



Managing Intellectual Property as a Core Business Competency

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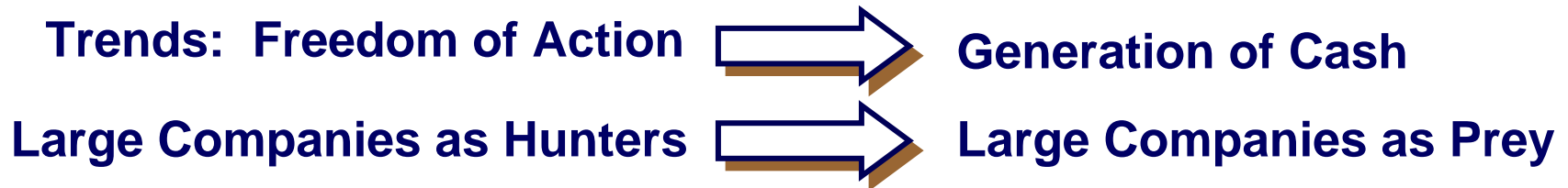
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The Landscape Driving Intellectual Property Strategy Is Changing



The Context

**Need to Supplement Fundamentals
– Growth of Independent Asserters,
Awakening of Asia**

**“Mutually Assured Destruction” no
Deterrent to Independent Asserters**

Reversal of Royalty Flows?

Public Policy Shifts

**Emergence of Defensive Alliances
and Novel Business Approaches to
Reduce Leverage of Asserters**

Integration of a Firm's Intellectual Property Strategy with Overall Corporate and Business Unit Strategy is Critical

Patent and Technology Licensing is Both Tactical and Strategic

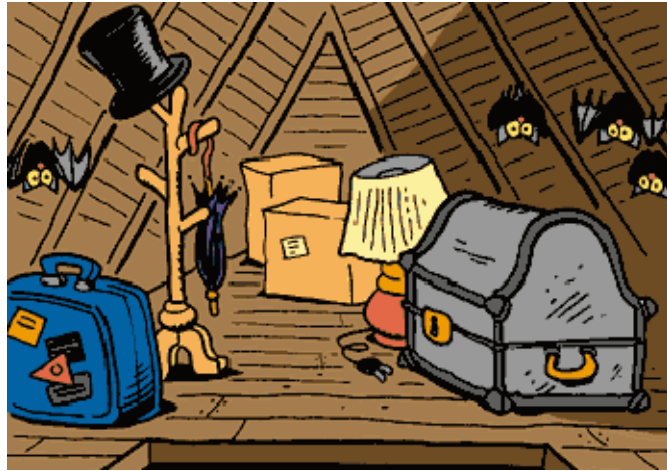
- **Traditionally, IP is used in a firm's products and services**
- **Licensing of patents, technology and/or trademarks necessarily impacts other corporate stakeholders**
 - Requires full integration into the strategy of each stakeholder
 - Requires full support of major stakeholders, and leadership from the top
- **It starts with trust that IP decisions will be collaborative – leadership counts!**
- **Identify the most valuable assets – the decision whether and under what terms to license is a separate decision.**

Done correctly, enthusiasm for technology and patent licensing will spread, creating benefits for generations

Whether for Proactive or Defensive Purposes, IP Strategy Must be Focused on Your Most Valuable IP, Not Your Least Valuable

But companies tend to focus on IP that provides only incremental value!

If you search the attic...



... guess what you will usually find?



The Problem

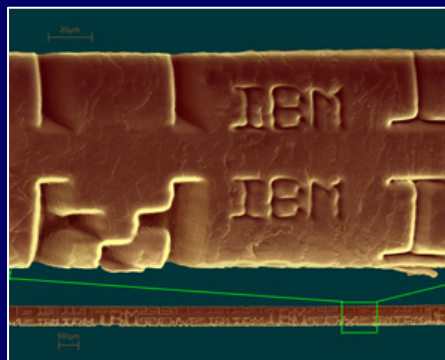
- Most Rembrandts are in galleries, not in attics
- Things that are not valuable to you are rarely valuable to others

Non-core licensing is like playing the lottery . . .winners are the rare exception

“There are ‘Rembrandts in the Attic’,
we just need to find them”

“Well, these may not be Rembrandts,,
but others will value them anyway”

