



To Promote the Progress...of Useful Arts

Investing in Invention

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INTELLECTUAL
VENTURES

A THRIVING MARKETPLACE FOR IDEAS

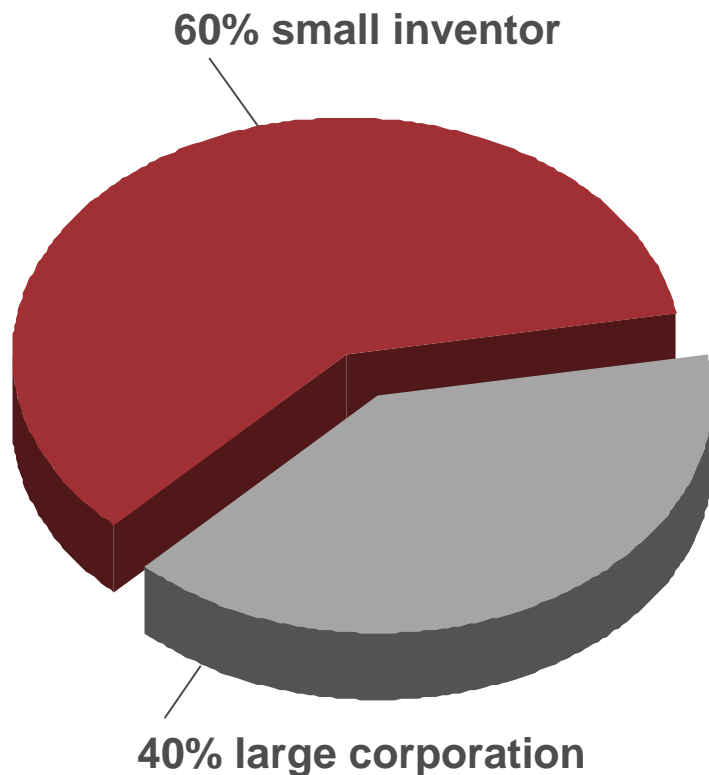
Current market undervalues invention and discourages innovation

Emerging free market forces facilitating market for invention rights

Key question for FTC study: are inventors and innovation better off with new free market models arising?

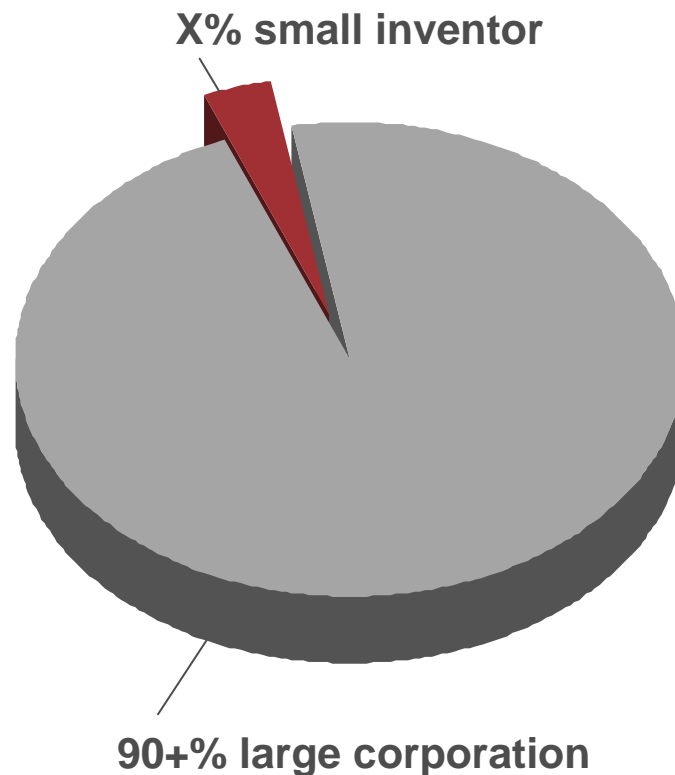
SOURCES OF INVENTION

U.S. Patents Granted



Source: Small Business Administration Report

U.S. Patent Revenues



Source: Compiled from 10Ks, Royalty Source, Gartner etc.

