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The Evolving IP Marketplace

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OCEAN TOMO
INTELLECTUAL CAPITAL EQUITY

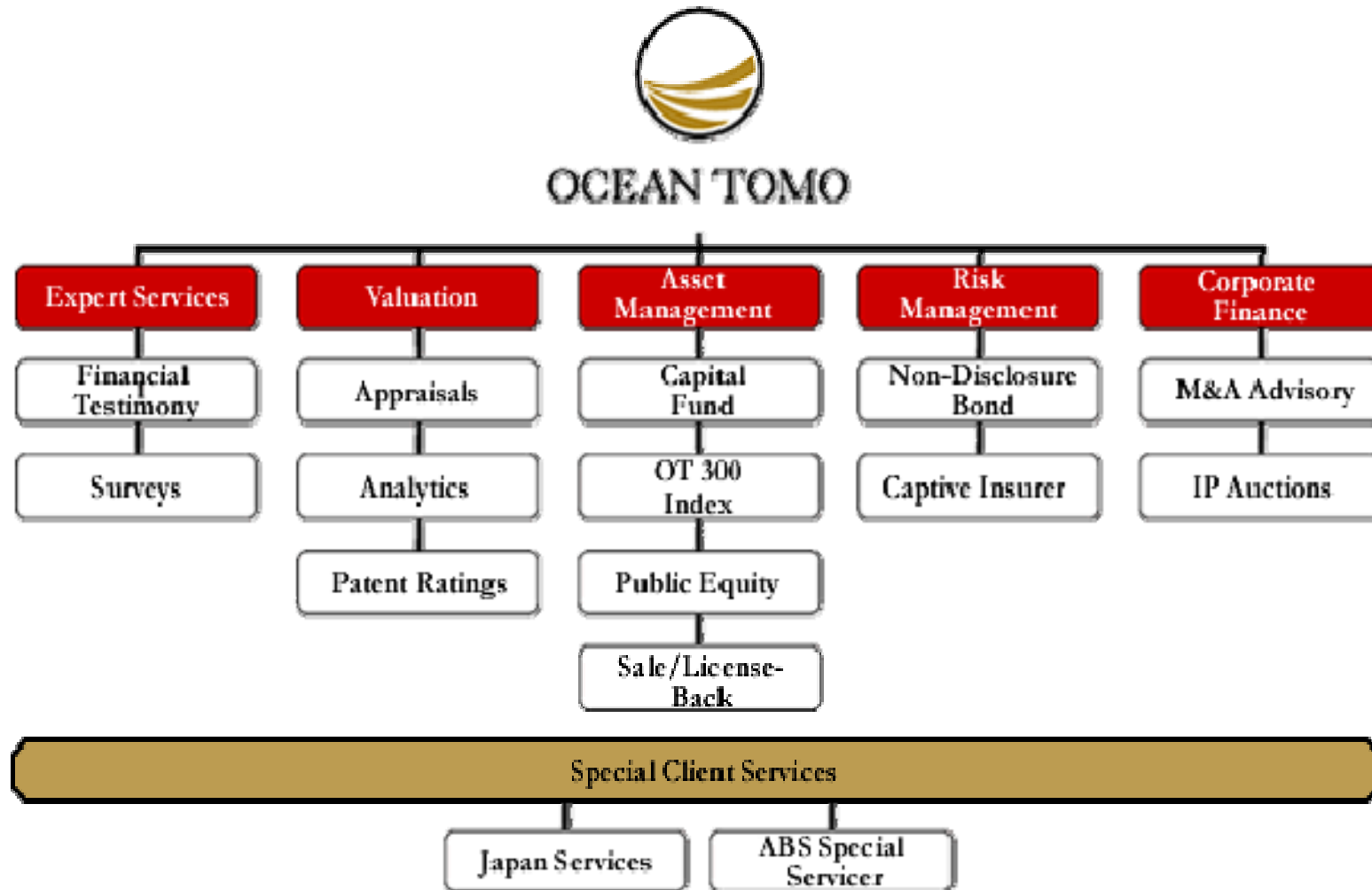
Agenda

1. Introduction to Ocean Tomo
2. IAM v. Asset Management
3. The IP Marketplace and the IP Auction
4. IP in Investing and Financial Transactions

What is Ocean Tomo?

- Ocean Tomo is an intellectual capital merchant bank offering intellectual property related: expert services, valuation, asset management, risk management, corporate finance and analytics.
- Ocean Tomo is employee-owned and independent.
- At Ocean Tomo, our focus is on Intellectual Capital Equity® management services broadly defined. Our goal is to assist our clients - corporations, law firms, governments and institutional investors - in maximizing value from their IP.
- We seek to capture benefits inherent within the rapid growth of intellectual property as an asset class.
- We target value creation and measurement at the intersection of intellectual property and private finance.
- We are not Trolls! 😊

Ocean Tomo Overview



Intellectual Property Asset Management

- Intellectual Property (*i.e.*, patents, copyrights, trademarks, trade secrets) are assets
- A Collection of IP assets = a “Portfolio”
- Portfolio Management is nothing new in other asset classes
- But IP Portfolio Management or “IAM” is relatively new

IAM Magazine was only launched in 2003!



Your [Client's] Current Resume

John Doe, Esq.
123 Main St.
Anywhere, USA 12345

Fortune 500 Company, Inc., Anywhere, USA *2003 to present*
Chief IP Counsel

- Responsible for **managing** company's intellectual property portfolio.

Business Week: Best Fund Managers 2006

* Returns as of 2/28/06

<u>Fund Name</u>	<u>Fund Manager(s)</u>	<u>Performance</u>		
		<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
T. Rowe Price Equity Income	Brian Rogers	7.56%	18.57%	6.72%
Legg Mason Value Trust	Bill Miller	8.43%	20.12%	4.42%
Janus Mid Cap Value	Thomas Perkins Robert Perkins Jeffrey Kautz	12.95%	24.73%	13.13%
Oppenheimer Main St. Small Cap	Nikolaos Monoyios Mark Zavanelli	19.31%	29.69%	14.09%
Stratton Growth	James Stratton	11.48%	29.75%	12.62%

Your [Client's] Real Resume!?!?

