

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

Managing Intellectual Property for Maximum Returns
Presented by Incremental Advantage
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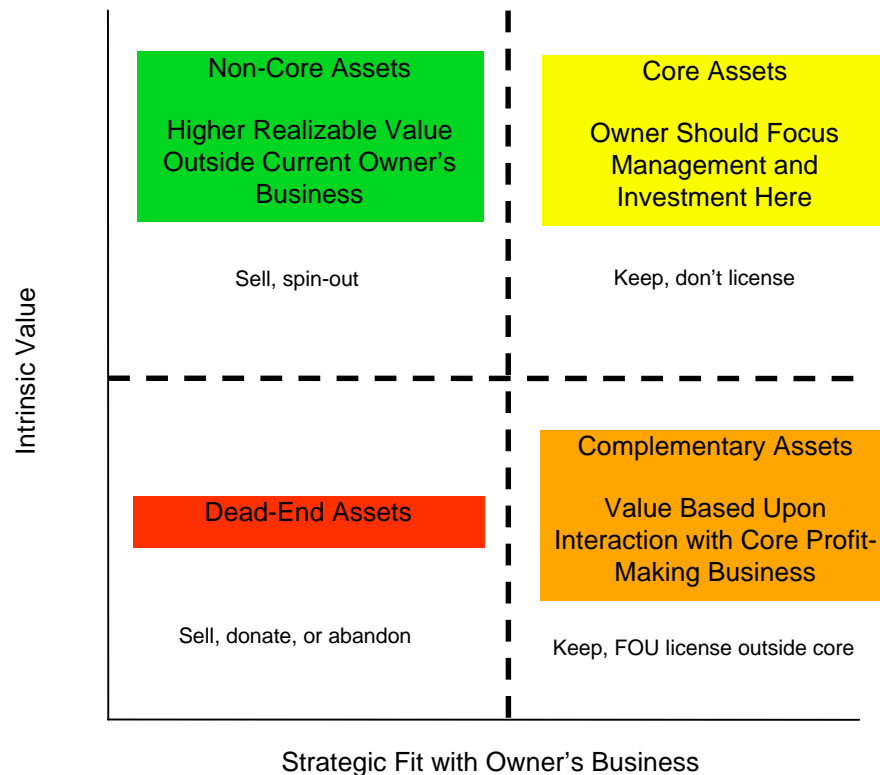
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Stranded Non-Core Technology and Associated IP Represent a Valuable and Highly Qualified Source of Corporate Assets