Like playing the
lottery, a treasure
may be discovered,
but its unlikely



Example:
IBM's Excimer laser

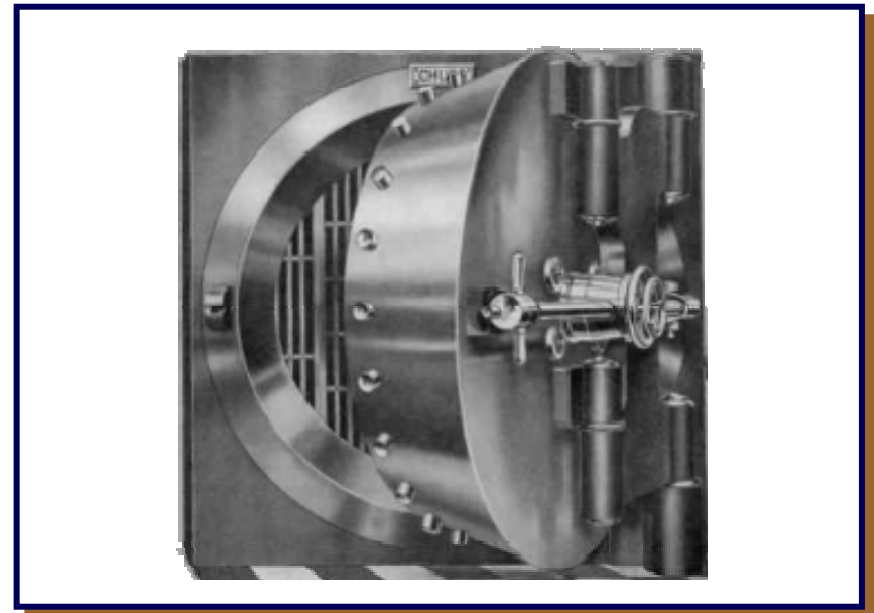
If your objective is to create substantial value, why not try leveraging your most valuable innovations instead of your least valuable?

Breaking Away from the Conventional Approach

If you are searching for substantial value...



... you know where to find it



The unconventional approach leverages your most valuable assets to create substantial new value

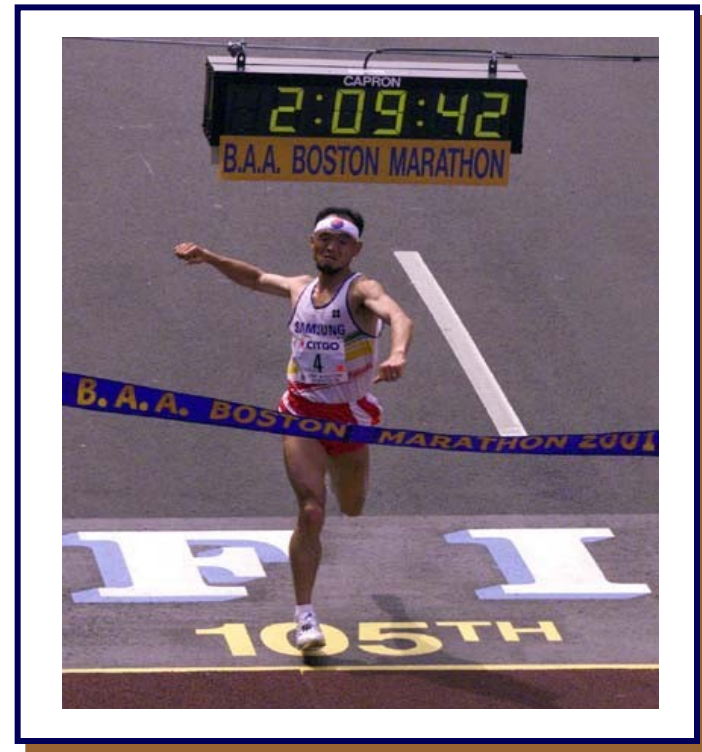
Unfortunately, the unconventional approach remains unconventional because it forces a firm to break the strongly held Illusion of Exclusion

The Illusion of Exclusion

If I refuse to share my most useful innovations...