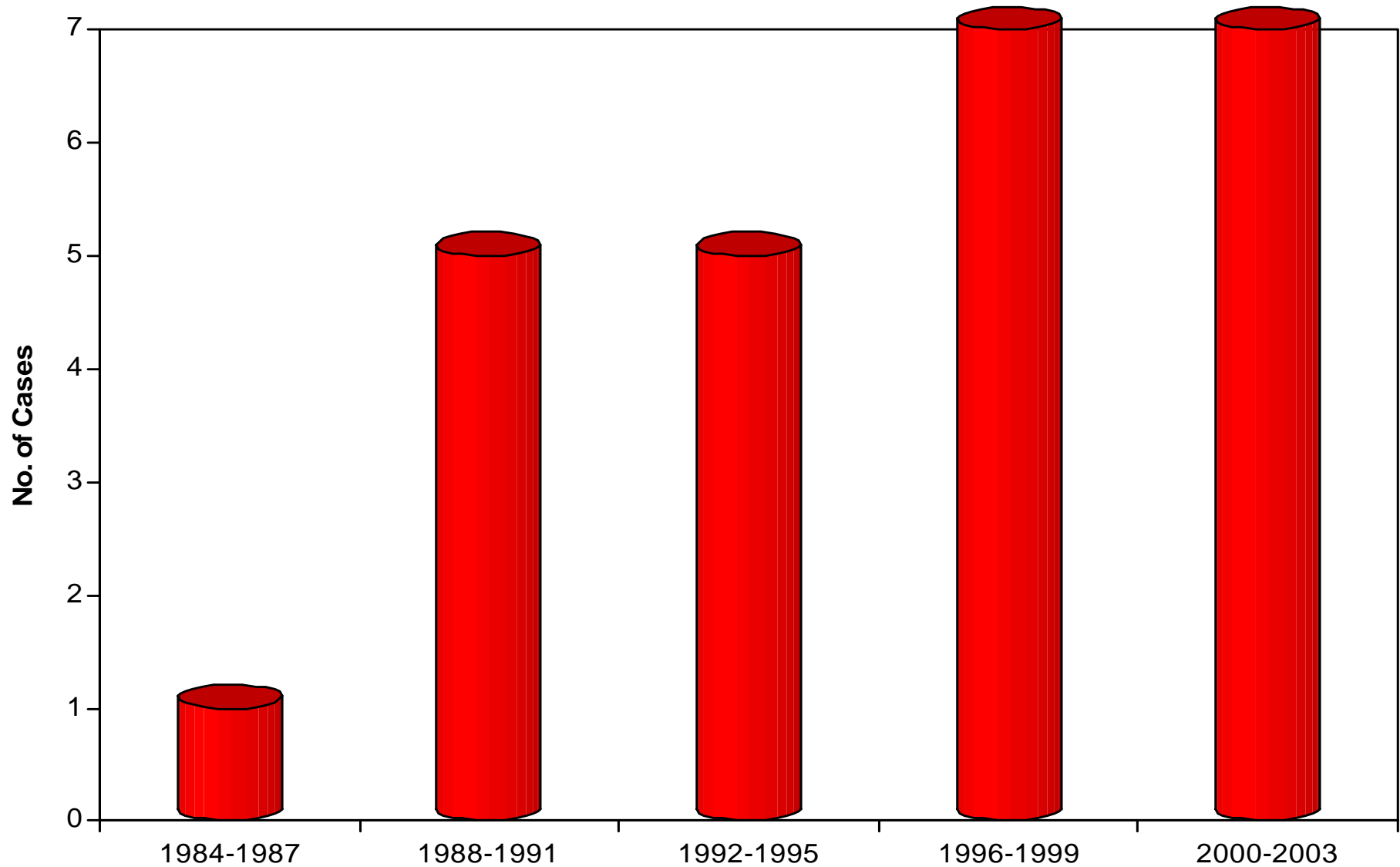
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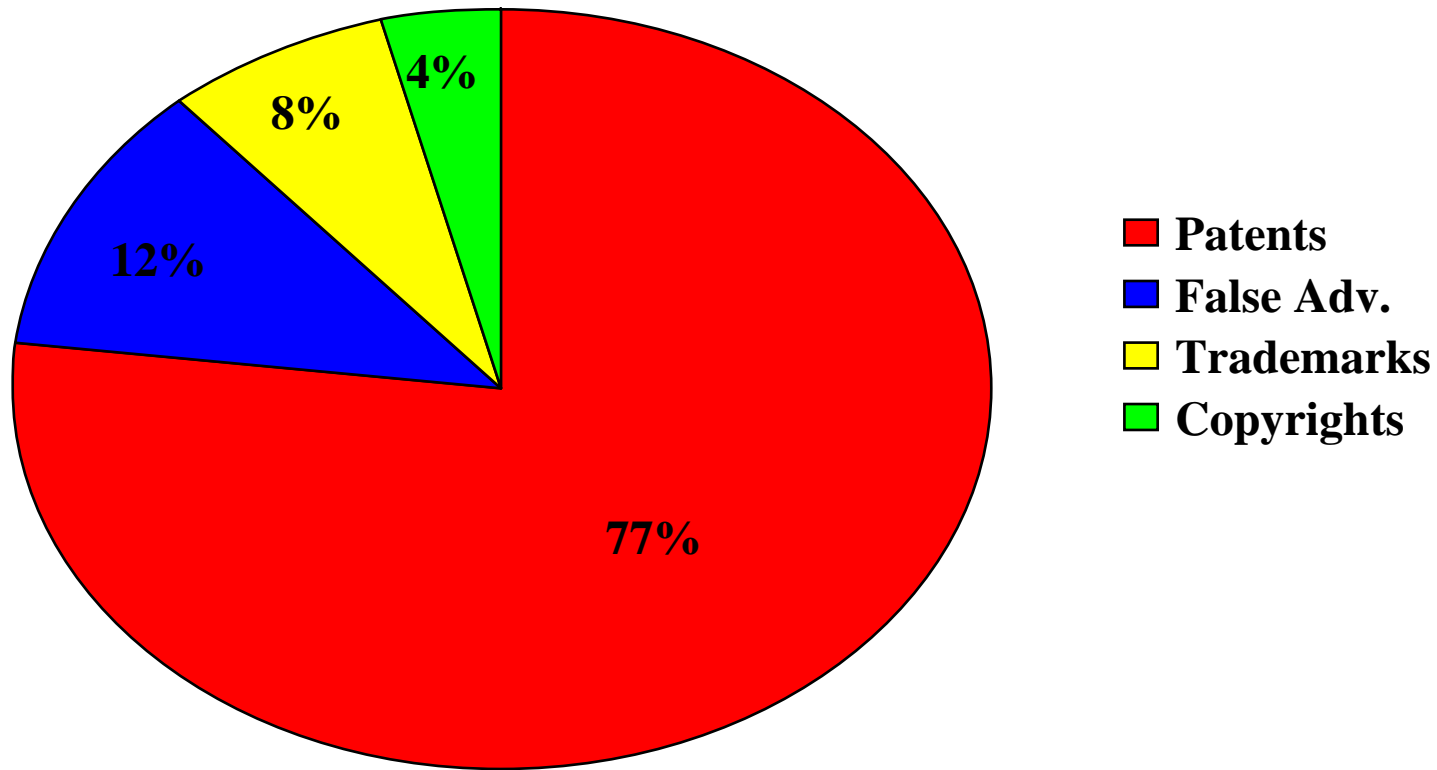
- Responsible for **managing** company's intellectual property portfolio collection activities.