Asset Characterization



• 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

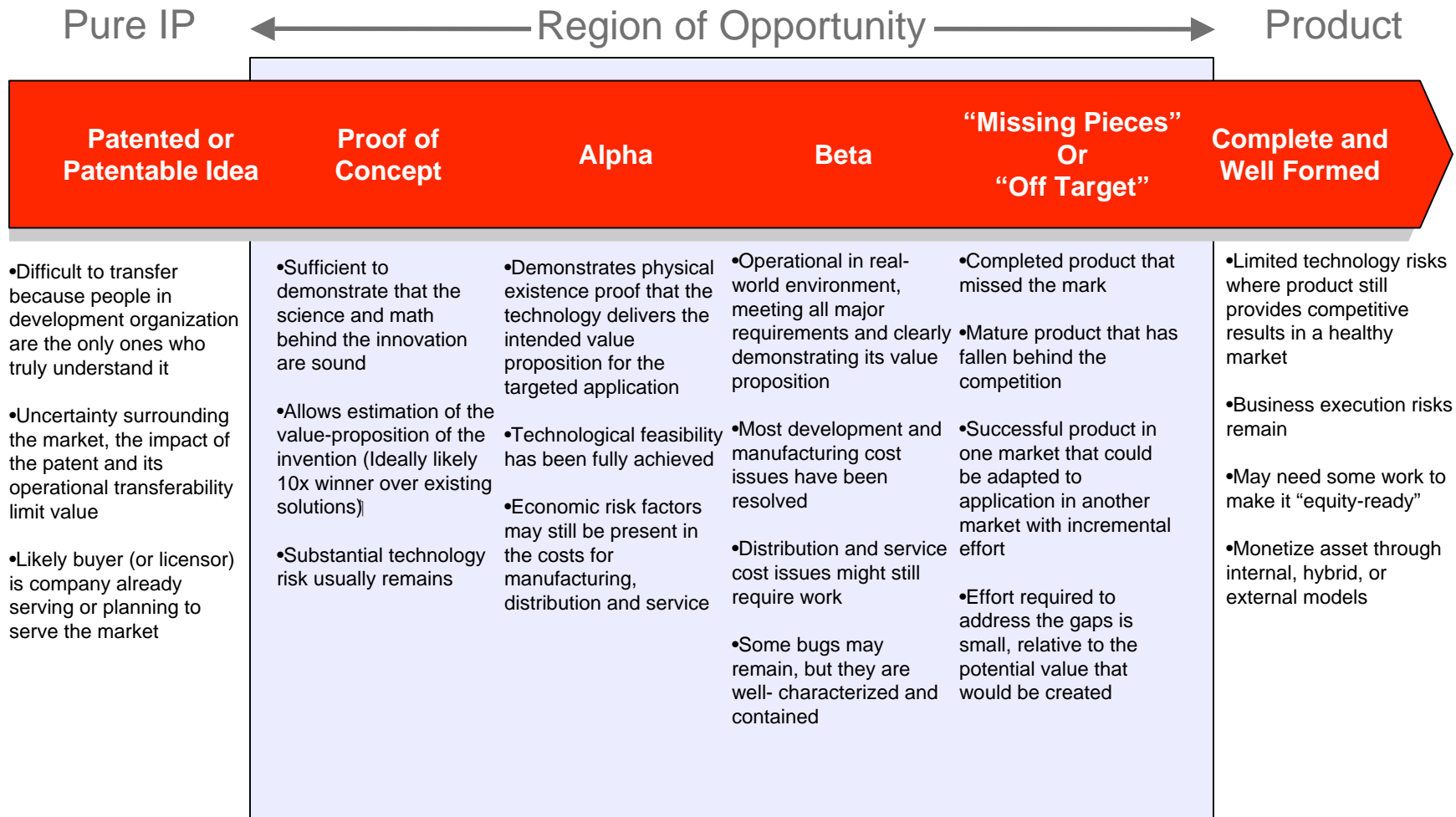
Liquidity Options for Stranded Technology

- In-house managed out-license (“as-is”)
 - Technology must be currently or imminently in use
 - Limited or no budget for IP value enhancement
 - Resource constraints on “sampling”, validation programs and technology transfer
- IP Sale (“as-is”)
 - Risk of immediate or downstream buyer asserting against seller's customers or partners
 - Valuation challenges, unless:
 - There is significant revenue history, or
 - The patents are relevant to current or near-term assertion action (offensive or defensive).

Liquidity Options for Stranded Technology (cont'd)

