



Watching Your Stuff In The: Patent Marketplace 2009 and Beyond

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October 9, 2009

INTELLECTUAL
VENTURES

2009 IS AN INTERESTING TIME IN THE IP MARKETPLACE

Many Free Market Models Have Emerged

Licensing and advisory (e.g. Thinkfire, Ipvalue, iPotential)	<ul style="list-style-type: none"> - Help companies commercialize intellectual property
Auctions (e.g. Ocean Tomo, PL-X)	<ul style="list-style-type: none"> - Organize multiple auctions per year - Sellers include individuals, large companies
Portfolio assertion companies (e.g. Acacia, Mosaid)	<ul style="list-style-type: none"> - Assert individual portfolios
Investment companies (e.g. Rembrandt IP, Altitude Capital)	<ul style="list-style-type: none"> - Private investment companies - Finance later-stage development or litigation
Strategic acquisition companies (e.g. RPX, Allied Securities Trust)	<ul style="list-style-type: none"> - "Catch and release" acquisition - Licenses for investors
Invention Capital companies (e.g. Intellectual Ventures)	<ul style="list-style-type: none"> - Capital + expertise + business models - Build, buy and partner to develop inventions

IP INDUSTRY NOT IMMUNE TO ECONOMIC RECESSION

▣ Current Economic Situation and Maturity of Market Has Created a Large Influx in Assets Available For Sale

- Flood of assets from distressed sellers including former fortune 500
- Scarcity of capital motivating fundraising through IP sales
- Discontinued product plans changing the definition of a “core asset”
- IP department budget cuts mean less R&D and need to become “profit center”

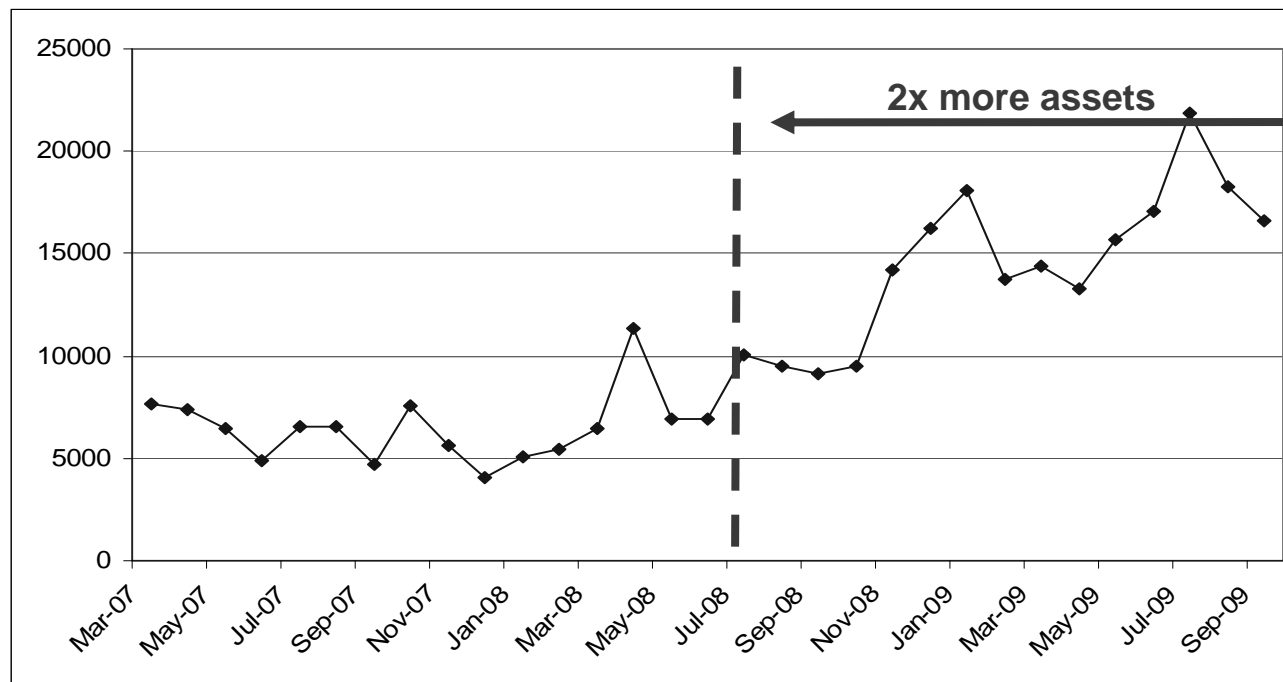


Chart shows total number of assets being actively evaluated by IV

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... AND DEMAND IS RELATIVELY FLAT