Why Do I Care? The Coming of the IP Class Action!?

An Informal Study by Ocean Tomo



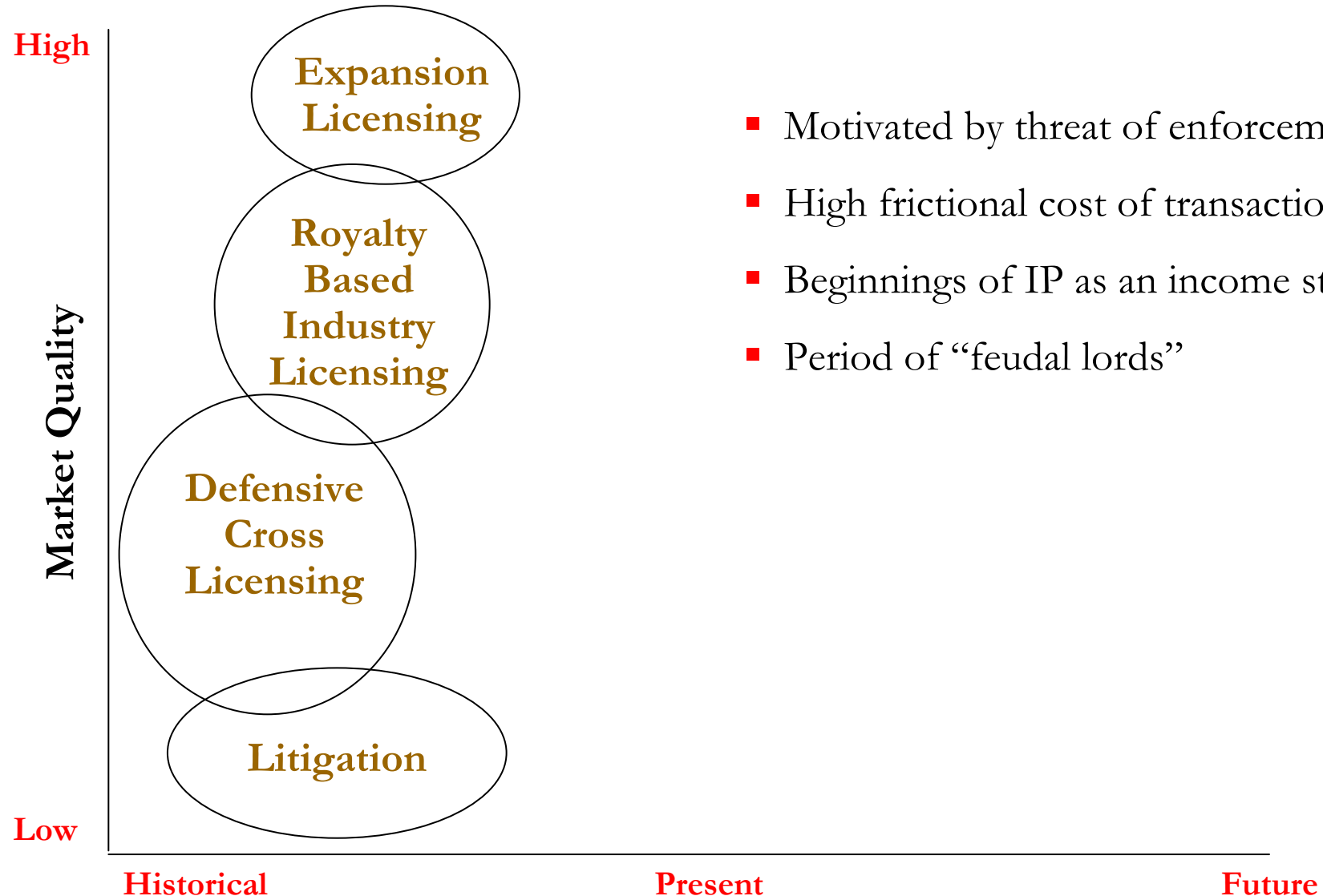
IP Class Action Cases by Asset Type



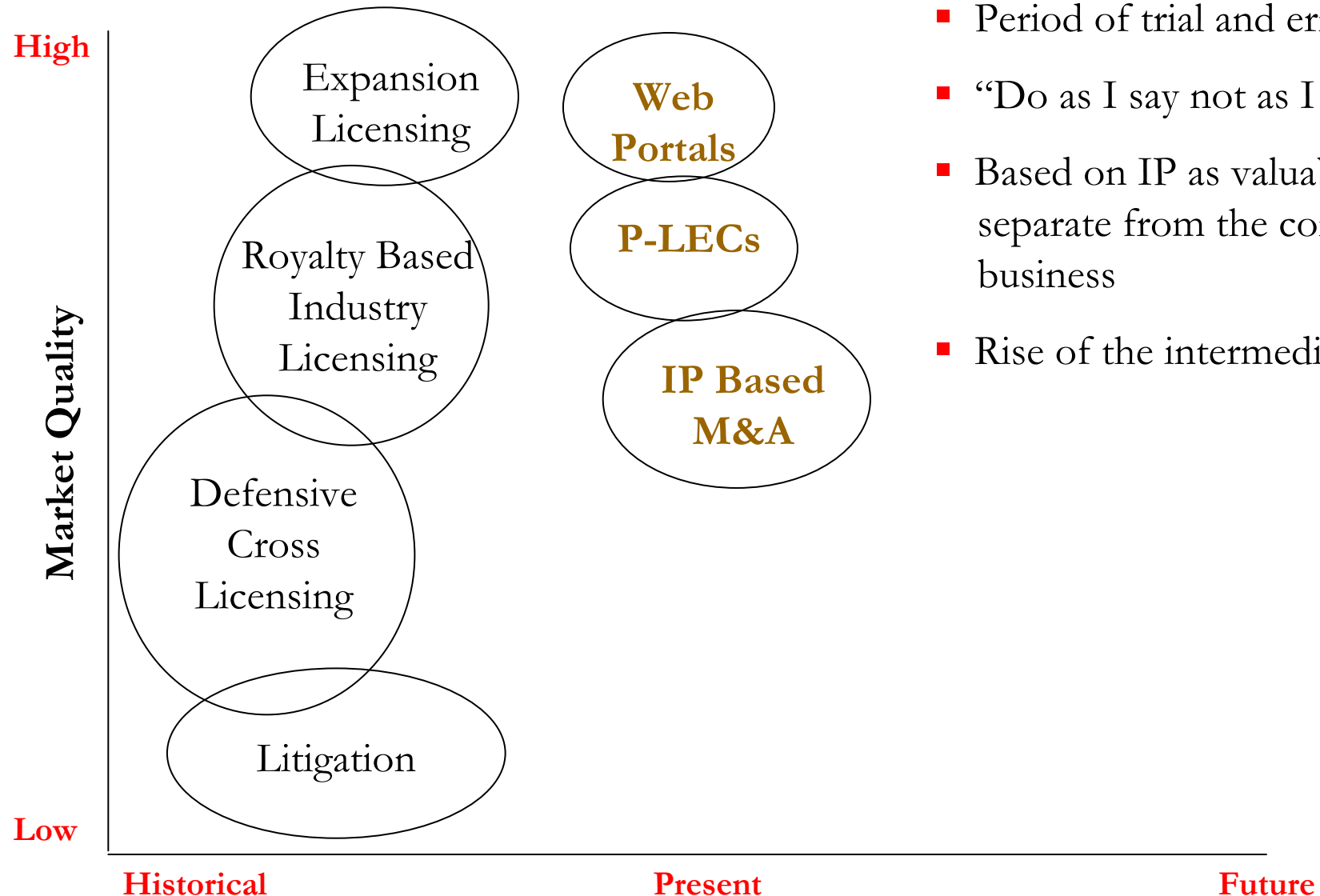
IP Class Action Cases – Patents/Technology

- False assertion of patent coverage
- Failure to disclose adverse facts regarding patent enforcement efforts
- Failure to disclose inadvertent lapse of key patent maintenance fees
- False claims regarding licensing agreements
- Promotion of technology known to be not technologically feasible
- False claims regarding exclusivity of company licenses
- Promotion of known invalid patents
- Wasting of corporate resources in patent infringement suit without merit
- False statements in stock prospectus regarding technological capabilities
- Payment of royalties to inventors after patent expiration
- Misleading claims in prospectus that company had new patents

