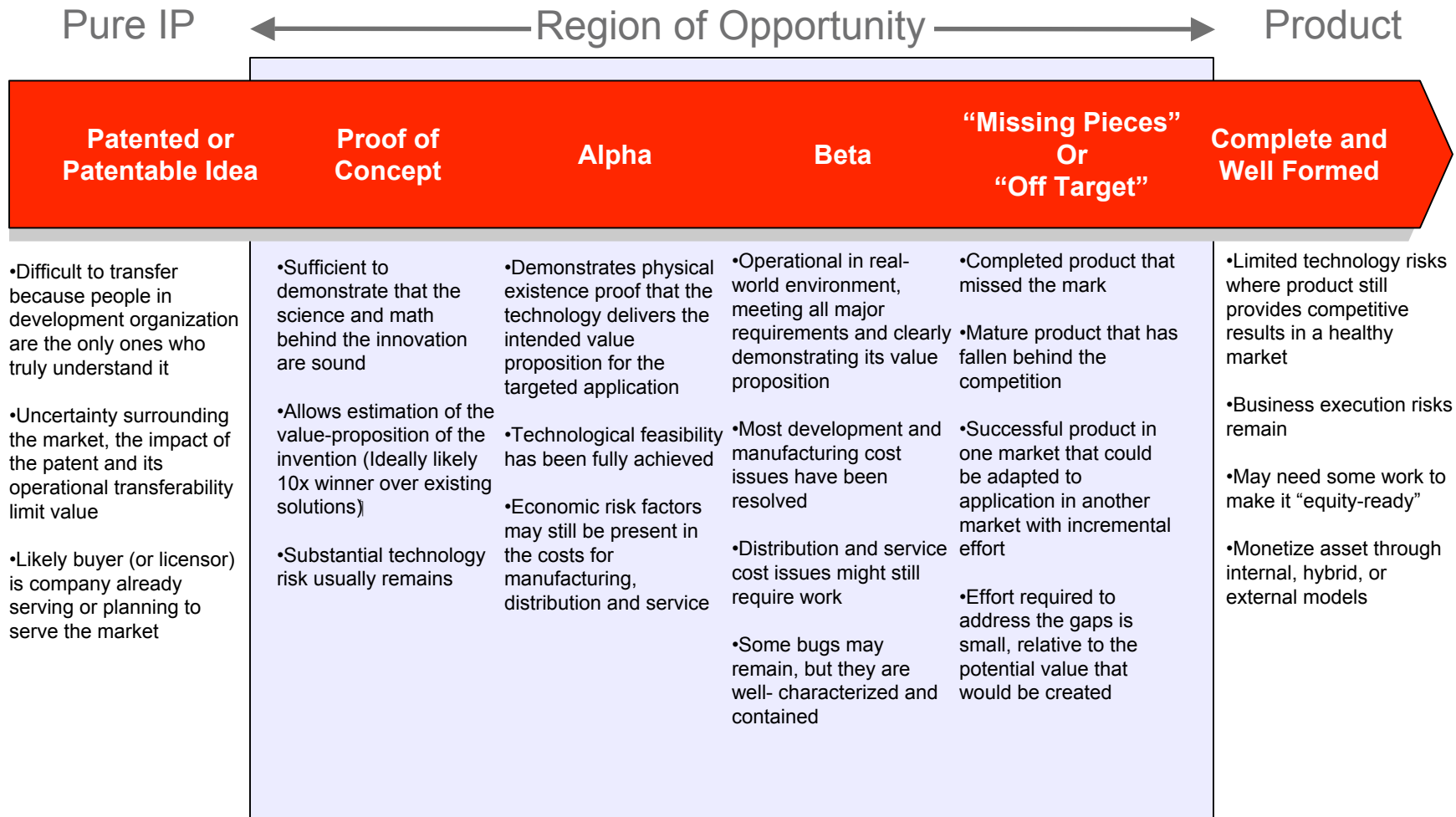
Comparison of TACL to Venture Spin-Out

- Similarities:
 - The primary goal is a financial return to all participants. Originator's strategic interests may influence the TACL charter on Day 1, but the TACL is not subject to future shifts in originator's strategic interests.
 - Capital is used to improve, validate and market TACL assets
- Differences:
 - TACLs do not invest in creating new scaling infrastructure
 - TACL investment programs are short and closed-ended
 - TACLs make extensive use of temporary contract management and outsourced engineering (no full-time permanent employees)

When might a TACL be a better option than a traditional venture-backed spin-out?