- ▶ New entrants have generated a lot of BUZZ but actual purchase volumes are moderate
- ▶ Corporate buying budgets have been reduced
- ▶ Several “new funds” are rumored, but have not seen significant activity yet
- ▶ Low-end market has collapsed
- ▶ Portfolio Aggregators being more selective
- ▶ Acquisitions for Licensing Programs delayed

... IP MARKETPLACE IS DEFINITELY HERE TO STAY AND WILL LIKELY SEE MANY ITERATIONS AS TIME PASSES

MARKET CONDITIONS REQUIRE SELLERS TO ADAPT AND OWN MORE OF THE PROCESS . . .

- ▶ **Buyers have a lot on their plates, so they need:**
 - Complete and accurate information up front – full package
 - More time to evaluate asset quality – realistic timeline and bidding
 - A “champion” who can map the path to a good return on investment

- ▶ **Success today requires sellers to “own most of the effort”**
 - Basic “pitch book” needs to be developed for each deal: level of depth is commensurate with ask price
 - Sellers need reasonable expectations
 - Seller / Agent need to “build the case”: why should I be reviewing?
 - Tell me the Selling process: timeline and \$ expectations
 - Has this patent been litigated? Whom? How far?
 - Has this patent been licensed? To whom? What terms? Who’s left?
 - What percent of the market has been covered?

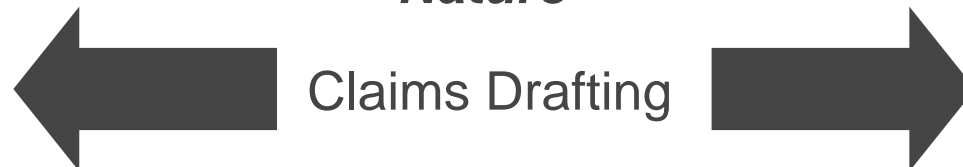
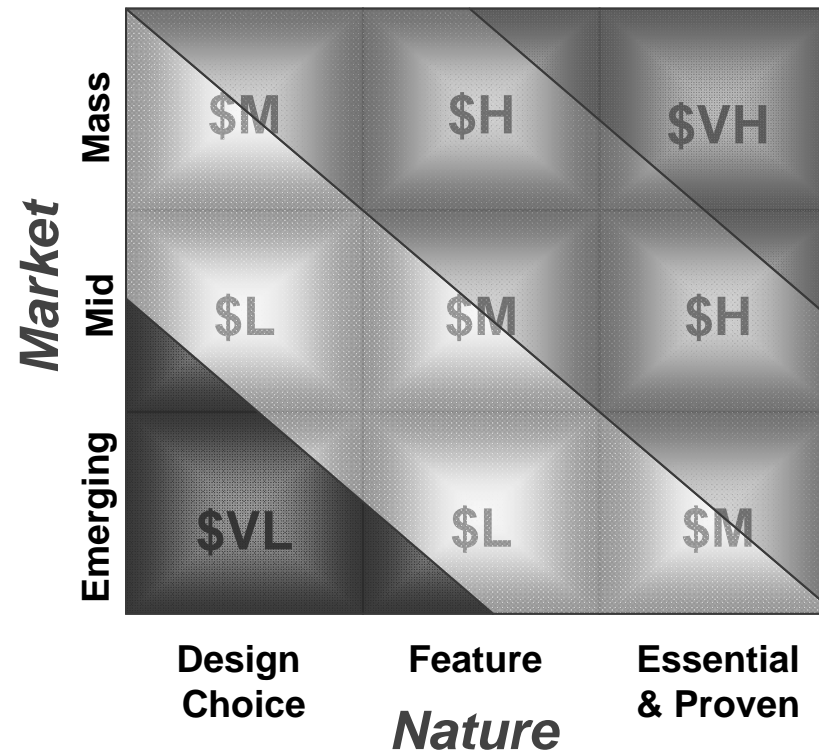
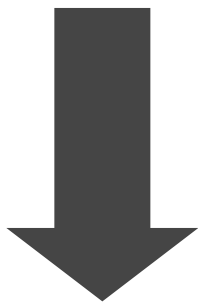
- ▶ **Complete diligence materials are essential to proper valuation**