INVENTION MARKETPLACE: USER VIEW

Technology users (businesses) need IP sources

- ▣ Multi-sourcing is a necessity
 - New technologies emerge from several fields
 - Increasingly global sources for inventions
- ▣ Need to share IP with an eco-system
 - Across value chains (suppliers, services, end users)
 - Across competitors for inter-operability and adoption
- ▣ Need to avoid financial pitfalls
 - Expensive IP litigations and royalty "stack-ups"
 - Unfavorable IP costs with respect to competitors



INVENTION MARKETPLACE: INVENTOR VIEW

Patent holders (inventors) seek ROI

- ▣ Monetizing IP assets is problematic
 - Opaque and illiquid patent sales market
 - Legal and commercial risk of licensing
- ▣ R&D budgets are under pressure
 - Accelerated product life cycles and margin pressure
 - Convergence of technologies increases expense
- ▣ Patent portfolios are under-utilized
 - Inventions apply beyond core business
 - Excess IP from business consolidation
- ▣ Patent enforcement is not for the faint of heart (or small of pocketbook)



BIG GUYS VS THE LITTLE GUYS

Big companies benefit from a disorganized market

- ▶ "Don't pay anyone"
- ▶ Avoid first meeting for 8-10 months
- ▶ 18-24 months license negotiations
- ▶ 2-7 years litigation
- ▶ "Don't like the law? Change it!"



Small inventors have few options

- ▶ How does invention reach buyer?
- ▶ Prove infringement, avoid legal pitfalls
- ▶ A hard choice: invent or fight?
- ▶ "Swing for the fences" mentality



NET RESULT

“[Current system] leads noninventors to appropriate patents for less than their value, thus discouraging investments in invention.”

- *Prof. Einer Elhauge, Harvard Law School*
4 Harvard Journal of Competition Law and Economics (9/08), p.558

RESTORING BALANCE REQUIRES WISDOM

- ▣ Intense lobbying of all branches of government
- ▣ Patent Office rule changes under review
 - GSK case reflects efforts to balance competing interests
- ▣ Significant legislative reform under consideration
 - Proposals go far beyond FTC, NAS recommendations
 - Claims of out-of-control filings, awards, but
 - ▣ litigation flat or down over last several years
 - Per Patent Freedom, NPE lawsuits 4.5% of 2008 patent suits
 - ▣ No evidence of outsized settlement, damage awards
- ▣ Supreme Court becoming more active in IP



PRINCIPLES FOR A NEW BALANCE

Continue to focus patent law on idea protection

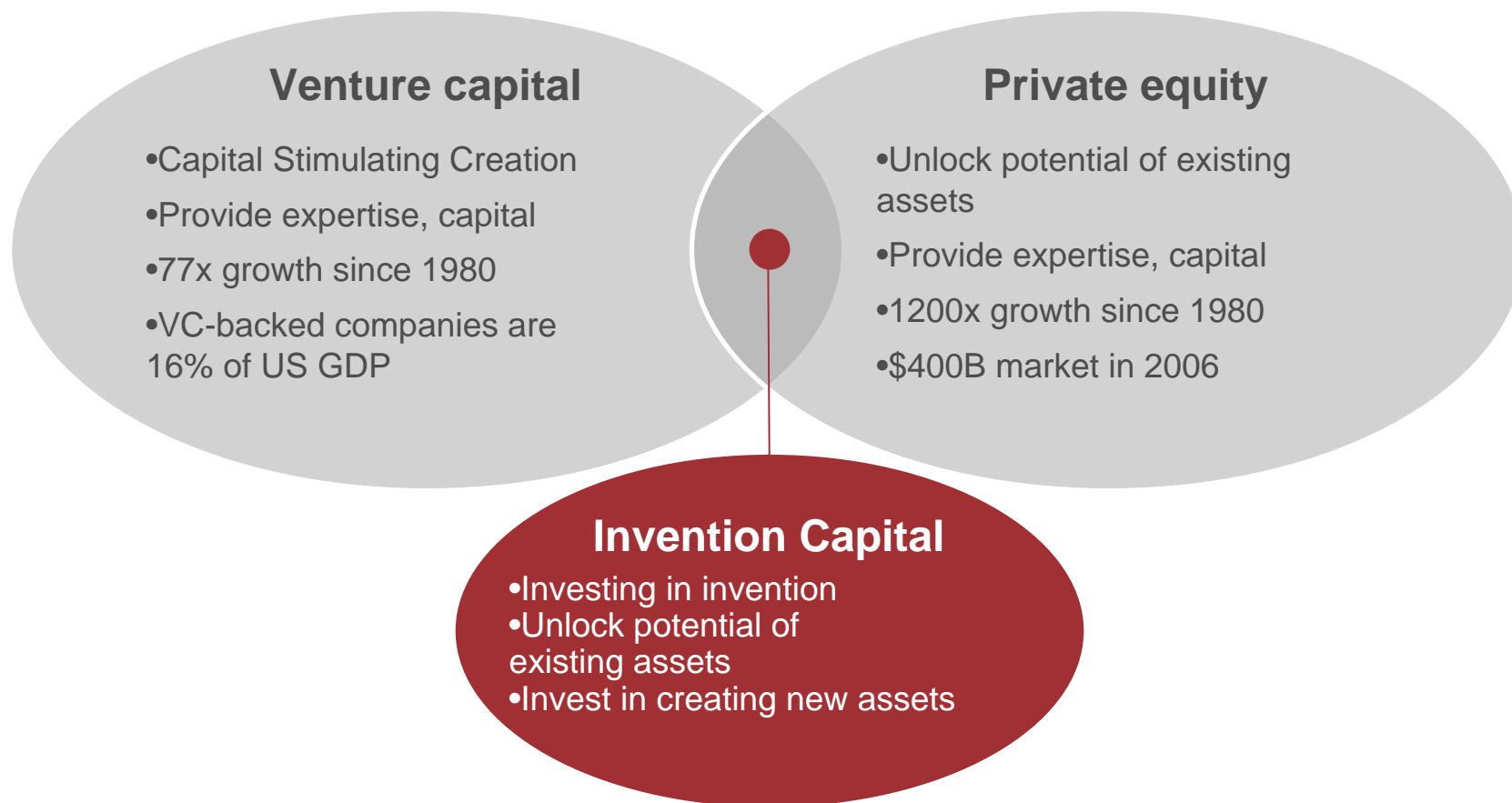
Don't facilitate market share "protectionism"