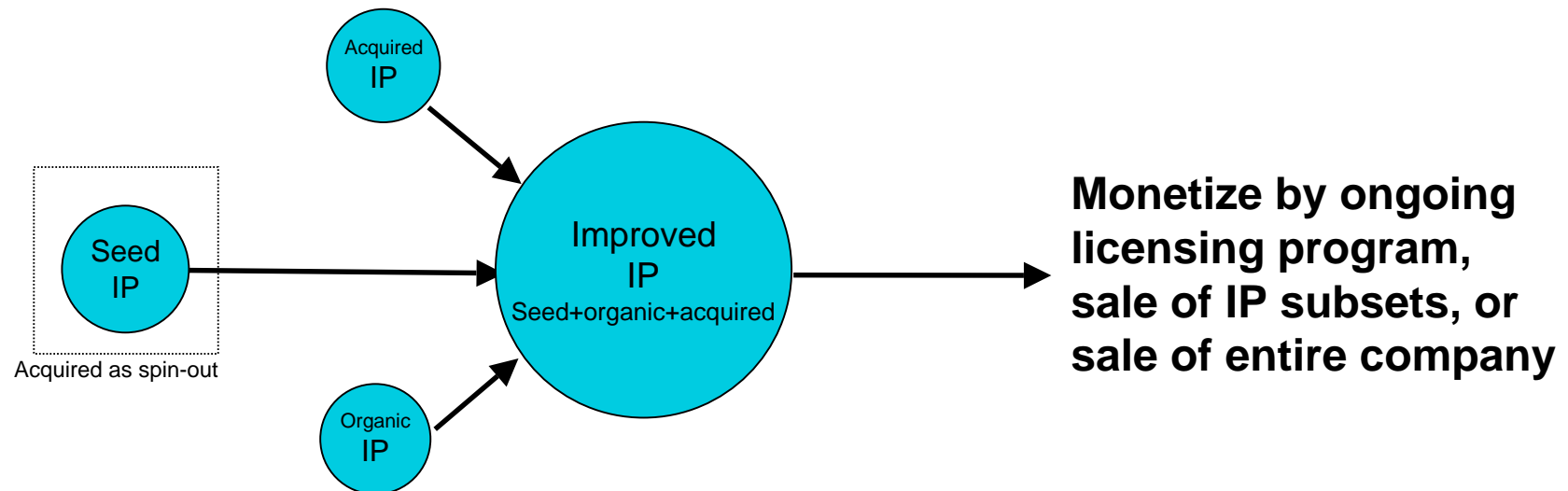
- Venture funded spin-out/ management team buy-out
 - Unless the technology originator is willing to contribute capital, it will get washed out through dilution of multiple equity rounds
 - Venture investors minimum threshold for TAM (Total Available Market) is typically very high: \$250M to \$1B
 - Operational issues can override IP value mining
 - High risk and long horizon to liquidity.
- TACL
 - Lower bar for TAM -- feasible returns with TAM per EFOU as low as \$10M
 - Future upside from improvements without further capital investment from asset owner
 - Removes Non-Core R&D Expense from corporate P&L
 - Eliminates or subsidizes originator's IP pursuit and maintenance costs.

Defining the Development State of a Technology Asset



Incumbent Alternative A: IP Development Spin-Out

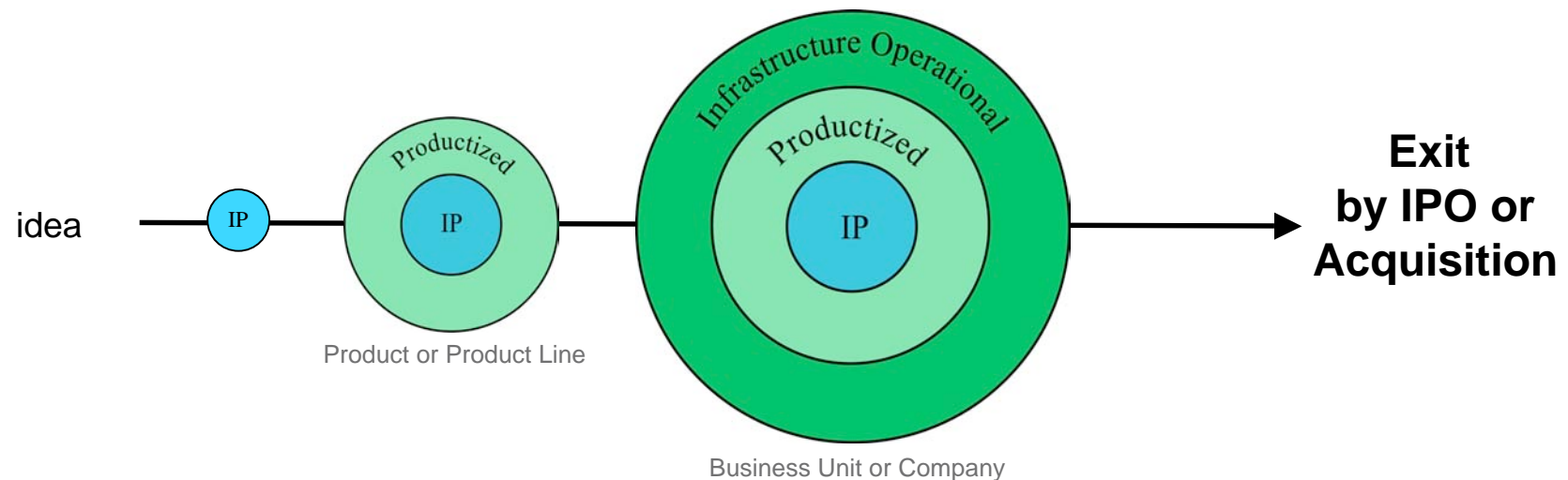
- Seed IP is spun-out
- Continuing technology development creates additional organic IP
- Additional complementary IP may be acquired in the marketplace
- IP monetized through licenses or sale