SELLERS NEED TO PROVIDE THE “INVESTMENT CASE” FOR THE DEAL

- ▶ How strong are the assets?
 - Technical strength – is it used? To what degree?
 - Legal strength – is it valid and enforceable?
 - Large addressable market - where is it used?
- ▶ If this is a portfolio of assets- which ones are the key value drivers?
- ▶ Do you reasonably believe this patent(s) has clear industry adoption?
 - What industry? What specific technology area in that industry?
 - How big is the addressable market?
- ▶ If it is not currently adopted, is this technology likely to be widely adopted in the next 1-5 years? 6-10 years? Life of patent?
 - Why do you think so?
 - Market research; White papers; Trends driving adoption

Dollar Expectations for Sale Should be Relative to Where the Assets Sit on the Valuation Continuum

Licensing
Reduces
Market
Size



SELLERS NEED TO CONSIDER VARIOUS DEAL STRUCTURES

- ▶ Consider breaking down portfolio into marketable lots
- ▶ Programatic sales where repeat buyers do multiple deals are attractive and efficient
- ▶ Back end payouts and issue fees for applications may advance a deal
- ▶ Sales of specific licensing rights are gaining momentum
- ▶ Creative deal terms are getting more attractive
 - IP Sale Combined With Private Equity Infusion

KEY TIPS FOR SELLERS

- ▶ Do your homework for each step of the process
- ▶ Socialize idea of selling patents with your Senior Leadership before embarking down path
- ▶ Consider the pros and cons of doing it yourself vs. involving a 3rd party
- ▶ A solid “business case” for the buyers will pay dividends
- ▶ Set “reasonable” expectations on pricing (both internally and externally)
 - NTP settlements are NOT everyday occurrences
- ▶ Make sure the patents are “clean”- i.e. examine the chain of title