- Opportunity is not able to attract traditional venture investment
 - Total addressable market is too small
 - Target market is mature and/or slow growing, so investment in new scaling infrastructure may produce low or even negative marginal returns
- Originator's viewpoint
 - Originator's that are unlikely to invest side-by-side during successive financing rounds are at risk of (unfair?) dilution.
 - Originator may be interested in receiving returns in the form of cash annuities rather than as a lump sum payment or stock position
 - Cash returns in 1 to 3 years rather than 4 to 7 years.

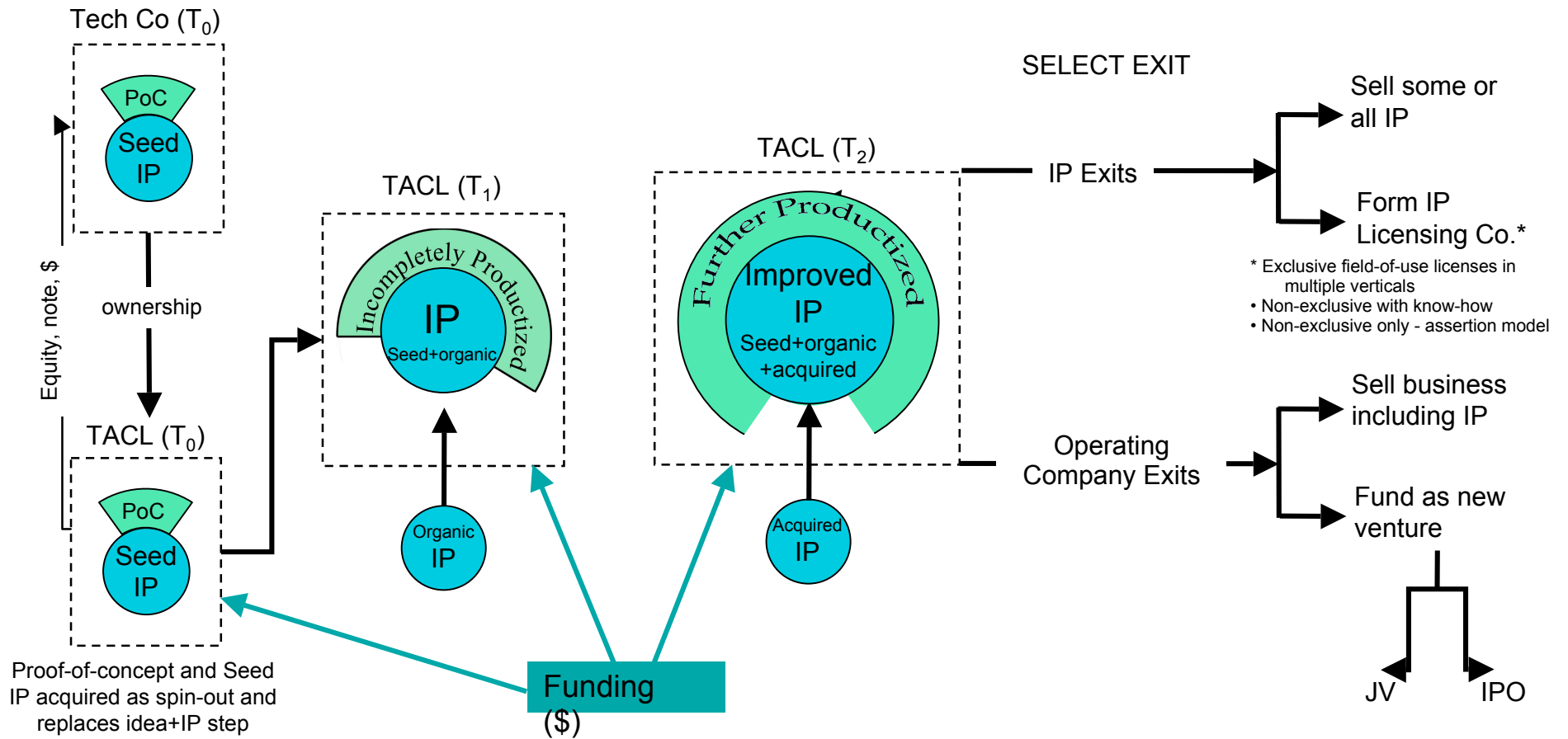
Defining the Development State of a Technology Asset



What is a TACL?

