Winter 2007
Resilient Innovation

Growth Strategies

Executive Briefings on the Business of IP

Innovation, IP Strategy, and Corporate Resilience: There is a Connection!

By Nancy Edwards Cronin, Principal Partner

ipCG Hosts 4th Thought Leadership Conference: *Directed Innovation Leveraged Through IP*

How do you maximize financial results by combining intellectual property (IP) with innovative tactics like new business models or collaborative partnerships? To answer this question, speakers from a variety of industries shared their experiences and facilitated discussions of IP + innovation synergies that grow their businesses. Learn more on page 8.

Inside this issue:

Is innovation part of your growth strategy? In a time when U.S. investments in R&D exceed $200 billion, it seems that many businesses are looking to innovation as the foundation of a sustainable competitive advantage.

However, companies that have historically operated on incremental improvements now find that they struggle to come up with the next “brand new thing.” Further, the new ideas they develop may already be claimed in the marketplace or in the patent literature. They may also overlook the need to protect their innovations early and lose valuable ownership of their investment. Worst of all, they may determine that even their best innovations aren’t aligned to the direction of the business, thus becoming a wasted expenditure of valuable development time and money.

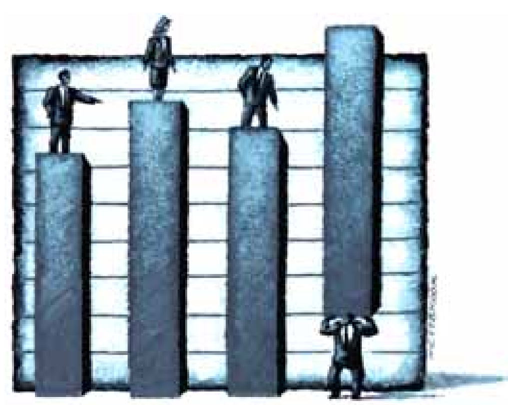
Resilient organizations create security in turbulent times and have a direction for the future that will not leave the company bereft of new products or revenue streams. This approach requires a great deal of forethought and planning as well as some vision and risk.

Innovation can be defined as the “process of bringing an idea to market.” At a basic level, this includes (1) ideating, (2) measuring the idea against the market and competition, (3) developing the resulting product or service, and (4) launching the product or service. Resilient companies link innovation attributes with intellectual property (IP) strategies that protect and extract the full value from their investment. Examples of these “links” follow.

Ideation: An IP strategy has already considered the current landscape of competitors, products, and IP and can be used to assess where the next innovation may evolve or need to be created. A company has the ability to direct innovation with some boundaries on the market needs and competitor position. And given that inventors and product development teams will create solutions regardless of whether they have specific guidance, why wouldn’t a resilient company provide this direction?

Measurement: Early in the innovation process, a resilient company ensures that the innovations in question map to a market need, based on voice of the customer, surveys, focus groups, and the like. Further, in order to reduce risk of developing a product that may be very similar to another, a resilient company brings an IP “check and balance” step into the innovation process. It is analogous to StageGate®, wherein an innovation might not progress if the IP landscape is too difficult or costly to navigate.

Development: Often, the development phase for a product or service yields valuable changes in the original idea. The resilient company anticipates these new ideas and learns to capture them for more security around its innovation – the IP strategy should emphasize capture of protectable inventions throughout the entire development phase. ►



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Launch: Even a valuable, novel introduction to the market can succeed or fall short based on the nature of its launch. A resilient company considers how to utilize its brand when introducing its innovations, and further, it considers both the supply chain and customer chain in its IP strategy and what it can protect in terms of a broad IP portfolio and unique business models.

In the series of articles that follows, we will address many of the approaches mentioned above and provide further detail on how a company can connect innovation and IP strategy, to be a resilient company that not only survives but thrives in today's business world. ■

Using IP to Drive M&A Opportunities and Outcomes

By Douglas Roth, Senior Manager

> *"Because a company's IP provides the foundation for current and future earnings, why not use IP throughout the M&A process?"*

A resilient company is flexible, adaptable, and proactive. Not only can a resilient company withstand a sudden or unexpected event that impacts its business, it may even prosper as a result of the event, while others around it scramble to respond and mitigate losses. Companies that seek to become more resilient often consider M&A transactions as a viable strategy to achieve consistency and stability in earnings, even out the cyclical effects of normal business cycles, and/or diversify revenue streams.