Corporate patent holding companies and institutional patent aggregators are variants of this approach

Incumbent Alternative B: Product Development Spin-Out

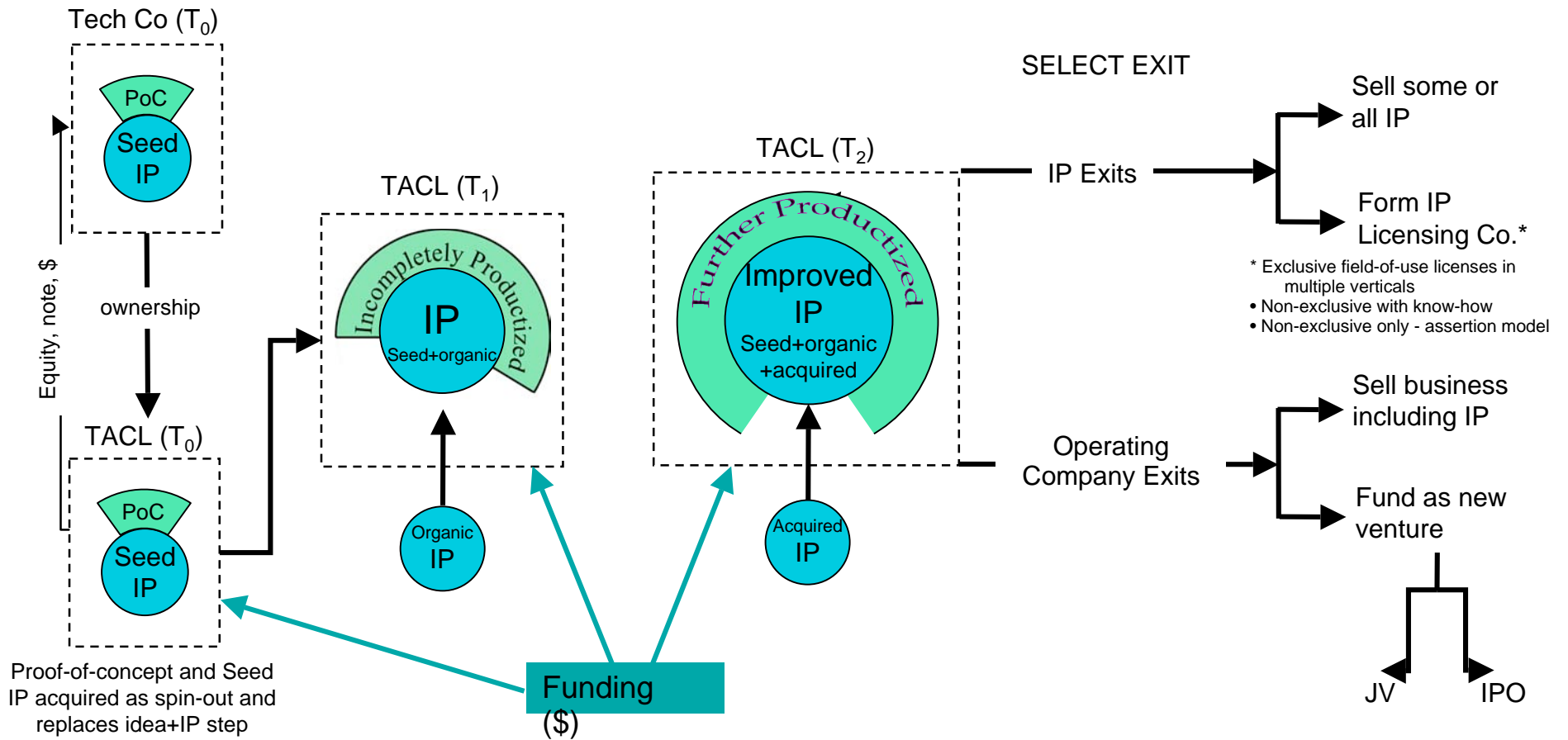
- A market need or trend is postulated, studied, and defined
- Product definition evolves, product is created, and innovative approaches are developed that are the subject of patent applications
- Product is introduced, with its position protected by the combination of proprietary know-how and patents
- Company grows and returns on investment