- A TACL is an improved value-enhancement platform for certain classes of non-core, stranded IP and perishable technology assets comprising patents, trade secrets, know-how, documentation, prototypes, pre-production units, production samples, tooling and demonstration frameworks.
- The TACL's financial and management resources are focused exclusively on extending the IP position, improving the underlying technology through adaptation and validation, and expanding the prospect universe of liquidity exits.
- One of the key benefits of the TACL model is that it enables value-enhancement while maintaining the flexibility to defer committing to either IP licensing or product-based monetization strategies.
- The principal IP monetization mechanism employed by the TACL model is the Exclusive Field-of-Use License (EFOU)

The TACL Model



When is a TACL the right option?

Asset Originator Perspective

- Stranded: Multi-Application
 - Significant addressable market both inside and outside originator's primary markets
 - inside applications are “core” / other applications are non-core. In some cases “outside” markets can be 90% or greater of the total opportunity
- Strategic Technology: Spin-Up or Spin-Down
 - Product is a better fit being supplied by a vendor to the originator.
 - Product competes with current partners or customer
- Stranded: Non-core
 - Can't compete with core technologies for additional development and IP funding and is therefore cut-off from financial nutrition
 - End product does not fit company's addressed market, business model, or
 - End product market is below necessary revenue threshold for pursuit or lacks clear path to revenue
 - End product requires different infrastructure - sales/marketing channel, supply chain, manufacturing resources/expertise

When is a TACL the right option?

Asset Originator Perspective (cont'd)

- Perishable
 - The market value (beyond the issued patents) will degrade over time unless executed in a product
 - Key managers and technologists will go elsewhere within or outside of the company
 - Know-how will, over time, be increasingly difficult to transfer because of key personnel losses.
- Freedom of Action
 - Blanket immunity from TACL to originator
 - EFOU grant-back preserves competitive position in core market
 - Rights to improvements
- Protection Against Unintended Consequences
 - Acquisition of patents by trolls
 - Assertion against customers or partners
 - Enabling competitors (exclusive grant back within core FOU)

When is a TACL the right option?

Asset Originator Perspective (cont'd)

- Comparatively Lower Risk
 - Won't Have to Wait for a New Product Startup to Take Market Position
 - Substantial Licensing Revenues Can Begin in Year 3 Rather Than Year 5-10
- TACL Technology Investments in Originator Strategically Beneficial
 - Funded R&D that is Synergistic with Core Application Technology Needs
- When In-House Licensing Bandwidth is Narrow
 - Provides Outsourced Help to Get to Revenues Quicker
- When Originator Needs a Low Cost Source of Supply
 - TACL's Licensees Will Serve a Broader Market than Originator
 - Costs to Originator Will Fall as a Result

When is a TACL the right option?