Intellectual property (IP) is not often leveraged strategically in M&A transactions. This trend is at odds with recent estimates suggesting that nearly 80% of the market value of major companies is attributed to intangible assets. Because a company's IP provides the foundation for current and future earnings, why not use IP throughout the M&A process? For example, IP can be used to identify potential M&A partners, support valuations, and drive the strategy with which to earn the returns expected of the corporate combination.

Patent data mining can provide significant insight into competitive M&A activity. Data that is presented intelligently allows corporate development executives to track major players in a technology space and develop "what if" scenarios for possible portfolio combinations. For instance, when the patent data is mapped on a landscape that depicts a specified business area, one can easily see how the combination of two companies creates a single, powerful patent portfolio or results in a less valuable outcome. Corporate development executives, armed with this information, a good sense of the market, and a competitive product/technology roadmap, may be able to anticipate M&A transactions by identifying attractive combinations of patent portfolios. This may provide enough of a lead for them to take actions to prevent or prepare for these corporate combinations.

This past April, when Alcatel and Lucent announced their proposed merger, telecommunications industry analysts predicted that this transaction would spark a round of consolidation activity among telecom equipment manufacturers. For executives at Nortel, Motorola, Cisco, and other companies, the logical question became, "Who's next, and how might it impact my business?" A proactive approach that analyzes the competitive patent landscape and determines how the combination of patent portfolios might impact your business can inform executive decisions and avoid competitive M&A surprises.

Corporate development executives responsible for integrating a combined entity could also benefit by analyzing and aligning the IP portfolios. Leveraging IP synergies and abandoning or selling acquired patents that do not support the business, for example, can support the overall efforts to extract the greatest value from the acquisition. IP analysis can be used to help identify the culture of innovation. Knowing *a priori* whether the cultures conflict with or complement each other can improve the chances for integration success. This analysis can be used to identify the key or prolific inventors in those technical/market areas that are critical to the organization's future direction. By offering appropriate incentives to ensure that these individuals are retained, the ►

inventive muscle of the company will continue to develop sustainable competitive advantages.

Many companies, such as Cisco Systems, have successfully used acquisitions to enter new markets, complete product portfolios, and obtain desired technologies. Not all companies will improve their ability to build valuable IP via M&A activity. The risks associated with purchasing innovation, however, can be mitigated by studying the combination of portfolios, developing an appropriate IP strategy that leverages both portfolios, and aligning the combined IP with the business objectives. There were certainly many driving factors that led to the merger between SBC and AT&T. In reference to the proposed merger, one regulatory agency stated, "It should spur continued growth and technological innovation in an increasingly competitive telecommunications environment." Will a successful IP strategy that leverages the strengths of the combined organizations and portfolios be implemented? We will need to wait and see whether this is, indeed, the case.

M&A activity continues to increase, and purchase prices have reached unprecedented levels, as cash-rich strategic buyers compete for acquisitions. The rise in prices creates even greater challenges for strategic buyers, private equity firms, and hedge funds to generate acceptable returns from acquisitions. Traditional means for increasing cash flow – improving operations/productivity or cutting costs – are no longer adequate. All of a company's assets should be put to work, including its intangible assets. When leveraged strategically, IP can support target selection, negotiations, and post-deal integration and improve the overall success of M&A transactions for resilient companies. ■

Does Wall Street Understand the Value of Your IP?

By Rachael S. Schwartz, Senior Manager

Many companies may be undervalued on Wall Street because research analysts do not factor the true value of intellectual assets into their evaluation of these firms. These intellectual assets, considered intangible assets on a balance sheet, can represent a significant portion of a company's worth. It is important that a company communicates the importance and value of IP to analysts, shareholders, and potential investors as part of an overall strategy to improve competitive advantage and drive superior returns.