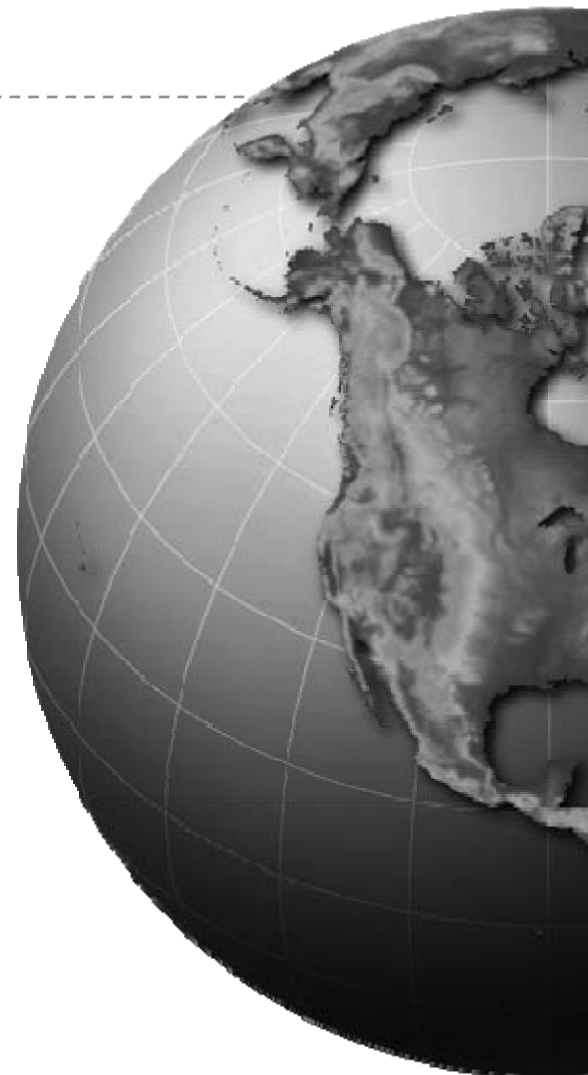
AVOID DISTRESSED SELLER PITFALLS

- ▶ IP is perhaps the most valuable asset – prepare a “life boat analysis”
 - A few WOW! assets well maintained are worth way more than a ton of scraps
 - Build in enough time for a transaction – 90 to 120 days from receipt of Diligence Deliverables
 - Keep current on maintenance fees – Don’t be penny wise and \$ foolish
 - Manage complete families and geographic coverage – Abandon carefully
- ▶ Title must be PERFECT
 - Lock it up with proper assignments and POAs before it walks away with your people
 - Don’t cut corners a bad assignment may be worse than no assignment
 - Don’t plan to rely on Employment Agreements or NDAs see 37 CFR 3.21
- ▶ Buyers avoid “AS IS / WHERE IS” IP deals
 - Prepare to make proper R&Ws through exit interviews
 - Review a Purchase and Sale Agreement in advance so you can deliver
- ▶ Extra special caution applies when Counsel is in chain of title

THANK YOU!

Overview of Intellectual Ventures

- ▶ Intellectual Ventures **invents** and **invests in invention**: investing in Invention is our business
- ▶ We apply **dedicated capital** and **expertise** to an inefficient, emerging market = IP
- ▶ We **build** (inventions), **buy** (inventions) and **partner** with inventors to develop and monetize inventions
- ▶ **Our global invention capital network** includes: large and small businesses, government labs and research institutions, academia and individual inventors



IV Team

Founders

- **Nathan Myhrvold**, former chief technology office, Microsoft
- **Edward Jung**, former chief software architect, Microsoft
- **Greg Gorder**, former partner, Perkins Coie, LLP
- **Peter Detkin**, former vice president and assistant general counsel, Intel

Executive Team

- IV's executive team includes IP, licensing and business executives from many Fortune 500 and leading technology companies including: Microsoft, Intel, AT&T, General Electric, Barclays, Cisco, Hewlett- Packard, Onyx Software, Ocean Tomo, Merrill Lynch, Microvision, Freescale Semiconductor

IV Fast Facts

Founded
in **2000**

HQ Bellevue, WA with satellite offices in
the Bay Area, Chicago, Austin, Washington
D.C. and Asia (Japan, China, Singapore,
India and South Korea).

IV launched an
invention/prototype lab in
2008; nearly 30 researchers
work on a variety of projects

Privately-held
with nearly **\$5B**
under
management
and more than
550 dedicated
team members
worldwide

IV Fast Facts

Investors include a mix of **Fortune 500 companies, university endowments, institutional investors and individuals**

IV's invention portfolios span a wide and diverse range of technologies, more than **30 areas including:**

- Software, ecommerce, financial services
- Consumer electronics
- Wireless, networking
- Semiconductor, hardware, consumer electronics
- Biomedical, energy

Spring 2009 Points of Interest

- ▶ Announced deals with Transmeta and Telcordia highlighting how IV's unique business model can enhance the creation, dissemination, and use of inventions
- ▶ IV's nuclear effort, TerraPower, named by *MIT Technology Review* as an emerging technology that can change the world
- ▶ *WSJ* reported front-page story in March on some of our efforts with the Bill and Melinda Gates Foundation to eradicate malaria
- ▶ More than 100 invention sessions to date
 - > 2,000 patent applications filed since first invention session, August 2003
 - > 60 patents granted
- ▶ Investment started in 2003
- ▶ More than 25K IP assets under management
- ▶ \$1B in licensing revenue
- ▶ \$300M paid out to individual inventors