IP Marketplace: The Past

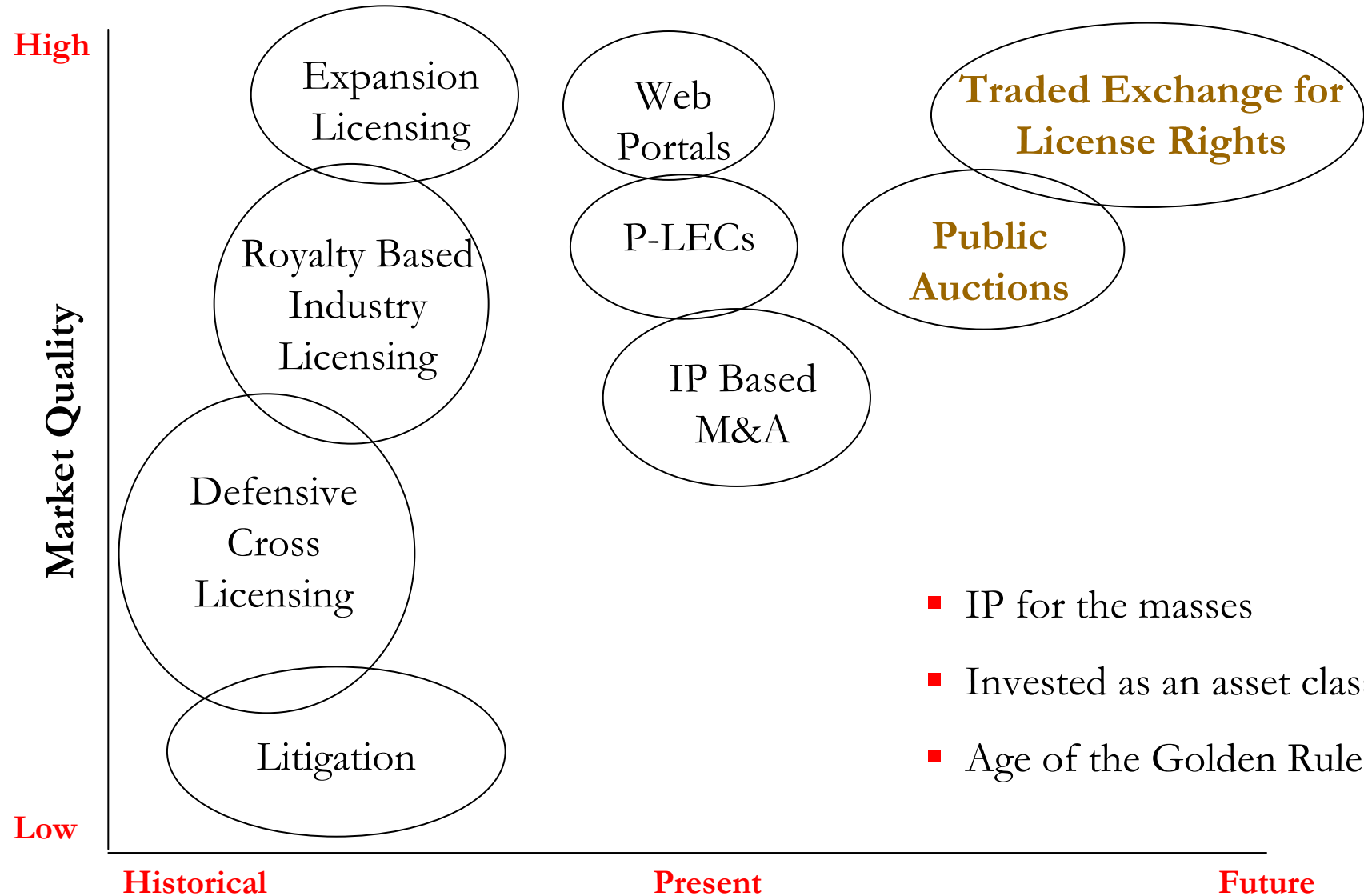


IP Marketplace: The Present



- Period of trial and error
- “Do as I say not as I do”
- Based on IP as valuable separate from the core business
- Rise of the intermediaries

IP Marketplace: The Future



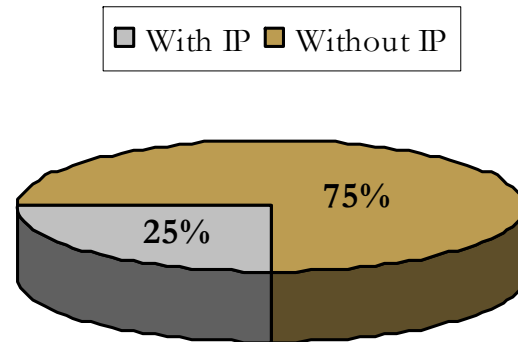
At Ocean Tomo, The Future (Auctions) is Now!

- On April 5-6, 2006, Ocean Tomo hosted the first-ever, live *Patent Auction* at the Ritz-Carlton in San Francisco
- 450 patents offered for sale in 78 lots
- Nearly 400 attendees, two dozen print reporters and CNBC TV
- Twenty six of the 78 patent lots available for auction were sold on the floor for \$3,026,000 including the buyer's premium—a success rate of 33%