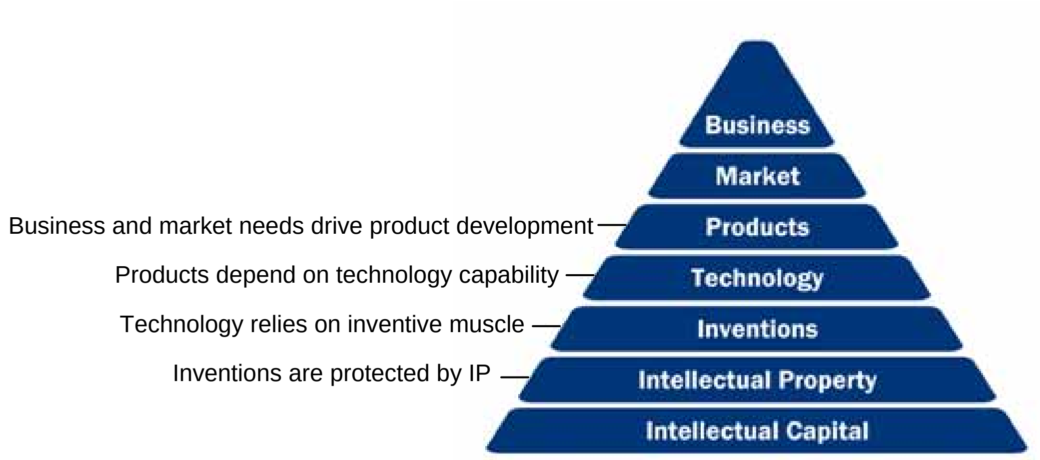
Today's Situation: Analysts Don't Consider IP When They Predict Future Cash Flows

The stock price of a company is determined by how investors, often led by analysts, believe a company will perform in the future. One of the ways analysts base whether a company is undervalued or overvalued is by evaluating various ratios in relation to other comparable firms. Much of the time, these ratios do not accurately account for the value of IP.

On occasion, when IP is accounted for, the results are based solely on number of patents. It turns out that size doesn't always matter; a company that has 50 valuable patents may be in a much stronger IP position than a company that has 1,000 patents that are off-target or weak. Often times, analysts, executives, and investors aren't aware which patents are critical or core to the business and which patents could be monetized or should be abandoned (a more detailed explanation is available in *"Aligning Products and Patents to Your Business"* on page 5).

It is important to recognize that IP can have a major effect on the future success ►

"Often, IP is left out and it can have a major effect on the future cash flows of a company."



IP increases revenue by creating licensing opportunities and discouraging unauthorized use. Increased profits lead to greater value of firm.

"Value is most effectively conveyed through an IP Story, a presentation that introduces a company's IP and links it directly to the value that it provides."

and revenues of a company and that IP should be accurately accounted for in a company's evaluation. The exclusive rights awarded with patent protection can provide a unique competitive advantage, which allows the company to secure a market and gain significant market share. Opportunities for monetization of IP via licensing also may exist within a company's core markets and in ancillary markets. Additionally, IP can provide a company with a stronger negotiating position, which allows it to secure stronger contracts with suppliers, customers, and partners.

The Solution: Communicate the Value of Your IP to Wall Street

Value is often effectively conveyed through an IP Story, a presentation that introduces a company's IP and links it directly to the value that the IP provides. The IP Story presentation describes the IP, shows how it effectively protects key inventions of interest to stakeholders, and explains how those inventions are necessary for developing a superior product or technology that meets a key market need. This directly links the paper patents with the value in the marketplace and the company's bottom line. Additionally, the IP Story can include a financial analysis, to quantify the contribution a company's IP may make in the future, based on how the IP will support the company's ongoing strategy.

A resilient company should include communication to Wall Street as part of its ongoing plan to showcase innovation and drive success. Through the process of telling and packaging its story, a resilient company could see significant benefits on Wall Street that stem from three basic steps:

1.Developing an IP Story;

2.Distributing the information to analysts and investors, including presentation at an investor conference; and

3.Communicating a clear picture of the company's successful past, its success in the current market, and its sustaining attributes that will overcome potentially adverse market or competitive situations in the future. ■

Aligning Products and Patents to Your Business

By Michael R. Bielski, Associate Consultant

How well does your patent portfolio protect your current products? How well does your patent portfolio protect your future products? How prepared is your patent portfolio for a change in market or business direction?

Resilient organizations are constantly evaluating their patent portfolios based on variable market forces, amended corporate objectives, and new opportunities. This proactive approach maximizes return on innova-tion investment because intellectual property (IP) managers can ensure that patents are aligned with strategic goals. Those who choose to keep investing in a patent portfolio without continual assessment find themselves in a quagmire of competitive risks, missed opportunities, and financial waste.