Spring 2009 Points of Interest

- ▶ IV continues ongoing invention development effort dedicated to partnering with universities and research labs to fund invention work
 - Investing in invention on a global scale
 - Primarily focused in Asia
 - Some U.S.-based universities as partners
 - To date IV has worked with hundreds of universities worldwide

IV Laboratories in Bellevue, WA launched in 2008

- ▶ Support inventors with in-house research, test and prototyping capabilities
 - 27,500 square foot facility
 - State of the art computerized machine shop
 - ▶ 5-axis mill, water jet, EDM, laser machining
 - ▶ FDM rapid prototyping (“3-D printing”)
 - Electronics, photonics, biochemistry facilities
 - Visible and electron microscopy/microanalysis
 - Focused on global health, biomedical and surgical devices, climate issues, and consumer electronics

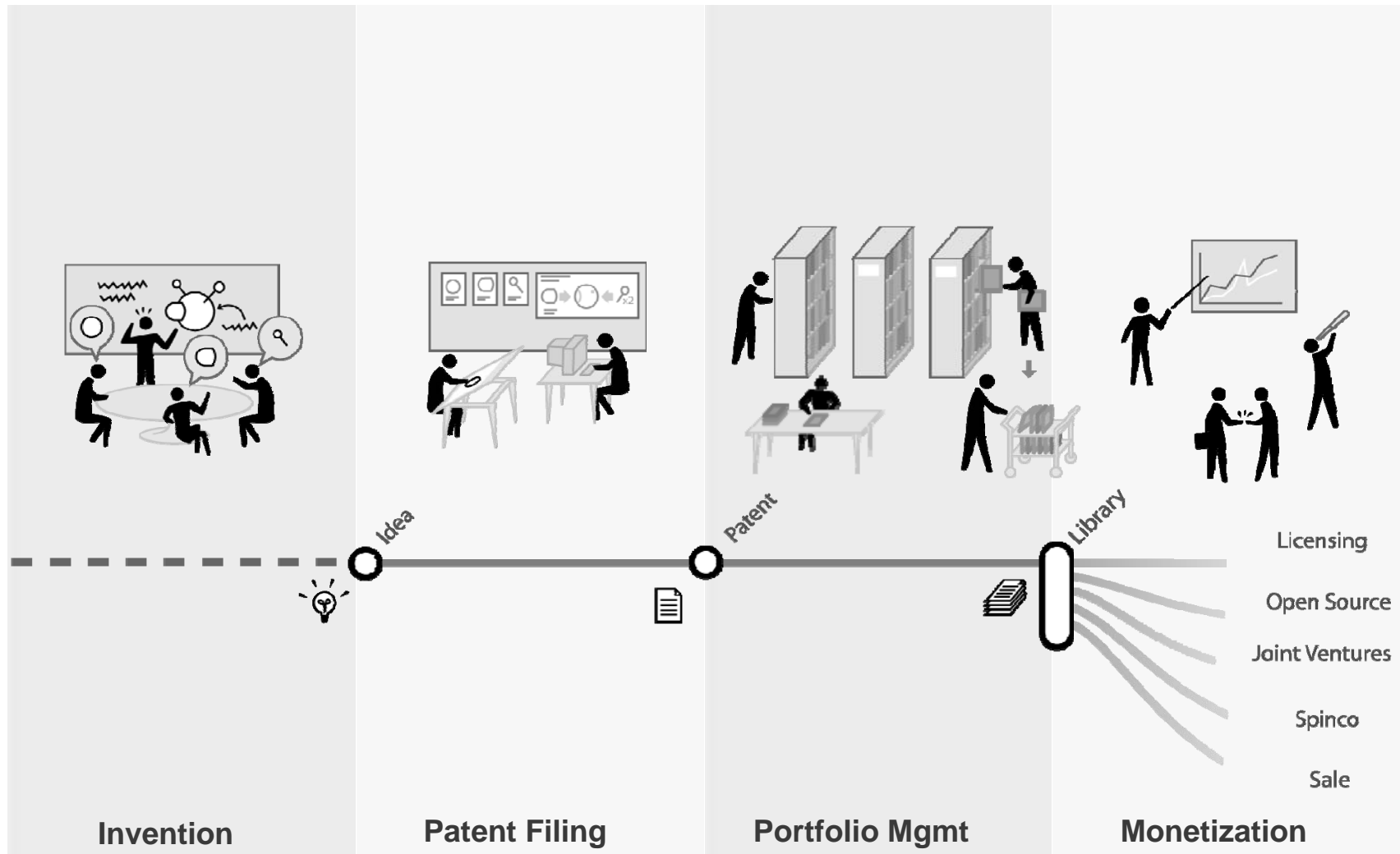
***“To invent, you need a good imagination and a pile of junk”
– Thomas A. Edison***