- A number of lots reached terms off the bidding floor with additional value of \$5,925,000

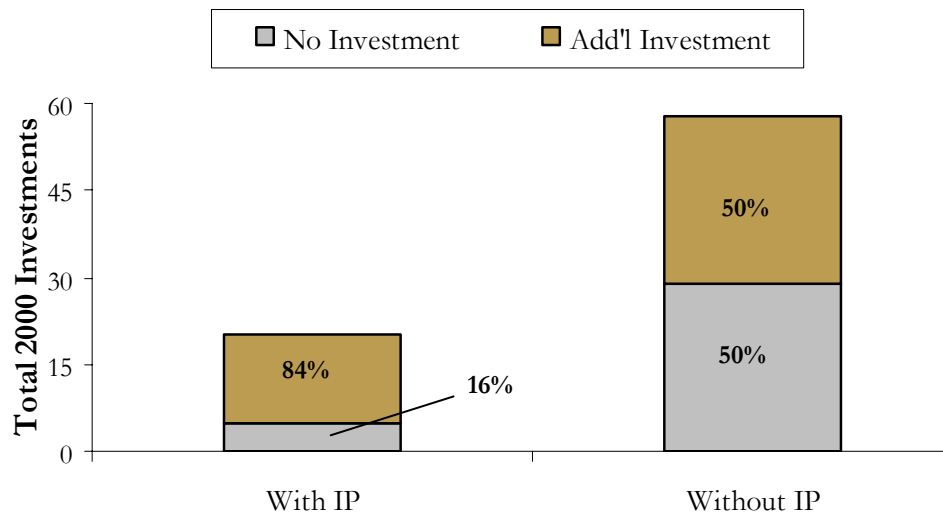
- Ocean Tomo will also host the first-ever, live *Patent, Trademark and Copyright Auction* to be held in New York City on October 24-26 at the Ritz-Carlton Battery Park.

Private Equity & IP

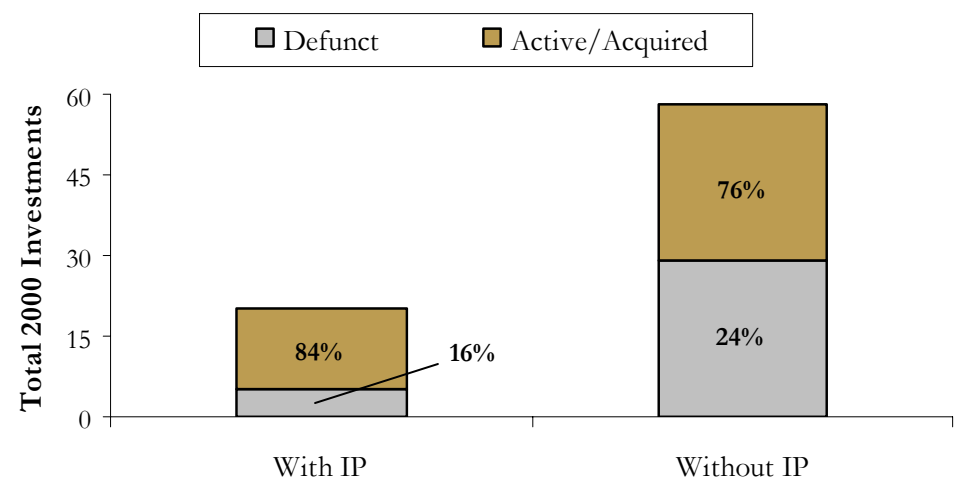
2000 Venture Capital Investments by Type¹



2000 Venture Capital Investments with Additional Funding¹



2000 Venture Capital Investments by Status¹



¹ Based on VentureExpert search of seed and early stage investments in 2000 by Sierra Ventures, Sequoia Capital, Accel Partners, Kleiner Perkins, and Bay Partners.