Example Issues That Require IP Assessment

- **Moving from bar codes to RFID**
- **Use of target-specific biomarkers**
- **New competitors in the technology space**
- **Combining medical devices with pharmaceuticals**
- **Joint ventures or licensing**
- **Venture capital funding**

What types of assessments are necessary? Resilient companies routinely consider how their patent portfolio protects both their current and future products. This process allows executives to determine how a variety of changes, whether minor or significant, affect their patent position. Therefore, they understand how each patent is affected by a new market or business direction. ▶

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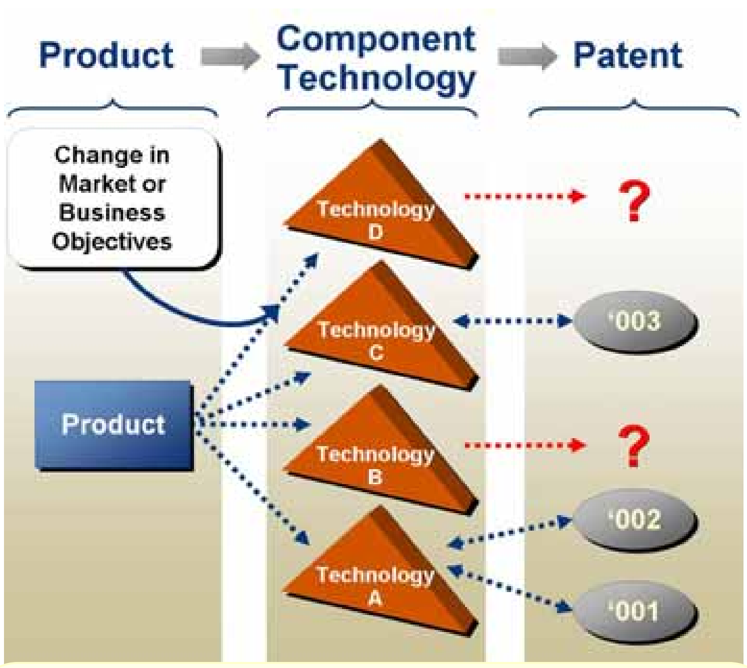


In this example, a product is broken down into 4 component technologies. Mapping these technologies to their respective patents reveals that current Technology B and new-market Technology D are not adequately protected.

Identify Unprotected Technologies

Process: How do resilient organizations assess their current patents and future position? They begin this analysis by systematically breaking down each current and future product into its component technologies. Then, these component technologies are mapped to a patent in the organization's patent portfolio.

Value: Mapping products to patents identifies technologies that *are not* aligned with patents, in other words, technologies that *do not* map to patents in the portfolio. These unprotected technologies can be secured via patent filings, in-licensing, patent acquisition, enabled publications, or directed-invention brainstorming sessions.

The goal of this process is to identify all of the current and future technologies that are core to your products, and then to determine whether your patent portfolio truly supports these core technologies. Continually updating this information allows IP managers to assess how the changing markets and business goals of the organization align with the current patent portfolio. When an unprotected technology is identified or a change in markets or business goals results in unprotected technologies, IP managers can immediately address this situation in a strategic and effective manner. Without this analysis, some of the most valuable technologies in an organization can be at risk. ■

Uncovering Small Company Partners with IP data

By Chris Rose, Consulting Manager and Jed Cahill, Associate Consultant

"When IP data is used to identify potential partners, the results include many small companies that may have otherwise remained under the radar."

There are many inputs that drive the process of identifying potential partners or M&A targets. These inputs include the traditional set of financial metrics, technology, products, culture, and geography. However, a key input that is often overlooked or underemphasized in this process is intellectual property (IP). In particular, companies trying to accelerate growth or reduce risk by forming partnerships usually do not pay close attention to whether the potential combination of IP portfolios would create significant value in the relationship. Resilient companies, on the other hand, understand that IP enables key product launches, protects future revenue streams, and creates leverage throughout the value chain.

IP data is not only critical in the due diligence *analysis* of a particular potential partner, but also can inform the resilient company's initial *search and identification* of potential targets. Often, when IP data is used as a search tool in this way, the resulting list of potential companies includes those that may have otherwise remained under the radar. Because companies on this list have IP in related technologies, it is likely that many of the more traditional filters, such as technology and products, are also satisfied.

To maximize the value of IP data as a partner search tool, the logical first step is to define a graphical framework that depicts the business and technical landscape, relevant to the future partnership. With this framework in place and a clear understanding of its internal technical needs, the resilient company is in a position to mine relevant competitive IP data and identify potential partners that could meet those needs.