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



Creating Value Through Risk Filtering and 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 choose from IP or operating company models, or combinations of both.
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

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
- 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
 - Product is a better fit being supplied by a vendor to the originator.
 - Product competes with current partners or customer

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
 - Grant-back (non-exclusive)
 - 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?

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
- 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?

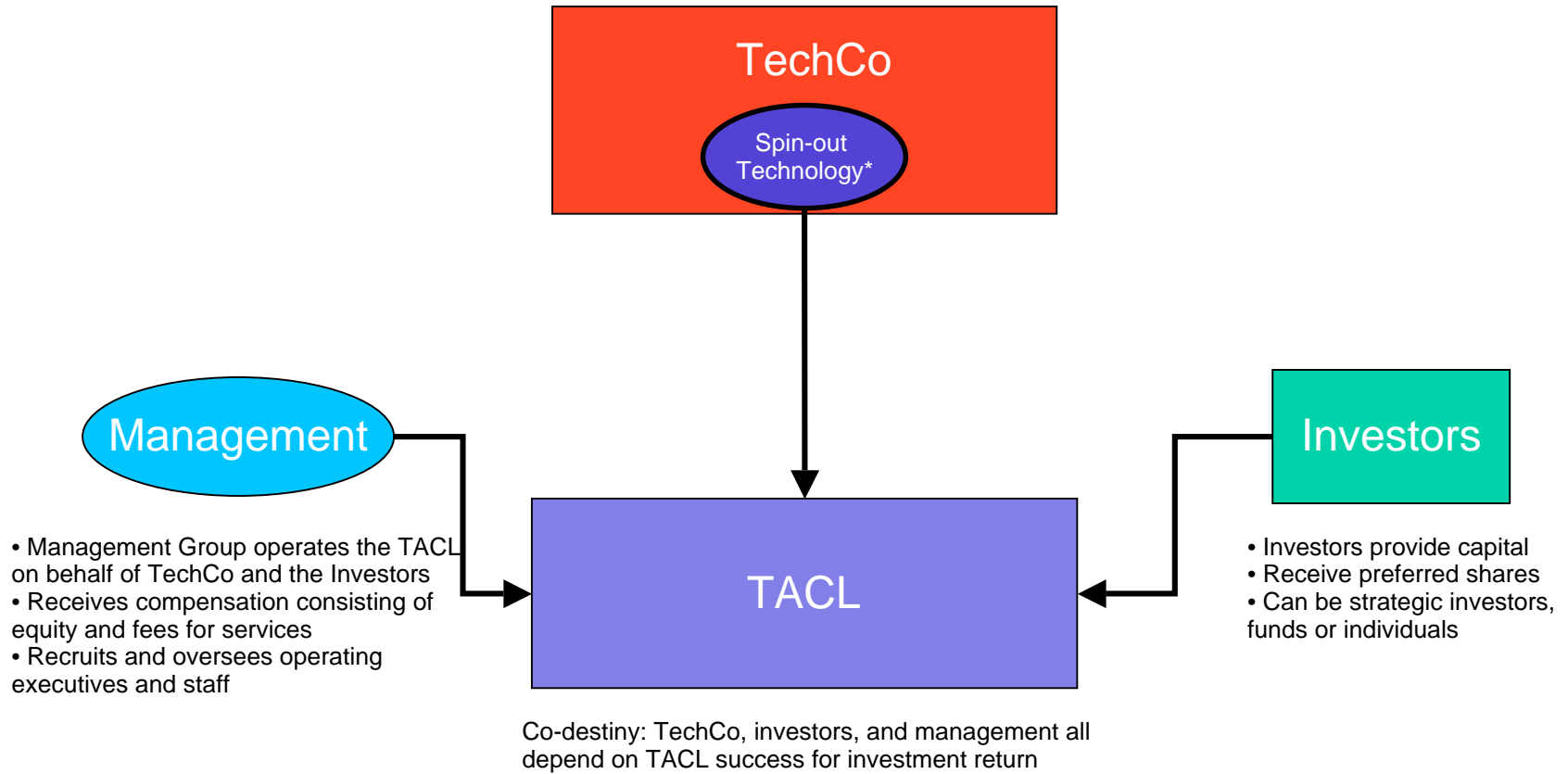
Investor Perspective (cont'd)