Activate free market forces (capital, information, liquidity scale, aggregation) to ensure fair compensation for inventors

INVENTION: A DEVELOPING ASSET CLASS

Inventions As Assets

Separates capital from invention in the VC/PE model



MANY FREE MARKET MODELS EMERGING

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

Elhauge (p.561) : Non-competitors have **less** incentive to overcharge for IP

INTELLECTUAL VENTURES 2008

Business models

- Build, buy, partner
- 450 employees and dedicated team members worldwide
- State-of-the-art invention laboratory

Capital

- App. \$5 billion under management for investment
- 20% invested has gone to individual inventors
- \$1 billion+ returned to investors

Expertise

- Evaluating >30,000 assets/year
- Thousands of patents filed
- 20,000+ invention rights aggregated

A MORE EFFICIENT INVENTION MARKETPLACE

Intellectual Ventures makes it easier for buyers and users to engage

Patent holders

Receive fair compensation

Focus on Inventing

A market alternative to litigation

IV

Reward inventors

Create new business models

Evaluate and acquire invention rights efficiently

Technology users

Secure invention rights

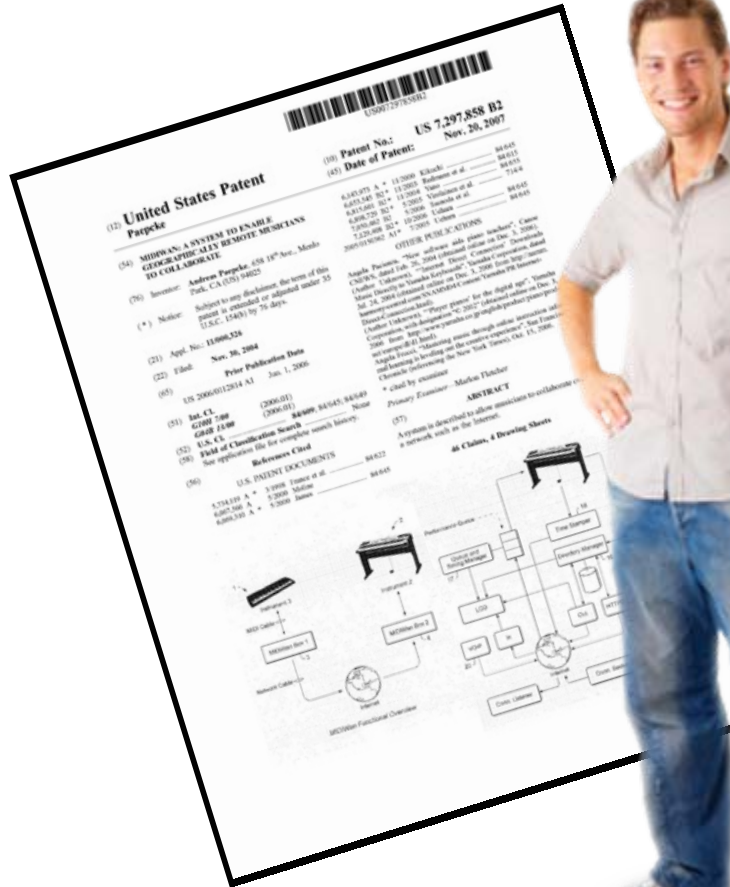
Focus on business

Avoid cost and disruption of litigation

**Are inventors better off
than they were five
years ago?**



PATENTS PROTECT IDEAS





INTELLECTUAL **VENTURES**