Large companies often seek smaller partners, to provide rapid and focused development in a particular business or technical area. By teaming with a smaller entrepreneurial company that is committed to the area of interest, the larger company is able to minimize risk and overcome organizational inertia that can hinder its ability to address emerging markets or develop disruptive technologies on its own. And, to the delight of shareholders, the larger company can often set highly favorable terms with a smaller company and maintain significant leverage throughout the partnership.

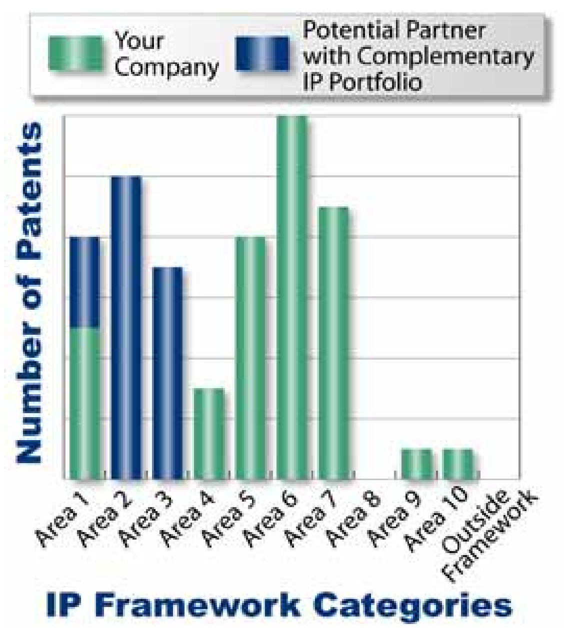
The expanding prevalence of corporate venture capital arms indicates that large companies are increasingly discovering ▶

the value of focused innovation in start-up and small early-growth companies. Microsoft launched its Microsoft Intellectual Property Ventures division in May 2006, to drive innovation by investing money and IP in young businesses. This program will undoubtedly provide Microsoft with a large repository of future partners that will offer technical capability and product development in particular areas of need. Semiconductor maker Micron (Micron Ventures) and Sprint Nextel (Sprint Ventures) are also new to the corporate venture capital landscape, having launched their venture arms in January 2006.

For most companies, launching a corporate venture arm is not an option and it also limits the pool of known potential partners to small companies that need additional investment. Using IP data as a partner search tool can expand and diversify opportunities by uncovering small companies that have already sought IP protection for market-ready solutions. For example, in a recent engagement with a Global 500 client, we used competitive IP data to identify several companies that have great IP depth in specific areas of our client's business. These younger entrepreneurial companies hold several related patents and are targeting many of the same high-value customers with innovative solutions. However, they were not previously on our client's radar because of their much smaller operating scales or because they have yet to launch products enabled by the IP we found. So, those that were previously unknown now represent partnership or acquisition opportunities for our resilient client.

Resilient companies understand the vital role IP has in opening up new product opportunities and protecting revenue streams. These same companies are using IP data to locate the diamonds in the rough: high-value potential partners and M&A targets that may hold the IP keys to competitive advantage. ■

"IP data can identify small company partners that have already sought IP protection for market-ready solutions."



Smaller companies that map to complementary areas of the graphical framework have patents related to your business, but are often focused within a small number of specific areas. When these focus areas address your needs, these companies may be high-value partners.

ipCG Hosts 4th Thought Leadership Conference

Directed Innovation Leveraged Through Intellectual Property, the 4th ipCG Thought Leadership Conference, was held at Topnotch Resort & Spa in Stowe, Vermont, November 1 – 3, 2006.

How do you maximize financial results by combining intellectual property (IP) with innovative tactics like new business models or collaborative partnerships? To answer this question, speakers from a variety of industries shared their experiences and facilitated discussions of IP + innovation synergies that grow their businesses.

Conferees included: Applied Biosystems; Boston Scientific; Corning Incorporated; The Dow Chemical Company; Fortune Brands Home & Hardware; Hewlett-Packard; Johnson & Johnson; Kimberly-Clark; Microsoft; Motorola; Nestlé; Ricoh Innovations, Inc.; S.C Johnson & Son; and others.