Go-to Market Plans

- ▶ IV will broadly market and license its invention portfolios across a variety of industries
- ▶ Specific licensing models depend on industry, customer needs and IP product
- ▶ IV will also launch spin-out companies, do joint ventures, join consortiums, sell IP assets, donate inventions



Investing in Invention



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Outline of IV's business

- ▶ IV's model is often described as part V.C. and part private equity
- ▶ VC: **We fund the creation of inventions** – primarily our own
- ▶ PE: **We invest in others' inventions**
- ▶ IV also **partners** with select research labs and universities **to develop early stage ideas**
- ▶ **IV provides *Invention Capital***

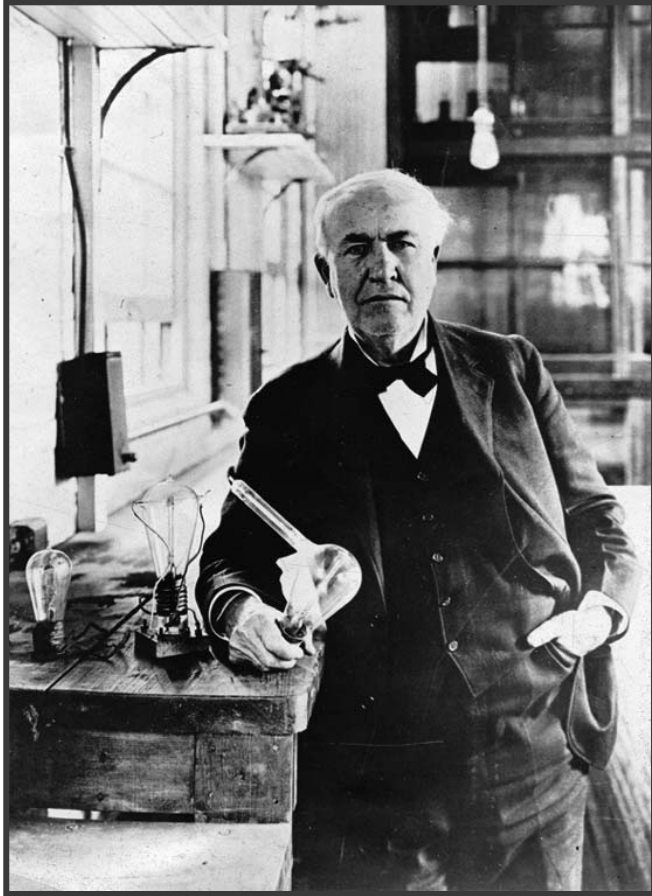


Invention Capitalism model: New idea w/old roots

- ▶ Invest in invention directly
 - Not in companies
- ▶ Treat inventions as an asset
 - Securities, real estate treated this way
 - Inventions are not
- ▶ Offer prolific inventors new opportunities and incentive to play the game
- ▶ Provide existing companies new sources of innovation



Invention Capitalists in History



- ▶ Edison invented model
- ▶ Most invention capitalists have been inventors
 - Thomas Edison
 - Edwin Land
- ▶ Limited to their own inventions
- ▶ Discrete examples but not a movement

Invention Capital Promise

The Opportunity

- Inventors before they have their next big idea (professors, consultants, small companies, retired, etc.)
- Fund them to create inventions