Private Equity: The Ocean Tomo \$200M Capital Fund

The Fund utilizes Ocean Tomo's core valuation expertise as a platform for identifying and investing in companies with under-valued IP.

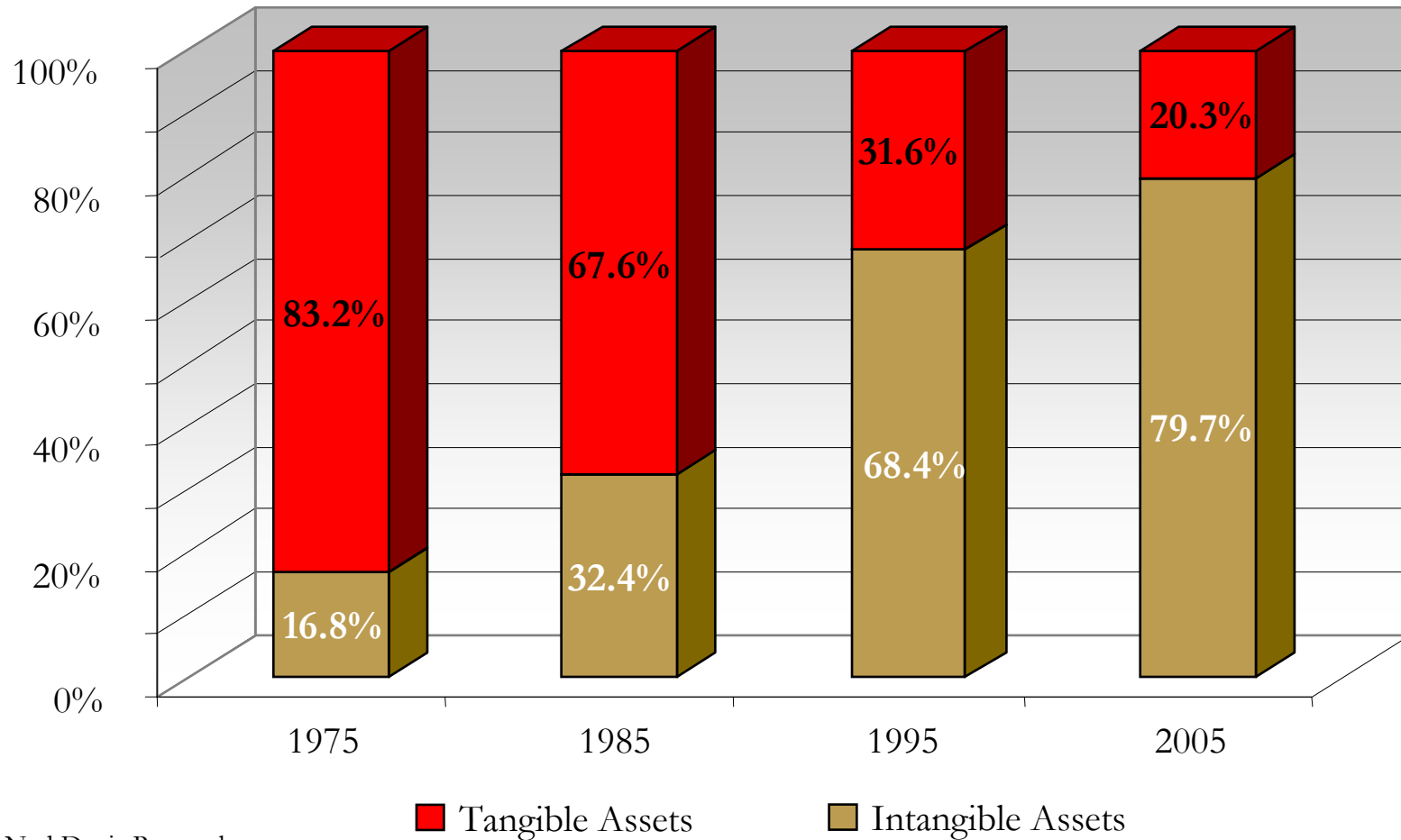
- **Strategy:** Target middle market companies with strong intellectual property assets and structure debt or equity investments in accordance with a company's financing needs.

- **Products:**
 - Mezzanine debt secured by IP, primarily patents and trademarks
 - Equity investments in companies where Ocean Tomo's IP expertise can significantly increase shareholder value

- **Terms:**
 - Cash pay interest plus non-cash pay component or warrants
 - First lien on IP assets preferred
 - Maturity not to exceed useful life of collateral