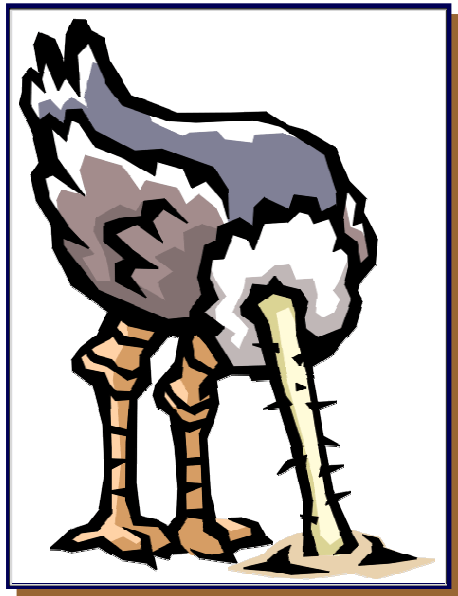
... then others cannot use them and I enjoy a major advantage



But the Illusion of Exclusion Is NOT Reality

The Illusion of Exclusion

If you won't share your most useful innovations...



... the market will share them for you, and without rewarding you

Alternative Solutions
(e.g. 850 MHz vs. 900 MHz)

Substitute Options
(e.g. Prevacid vs. Nexium)

Imitation
(e.g. reverse engineering or even theft)

Unless you are tremendously vigilant, you may not even be aware that this is happening to you

In today's tough markets, companies need a way to boost revenues and profits (by getting more or paying less!) to reward investors and fuel R&D

The Imperative for an Unconventional Approach

Incremental gains are not enough

Playing the lottery probably will not help much

If you don't share valuable innovations, the market goes around you

Instead of blocking the way, facilitate sharing to capture your reward, and then plow the funds (whether received or saved) into additional R&D (and repeat)

Those hungry for the opportunities provided by the unconventional approach, and able to dispel the illusion, can obtain three powerful benefits

Benefits of the Unconventional Approach

| Benefit | Description |
|---|--|
| Reap substantial financial rewards from R&D investment | Enables a firm to fully capitalize upon its substantial investment in R&D |
| Drive standards creation and industry technical direction | Enables a firm to achieve “critical mass” for a technology quickly, solidifying leadership for future direction of the technology |
| Anchor innovation-based corporate strategy | Links a firm’s R&D directly to the bottom-line, reinforcing its importance internally and boosting perception of technology leadership externally – are you strong enough to make it on the treadmill? |

The unconventional approach begins with strategically facilitating the sharing of extremely valuable assets

The Unconventional Approach

**Everything is licensable --
the critical questions are
when and under what terms**

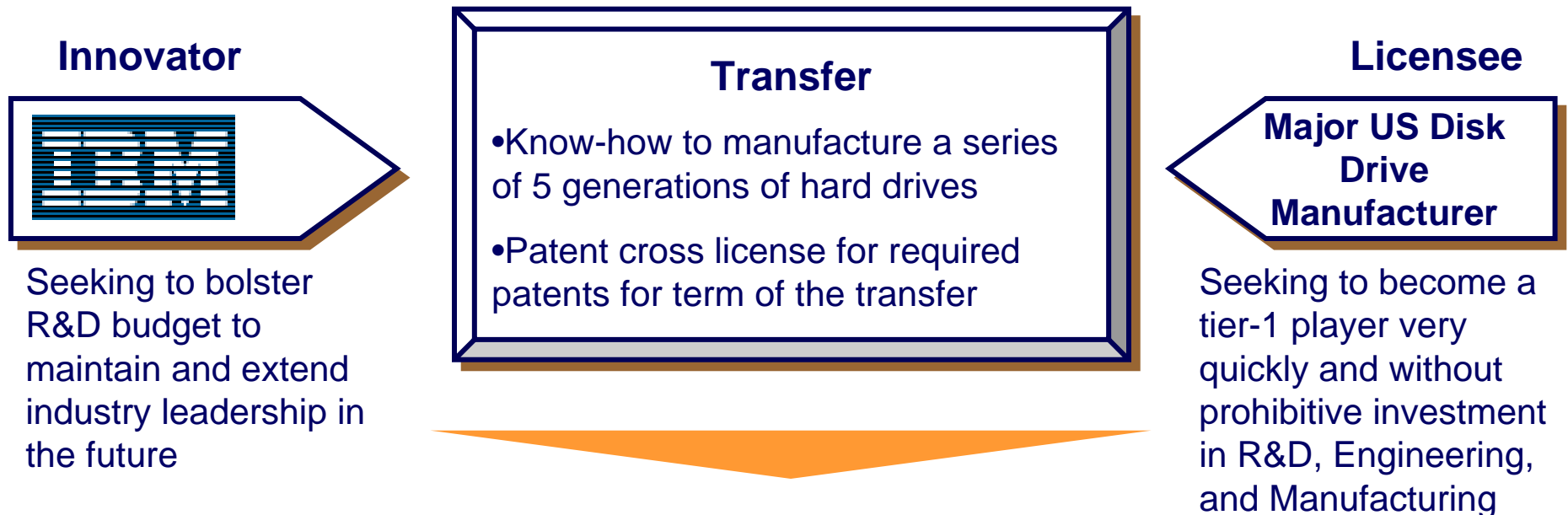
**Extremely valuable assets
command high value in the market**