The Bet

- Create great inventions
- Able to monetize inventions outside a company

The Exit

- Licensing, joint ventures, spin outs, sales

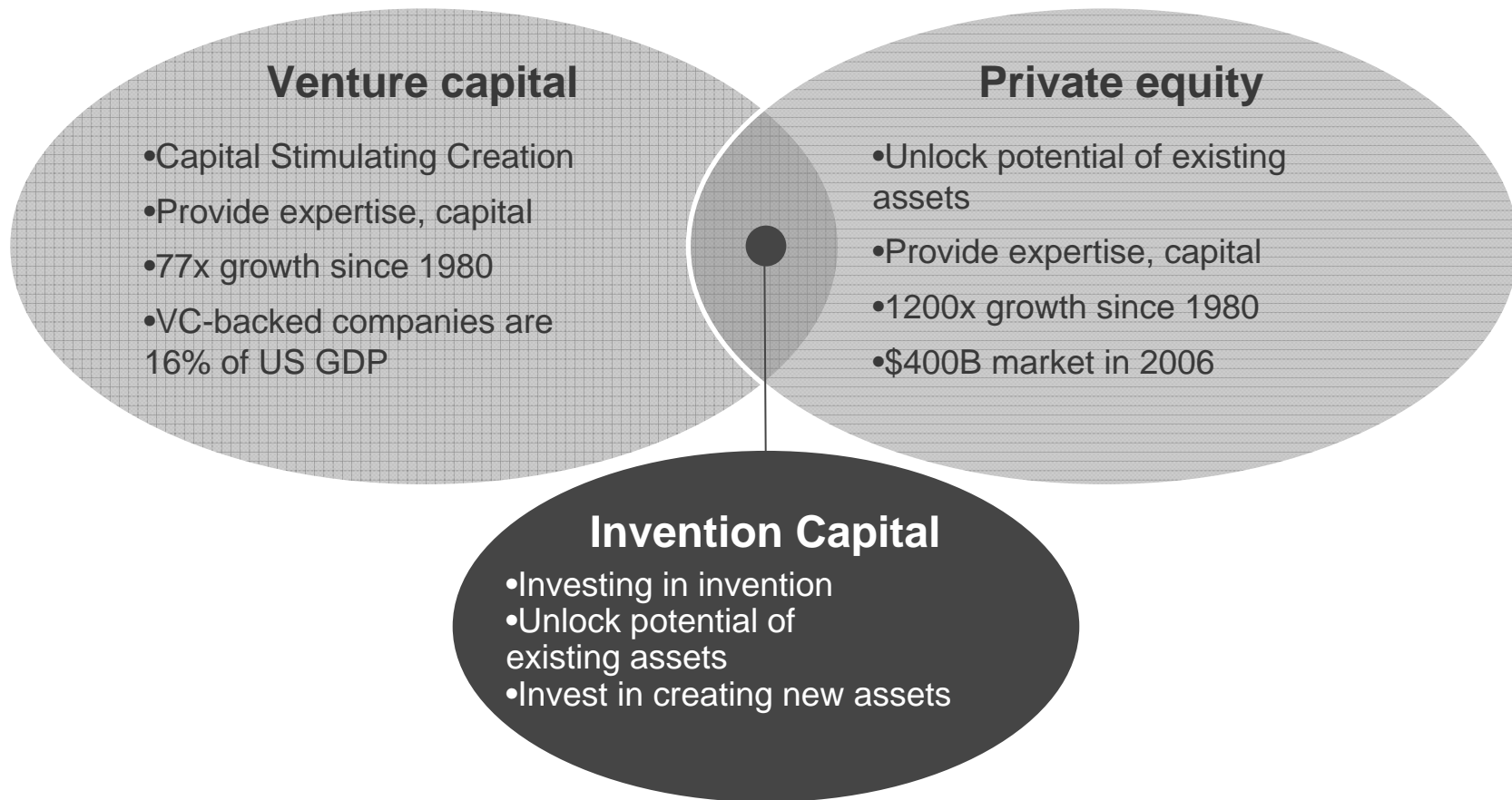
Secret Sauce

- Picking inventors, monetizing inventions

INVENTION CAPITAL

Inventions As Assets

Separates capital from invention in the VC/PE model



Contact Information

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