IP & Public Equity

Components of S&P 500[®] Index Companies' Market Value

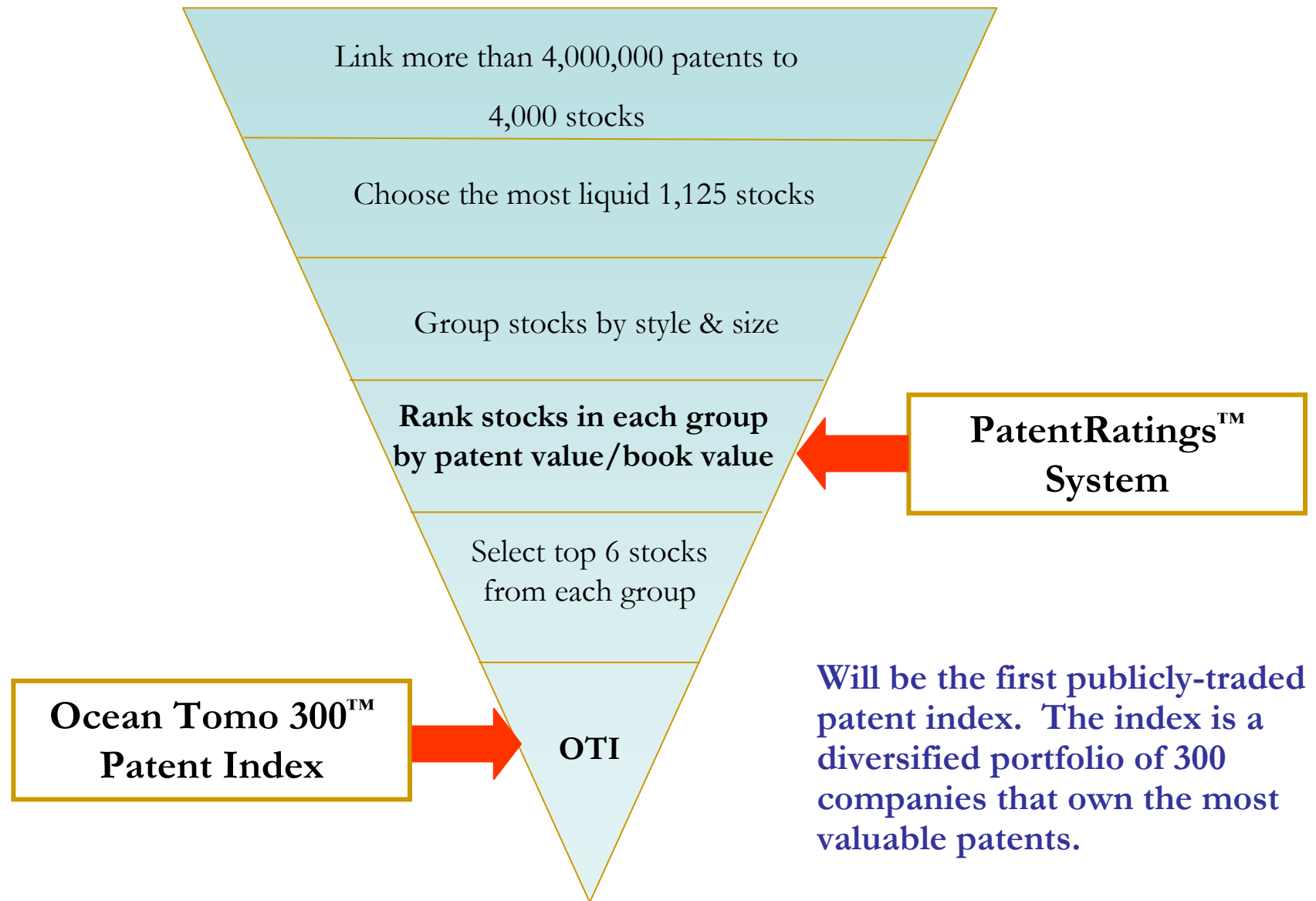


Source: Ned Davis Research

A Need for an Investable IP Asset Class?

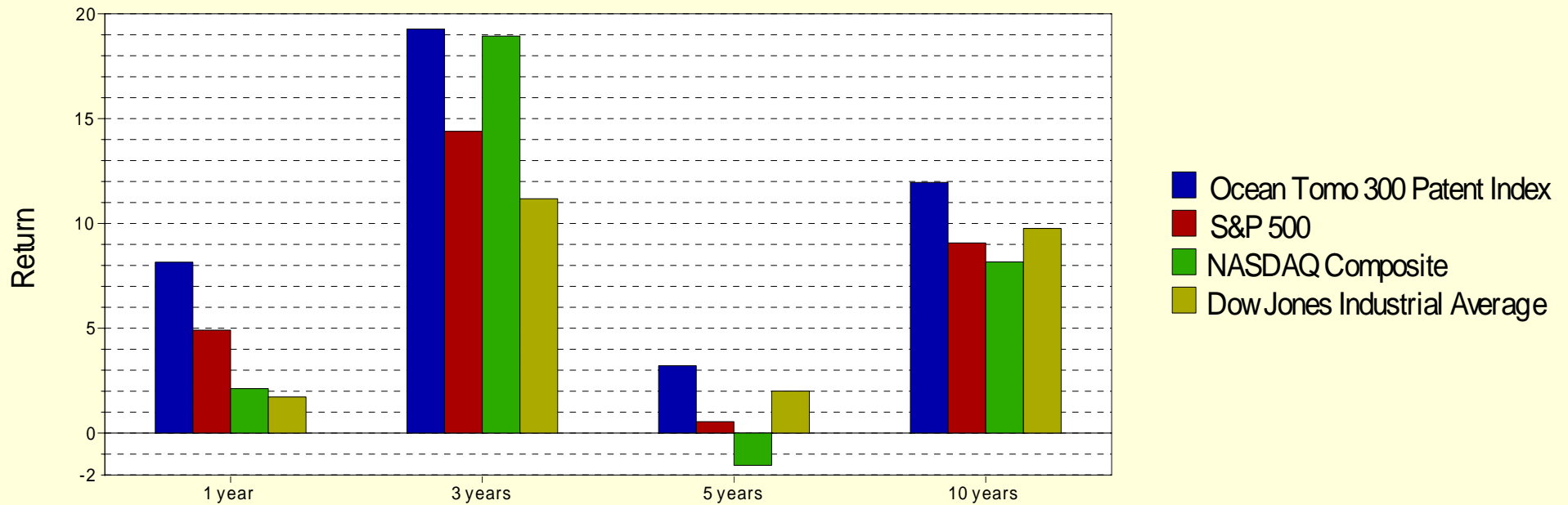
- Labor & industrial economy is past; knowledge economy is now and the future
- Intangibles have replaced tangible assets to give companies their competitive advantage
- Intellectual property currently is difficult to value, inefficient, and not investable
- Investing in stocks with valuable patent portfolio may allow investors to commit a meaningful and sustainable portion of their assets to intellectual property
- **Thesis: The stock of a company with valuable a patent portfolio will outperform most other investments!?**

Creation: The Ocean Tomo 300™ Patent Index



Manager vs Benchmark: Return through December 2005

(not annualized if less than 1 year)



Manager vs Benchmark: Return through December 2005

(not annualized if less than 1 year)

	1 year	3 years	5 years	10 years
Ocean Tomo 300 Patent Index	8.16%	19.28%	3.21%	11.96%
S&P 500	4.91%	14.39%	0.54%	9.07%
NASDAQ Composite	2.12%	18.94%	-1.54%	8.17%
Dow Jones Industrial Average	1.72%	11.18%	2.01%	9.76%

What is the PatentRatings™ System!?