**The unconventional approach makes a real
difference in your bottom line**

Technology and patent can anchor an innovation-based corporate strategy by linking innovation closely to the bottom-line

Anchoring Innovation-based Corporate Strategies

Case Study

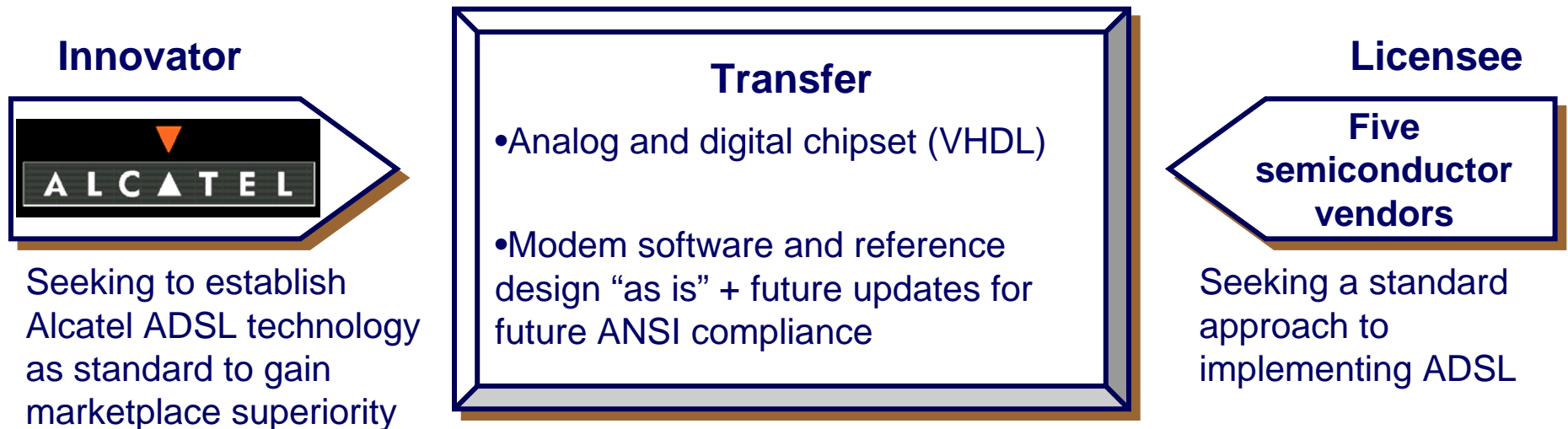


Benefits

- IBM obtained \$US 8 figure payment up front, plus \$US 8 figure payment for each successive generation, funding ~20% of the division's annual R&D investment
- Licensee leapfrogged competitors, while maintaining a low cost structure
- IBM obtained a single digit running royalty on licensee sales

Technology and patent licensing can enable a firm to drive industry-wide standards by making available superior technology on a superior timeline