Investor Perspective

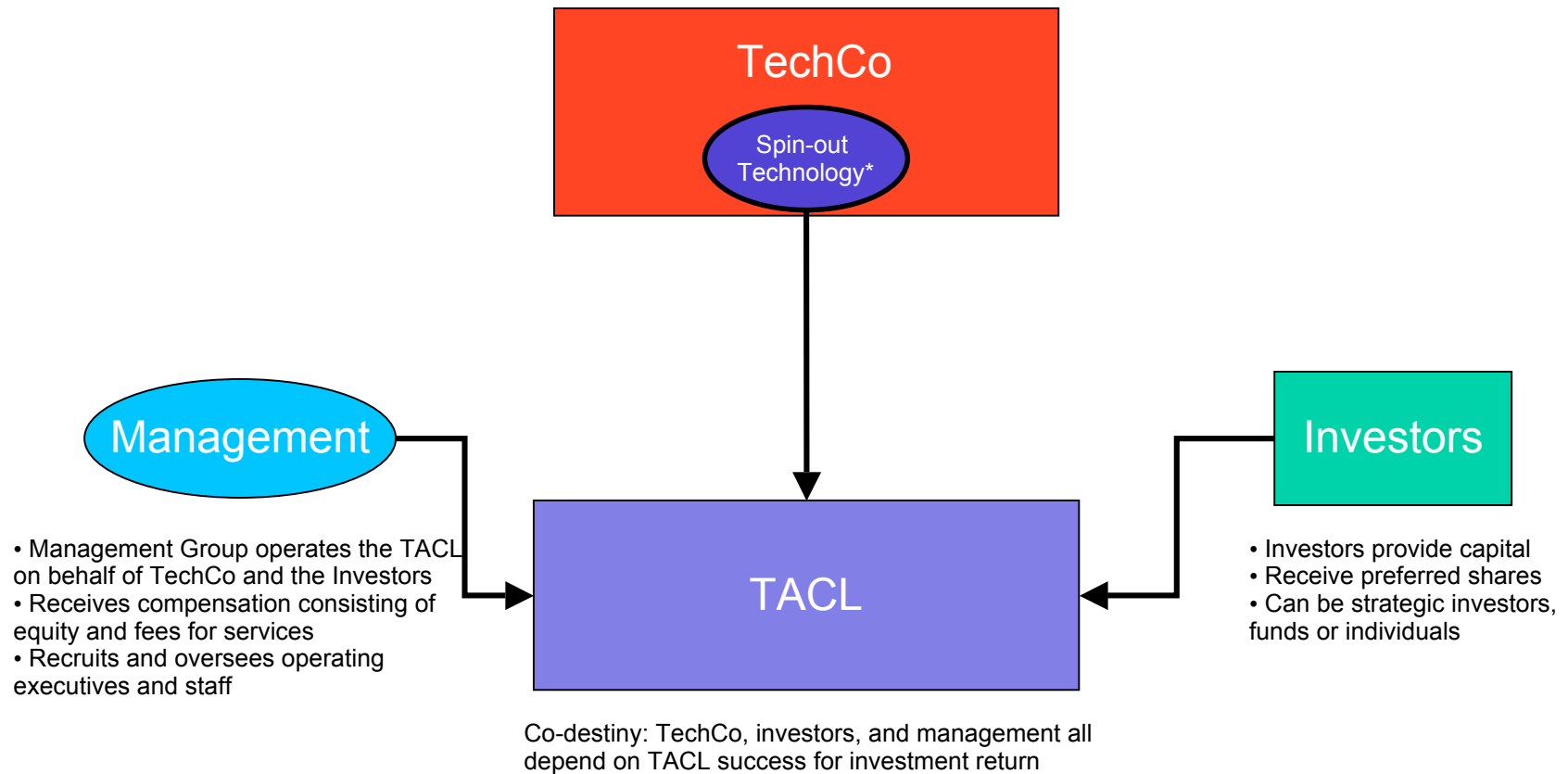
- Timing
 - Credible plan shows 18 to 24 months target for first royalty-bearing deal or sale
- Target return
 - 5x to 10x return on invested capital
 - 25% or better IRR
 - Ability to create an exit for LPs with finite time horizon
- Assurance of market demand - “Will it sell on the street?”
 - Customer view – stated indications of intent to purchase
 - Competitive position - clear and persistent performance and/or cost advantages

When is a TACL the right option?

Investor Perspective (cont'd)