- 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

TACL Financial/Equity Structure Options

- Originating Owner May Receive a Combination of the Following
 - Equity in the TACL (typically 20% or less)
 - Possible limited anti-dilution protection
 - Co-investment rights or anti-dilution protection
 - Recurring Cash Flow Instruments
 - Pass through royalty (in lieu of equity ownership)
 - Earn-out (if there are current or pending royalty bearing licenses prior to TACL formation)
 - Promissory Note with an accruing coupon and minimum payments tied to TACL revenue
 - Cash Payment
 - Usually modest (\$500,000 or less)
 - Typically payable 6 to 12 months after the acquisition of the technology.
- Investors Receive:
 - Preferred equity with a liquidation preference; or
 - Convertible debenture (or Promissory Note plus Warrants)

TACL Partner Relationship



*can be multiple technologies

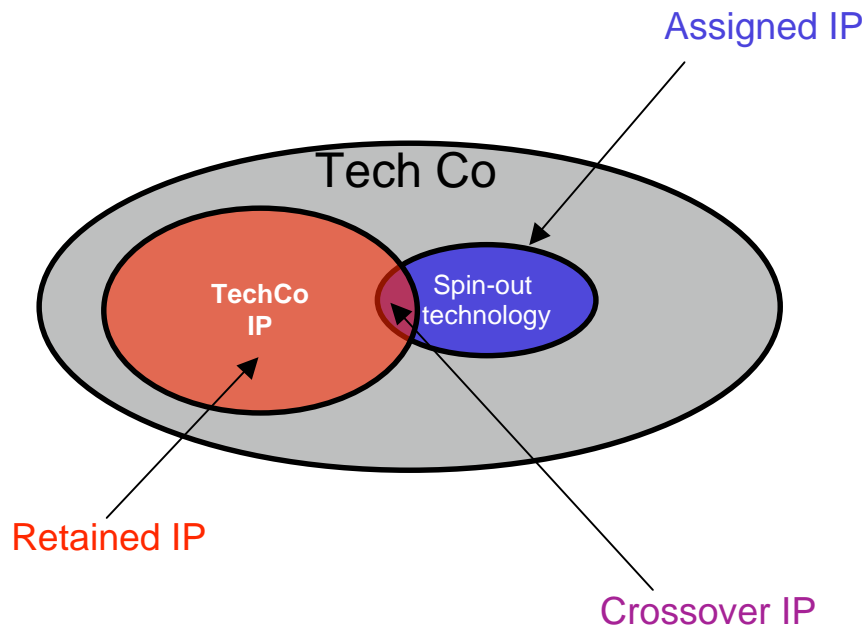
Recruiting TACL Executive Management

- What are the critical skills and expertise?
 - BUSINESS DEVELOPMENT – STRATEGIC MARKETING!
 - Intellectual property strategy and licensing
 - Key skill: Optimizing the demarcation and definitions of the EFOUs.
 - Domain knowledge in the top-level discipline
 - Applied Physics
 - Biology, Biochemistry
 - Organic Chemistry
 - Solid-State Materials and Inorganic Chemistry
 - Electrical Engineering
 - Mechanical Engineering
 - Software and Applied Mathematics
 - Program Management
 - Project Management
 - Budgetary Planning and Financial Controls
 - Managing Contractors and Suppliers
 - Executive-Level Mind-Set
 - Self-starter, self-managed; Able to set the agenda
 - Superior contact database with deep relationships at high levels
 - Superior written and verbal communication skills