Driving Standards Creation and Technical Direction Case Study

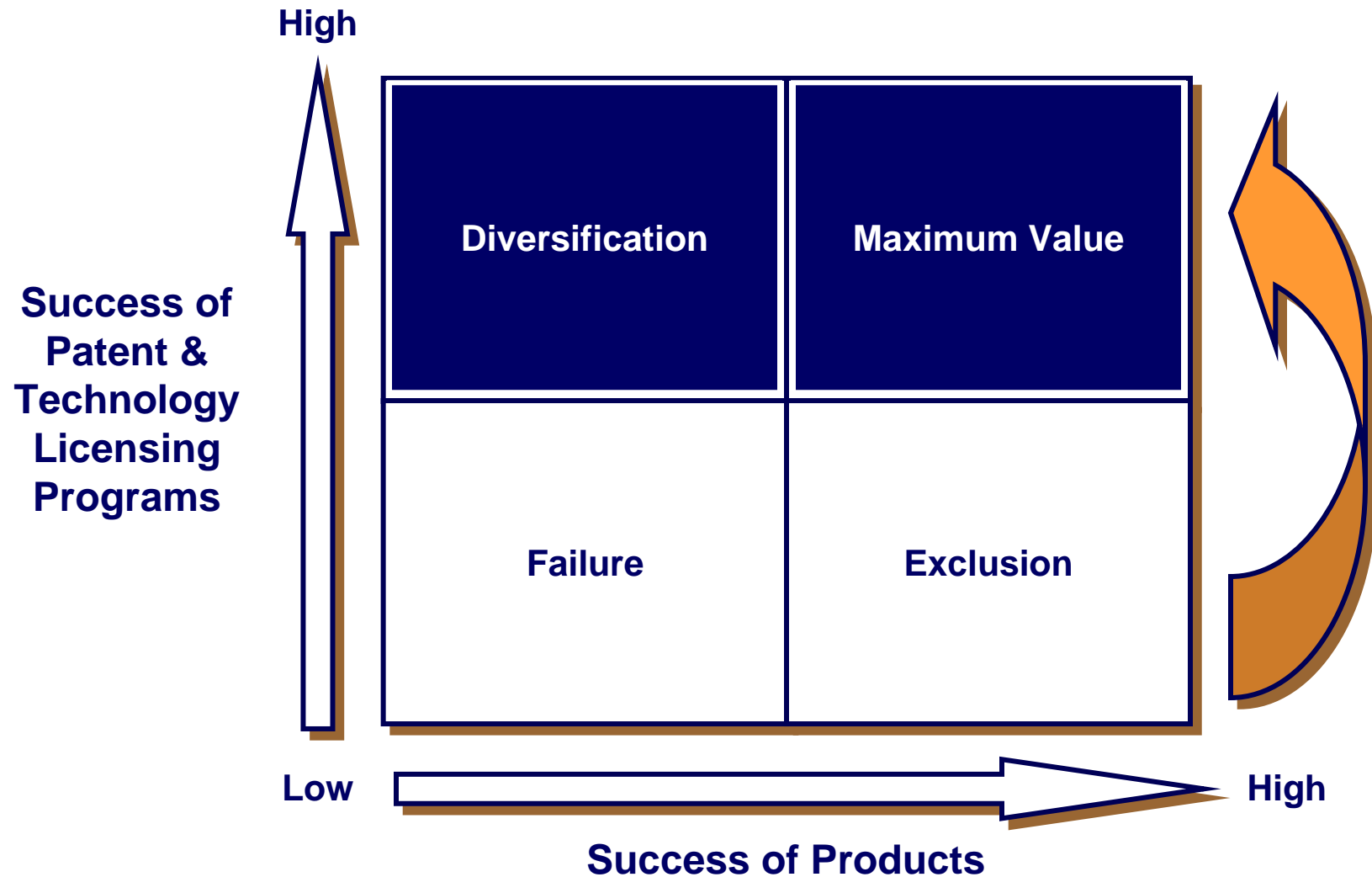


Benefits

- Earned a large up front sum payment and running royalties, while building the leading market position (40% share, 2Q'01, Dell'Oro)
- ANSI T1.413-Issue 2 (dominant ADSL standard, ETSI and UTI derived from ANSI) strongly reflect Alcatel technology

Furthermore, the unconventional approach to technology and patent licensing diversifies a firm's revenue streams, enabling it to win when it loses

The Impact of the Unconventional Approach



Two significant challenges stand in the way of firms seeking to capitalize on the unconventional approach

Major Technology Licensing Challenges

Aligning Stakeholders

- Senior Management/ Board- “We need to license IP for increased profit – Lou did it – why can’t you?”
- Business Unit/ Product Management- “We need to use our IP to protect our market position”
- R&D/ Engineering- “You want to give my best secrets to our competitor and put me on a treadmill ?!#%\$* @?!! ”
- Business Development- “We need to use our IP for alliances, joint ventures, and spin-offs”
- IPAM- “How Did I get stuck in the middle?”