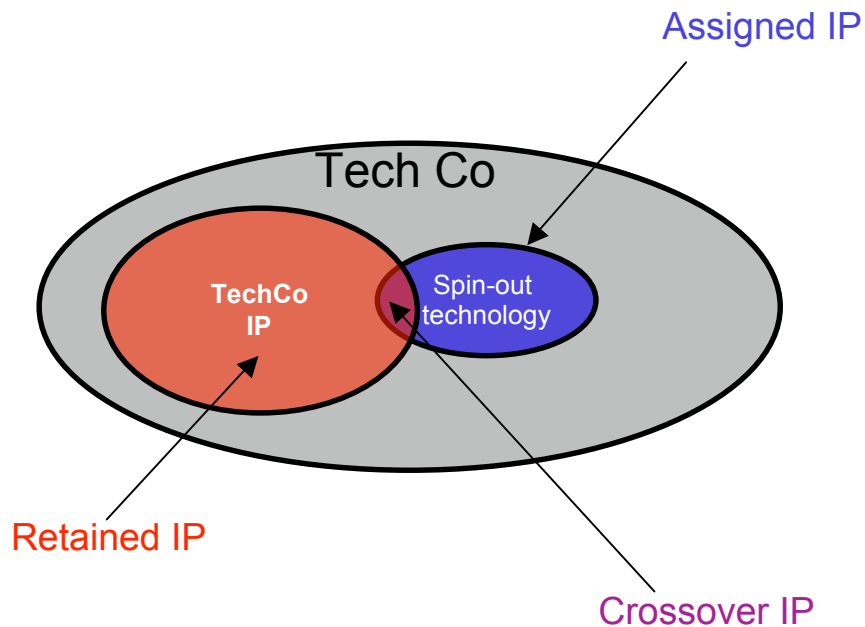
- Credible Management Required
- Strong IP basis that offers protection from fast followers
 - Multiple patents/applications covering core technology and extensions
 - Patents issued or progressing toward issuance
 - Strong platform for follow-on applications
- **THE DEAL NEEDS TO BE “CLEAN”**
 - Key issue: any complications requiring excessive diligence will make funding more difficult
 - Originator's previous cross-licensing agreements may be deal killers
 - **ADVICE:** Restrict cross-licenses to narrowest possible FOU

TACL Partner Relationship



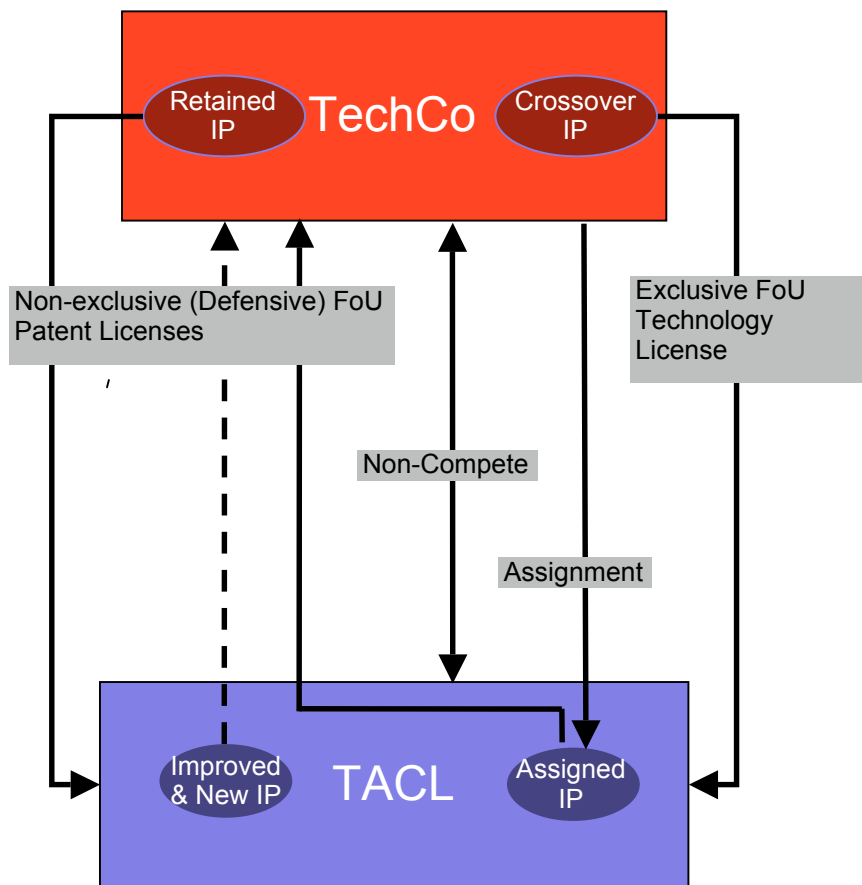
*can be multiple technologies

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-compete**
 - Insulates TechCo and TACL from competition by other party
 - TACL Investors require non-compete from TechCo

Questions and Comments?