Recruiting TACL Executive Management

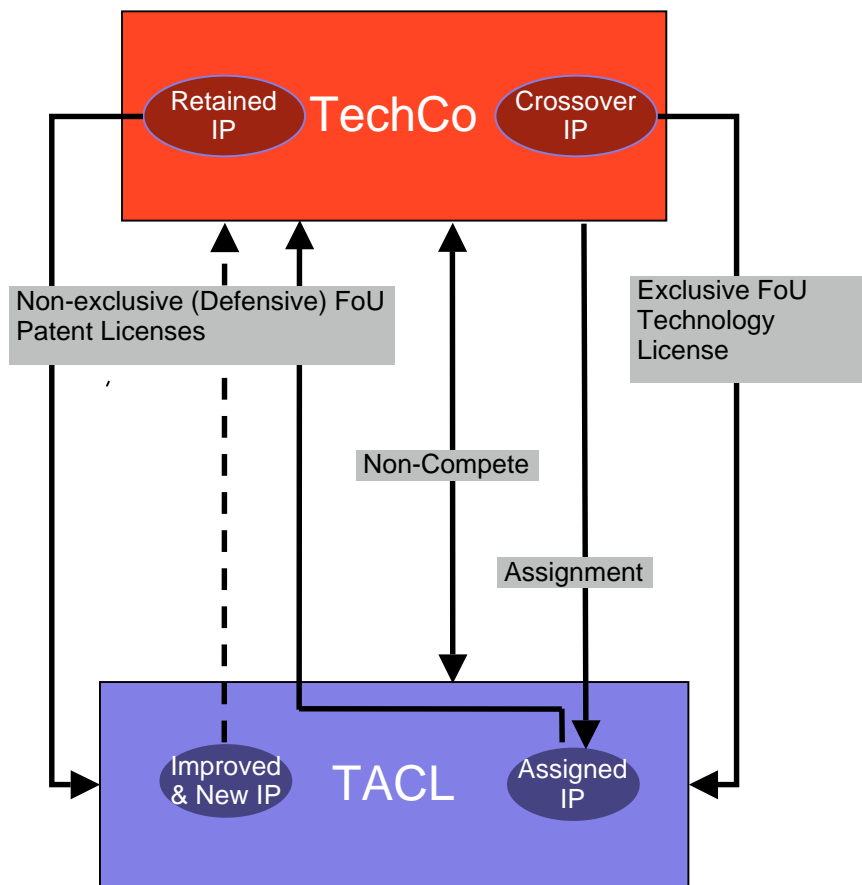
- Where do you find them?
 - Former executives from leading technology companies:
 - C.T.O. / V.P. Engineering
 - V.P. Corporate Development / Business Development / Marketing
 - Business Unit General Managers
 - Licensing Executives.
 - Proven serial entrepreneurs
 - President / Founder of Smaller Firms / Start-Ups
 - VP-Level from Larger Venture-Backed Firms.
- What do they receive?
 - Compensation
 - Median market consultant / contractor fees
 - Equity in the TACL.
 - Career Opportunity
 - New high-quality relationships with industry contacts
 - Visibility into emerging technology.
 - Personal
 - Ability to pick only the opportunities that are “emotionally compelling”
 - Self-management of time commitments.

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

Dealing With Ancillary Issues

- Independent management serves as the expert intermediary to assure fairness to investors and originator.
- Success depends on technology transfer to the TACL to allow technology completion, IP enhancement, and liquidity path execution
 - Typically, employees from the originator do NOT become employees of the TACL
 - The TACL contracts with independent “project executives” and some work may be contracted back to the originator
 - Where possible, key inventors should be retained on a consulting basis
- TACL must be able to transfer know-how and trade secrets to ultimate buyer or choose to pursue the product model/path and raise additional capital and operate as a conventional business

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