Building the Portfolio and Pipeline

- A successful program requires that we have valuable innovations to share with others
 - Today- the Portfolio
 - Tomorrow- the Pipeline

You must overcome each of these challenges if you are to succeed

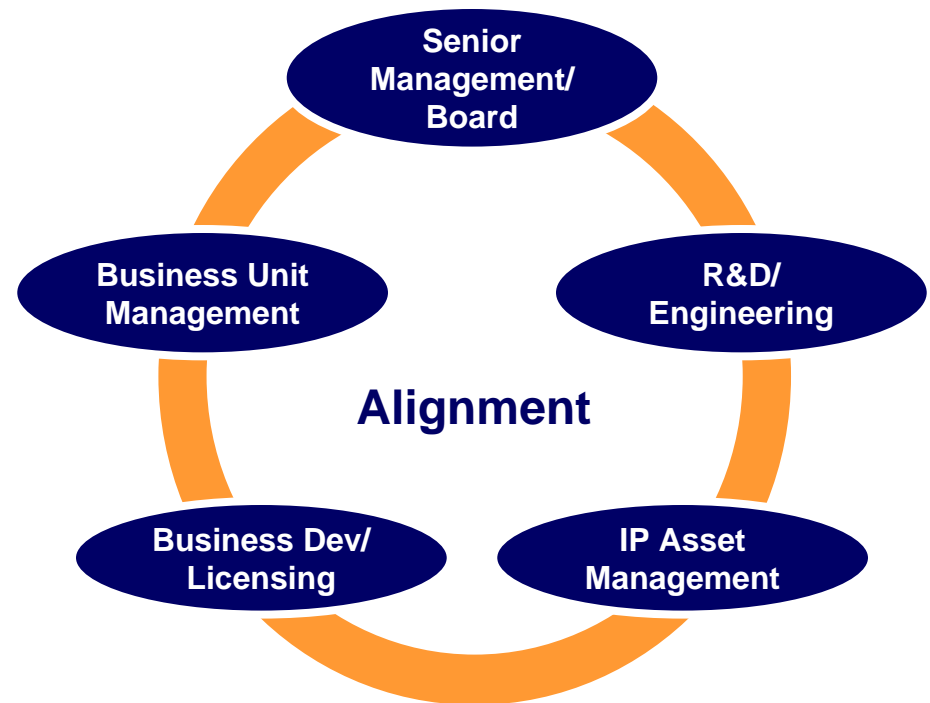
With the answers to these questions in hand, the firm can incorporate the unconventional approach into its core strategy, aligning all stakeholders

Aligning the Stakeholders

Stakeholders Conflicted by Objectives



Stakeholders Aligned by Strategy



Overcoming these challenges requires the firm to reach internal consensus on the answers to several key questions

Major Technology and Patent Licensing Considerations

- **What valuable patents & technologies are in the portfolio and pipeline?**
- **Can licensing of these patents or technologies impact the firm's competitive advantage positively or negatively? How, and why?**
- **When should the firm license these patents or technologies, if ever?**
- **Under what terms should the firm license these patents or technologies?**
- **To whom can the firm license these patents or technologies most advantageously?**

Without answering these questions satisfactorily, you cannot align the stakeholders divergent objectives

Technology and Patent Licensing initiatives fail for two fundamental reasons, so be sure you avoid them

The Bottom Line

Root Causes of Failure: Unconventional Approaches

- **Failure to align the stakeholders in adoption of the unconventional approach into corporate strategy**

Root Causes of Failure: Conventional Approaches

- **Failure to produce substantial results causes stakeholders to neglect the program, dooming it to irrelevance**

Root Causes of Failure: Both

- **Failure to build the portfolio and pipeline to launch and sustain the licensing business**

A simple three step process will enable you to assess your prospects for building your technology and patent licensing business

Technology & Patent Licensing Business Evaluation Process

Analyze Technology Strengths

What are the firm's strongest technologies and patents?

