Patent Secondary Market

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Longboard – Case Study

- Longboard developed fundamental VoIP technology used in SIP-based VoIP products
- Longboard’s cash was running low and considered selling patent portfolio
- Longboard received a pre-emptive offer to purchase their patent portfolio for $1,500,000
- Longboard’s BoD referred to IPotential
- IPotential analyzed patents and presented information to prospective buyers
- IPotential sold the patent portfolio for > $5M in two separate lots
IPotential - We Value & Monetize Patents

> $270M in patent sales for our customers

> 50 Strategic Board/C-level projects

> $800M in licensing revenue for our customers

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Market for Stand-Alone Patents (High/Low Estimate $M)

- **1H'08 Peak of Supply & Demand**
- **Growth of Dedicated Corporate Purchasing Programs**
  - (keep out of hands of IV/NPE's and hit threats)
- **Altitude, Coller, and other investors expand**
- **Decrease in Corp. Budgets, IV Shifts, Investors more selective**
- **Ad Hoc Corporate Purchasing**
- **Intel Starts 1st Corp. PP Program**
- **IV Starts Buying**
- **1st IPotential Sale > $10M**
- **1st OT Auction**
- **Rapid expansion of intermediaries: Buy/Sell Side brokers, Auction Houses, on-line exchanges**
  - IPotential, Inflexion Point, Pluritas, Ocean Tomo, ICAP -

*IPotential estimates from various sources*
The Buyer’s and Seller’s Dilemma

**Buyer’s Dilemma**
- High barrier to entry/no “MLS” for patents
- Due diligence is expensive and very difficult
  - Requires experienced, specialized skills
  - Requires access to hard/impossible to obtain data
- Lots of opportunities, limited budget
- Unknowledgeable sellers/intermediaries makes process challenging

**Seller’s Dilemma**
- Usually first time sellers with little/no knowledge of market
- No idea on what is a fair price for the assets
- Little to no knowledge of or access to buyers
- Unable to provide buyers a concise articulation of value of patents
- Confidentiality, PR, and other concerns
How Patents are Valued by Buyers

- Value is contextual (to buyer)
- Primary drivers:
  - Likelihood of infringement
    - Claim breadth and coverage
    - Demonstrated infringement today
    - Applicability to standards
  - Ease of detection and ease of design around
  - Affected revenue (current/future)
  - Validity - early date, limited concerns
- Other factors:
  - No encumbrances (existing licenses, cross-licenses, standards affiliations and involvement or govt. Funding)
  - Clear title history
  - Certainty of information
- Different levels of analysis based on price, etc.
Buyer’s Dynamic

Buyer Type

**Product Company**
Use patents defensively or offensively to support operating business

**Patent Aggregator**
Obtain non-exclusive licenses for members

**Patent Investor**
Use as “business assets” to generate revenue

Value to Buyer

- Hit specific IP threat
- Build strategic patent position
- Take patent “off the street”

- Value to existing members
- Share (pool) cost of acquiring
- Value as recruiting tool

- Total revenue opportunity
- ROI (estimated income and relative risk)
- Ease and cost of extraction
Sales Process Akin to M&A

2 - 3 Months

- Develop Marketing Program & Prepare for Active Marketing
- Obtain complete list of assets, patent files, license agreements, and other relevant info
- Confirm relevance of the patents to current and future products and markets
- Determine amount of impacted revenue
- Develop marketing materials
- Fix any issues with chain of title, licenses, etc.

2 - 4 Months

- Contact and Market Patents to Potential Buyers
- Clearly articulate value of patents to all prospective buyers
- Assist buyers in their review
- Manage confidentiality issues
- Facilitate buyer due diligence
- Manage bidding process

1 - 2 Months

- Negotiate and Close
- Manage bidding process amongst active bidders until top is selected
- Negotiate Patent Purchase Agreement
- Complete post-sale requirements
- Transfer files
- Assign patents to buyer
- Funds transfer

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Thank you!

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Keys to a Successful Patent Sale

- Robust marketing materials
  - Concise articulation of value of patents
    - Find/document infringement & impacted revenue
    - Tailor to prospective buyers
  - Anticipate & answer buyers’ questions
- Build interest across many buyers
  - Get it in front of the right buyers
  - Talk with the right people (legal department)
- Provide time to evaluate and decide
- Experienced and results-oriented sales team