1. System Was Invented by nationally-recognized IP Attorney, Jonathan Barney
2. **Patent protected (USP 6,556,992; April 29, 2003) software platform which provides real-time objective statistical analysis of patents and patent portfolios**
3. Consists of a set of proprietary methodologies and metrics to deliver instant objective patent ratings and results
4. **System has evaluated, ranked, mapped and valued all currently in force US patents; updated weekly with new patents and IPQ™ scores recomputed monthly**
5. First and only objective rating method proven to have a significant correlation to patent quality and potential value
6. **Only credible real-time patent rating system in existence**
7. Ranks patents using a peer reviewed statistical regression model
8. **Evaluates over 50 individual intrinsic and external “metrics” from each patent**

The Future: Uses for An Investable IP Asset Class

- Allows investors to commit a sustainable and meaningful portion of their assets to the leading asset class of the knowledge economy
- **IP can increase return and/or reduce risk to an existing portfolio**
- IP is prevalent in all economic sectors and therefore can increase the return profile of any mandate whether large cap or small cap, value or growth
- **The asset class has similar return characteristics of private equity, yet it is very liquid**
- It allows investors to capitalize directly on the innovation and technology of companies
 - *So, let's look at two transaction structures on the rise:*
IP ABS's
S/LB's

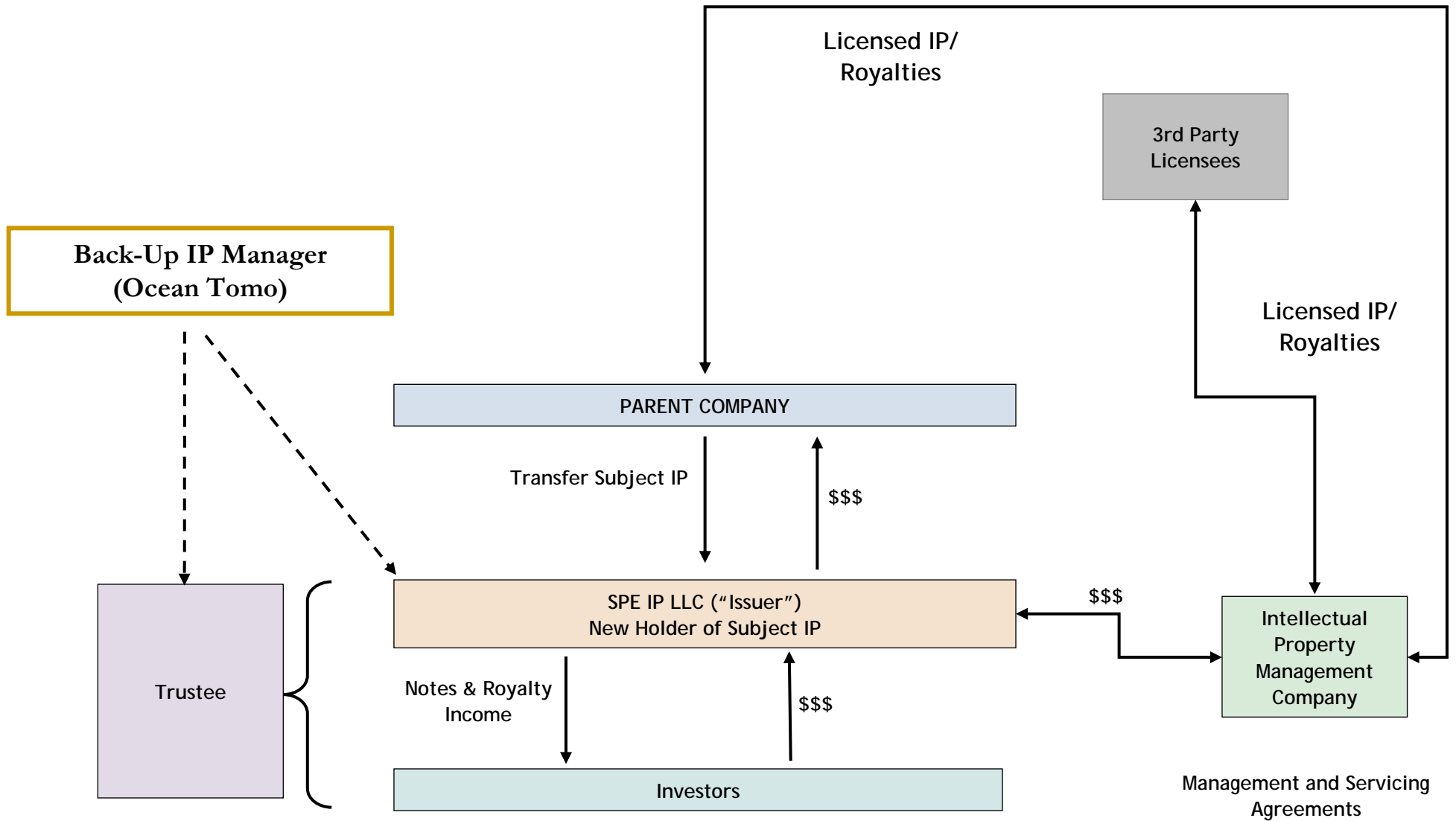
The Future: IP Asset Back Securitizations

- **Type of asset-based financing backed by contractual payment flows**

- **Requires sale of underlying assets to bankruptcy remote entity**
 - Transfer of assets must be arm's length
 - Usually wholly-owned
 - Legally separate entity (independent directors, *etc.*)

- **Relies only on the cash flows from the securitized assets for repayment**
 - Credit of entity becomes less relevant than quality of IP
 - Typically, it's a cheaper source of funds
 - Loan is Non-recourse

The Future: Structure of an IP ABS Deal



The Future: IP Sale/License-Back

- Investors seek to purchase fragmented collections of technology-based patent assets primarily from industry diversified, creditworthy companies
- On a field-of-use basis for a fixed term and fixed amount, the manager will license-back those rights needed by the original patent owner to continue to operate
- Once sufficient patents assets have been acquired, the manager will out-license the portfolio to third parties on a non-discriminatory basis, sharing a portion of any royalties collected with contributing patent owners

S/LB investments transform underutilized patents into working financial assets to build shareholder value

Thank You!



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