Assess Market Opportunity

What is the potential market for the firm's technologies and patents?

Develop Business Case

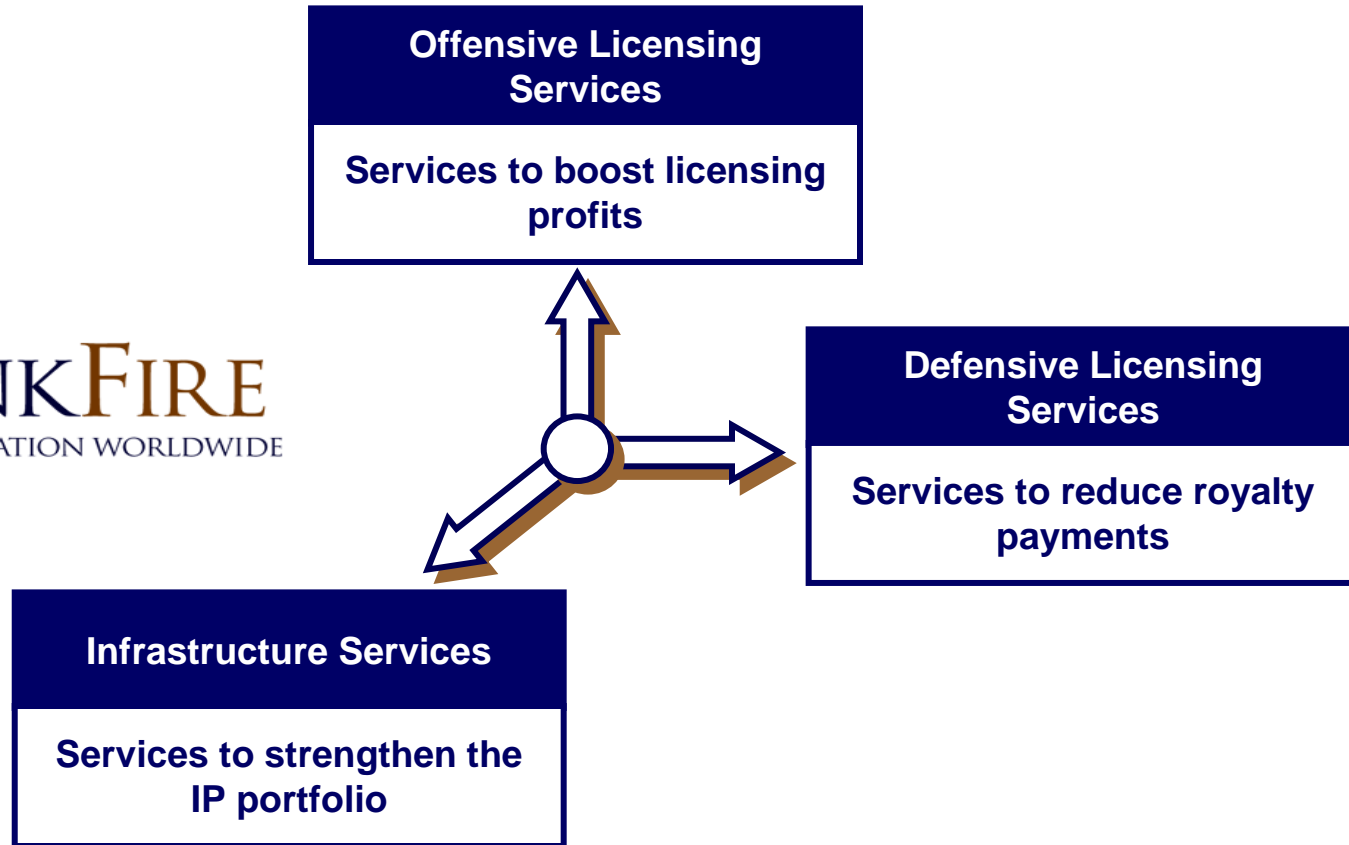
Can a technology and/or patent licensing business improve the bottom line substantially?

Once the decision is made to proceed, a five step process will help you to build your patent and technology licensing business

Technology & Patent Licensing Business Development Process



Thank you!



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