Conference Framework

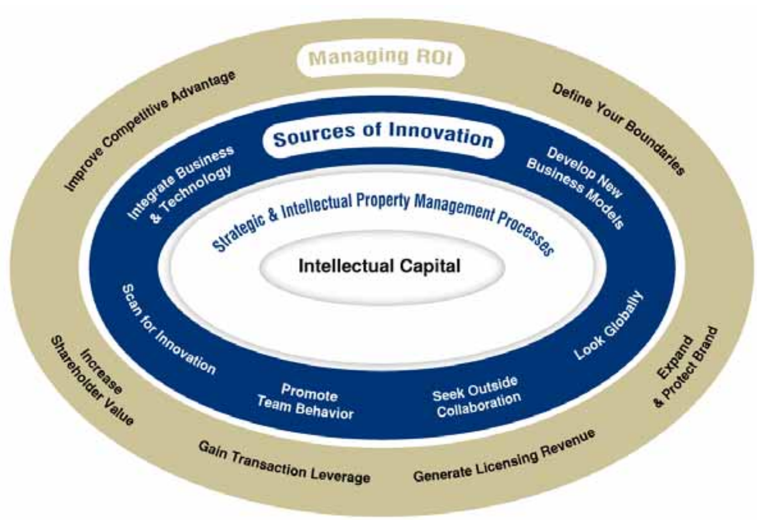
Why innovation? Many CEOs say it is the only way to grow their businesses in an era of exceptional change. Concerns about intensified competition, customers who expect more, and unanticipated market shifts are driving interest in new ways to approach the future.[1]

Traditionally, innovation efforts have narrowly focused on internal research and development (R&D) programs. At one time that may have been enough. But, a recent study shows that there is no direct correlation between R&D spending and profits or shareholder value.[2] In today's marketplace, executives know that they are more likely to come up with the next "brand new thing" if they approach innovation as a holistic business issue.

As executives lead their organizations to be more innovative, they are recognizing the unmistakable connection between innovation and IP. For example, concerns about new business models, globalization, external collaboration, team behavior, scanning for innovation, and alternative combinations of business and technology are fueling discussions in and out of the boardroom. Executives are integrating these sources of innovation with strategic IP management processes that define boundaries, expand and protect brand, generate licensing revenue, gain transaction leverage, increase shareholder value, and improve competitive advantage. As depicted in the graphical summary, innovative business strategies and IP can be merged to produce powerful synergies that maximize economic results.

"Your summit brings together people from a variety of market niches. This enables a richness of dialogue found in very few other forums."

-Participant, 4th ipCG Thought Leadership Conference



[1] IBM Global Business Services, *Expanding the Innovation Horizon: The Global CEO Study 2006*, (Somers, NY: IBM Global Business Services, 2006).

[2] Barry Jaruzelski, Kevin DeHoff, and Rakesh Bordia, "Money Isn't Everything," *Strategy and Business*, 41 (2005): 54-67.

Upcoming IP Events

5th ipCG Thought Leadership Conference November 7 - 9, 2007 Topnotch Resort & Spa Stowe, Vermont

Save The Date!

Please join us for interactive discussions facilitated by guest speakers from a variety of industries. Once again, we will limit registration to 50, to maximize opportunities for casual, collegial exchange.

We want to hear from you. What are the most important issues facing your industry today? How do you use IP to grow your business? Please contact Katherine Trumbo at (802) 872-3200 extension 279 to submit suggestions for the 2007 program.

"You won't believe it, but I'm a very harsh critic. This was a spectacularly valuable conference!"

-Participant, 4th ipCG Thought Leadership Conference

Winter 2007 Summary

Strategic Materials Conference
Semiconductor Equipment and Materials Institute
Half Moon Bay, CA – January 10 – 12, 2007
John Cronin, Managing Director & Chairman, presents "Achieving Collaborative Success and Maximizing Return on Innovation Investments."

CoDev2007 – Co-Developing Products with Partners, Suppliers and Customers
The Management Roundtable
Scottsdale, AZ – January 29 – 31, 2007
John Cronin, Managing Director & Chairman, presents "Managing Intellectual Property and Innovation in Co-Development Efforts" with Jim Bohlig, President and Chief Operating Officer of Casella Waste Systems, Inc.

6th Annual Asset Based Lending in the Capital Markets
Strategic Research Institute
Scottsdale, AZ – February 5 –8, 2007
John Cronin, Managing Director & Chairman, joins a panel discussion of "Intangible Assets and IP: Creative Solutions to Monetize Challenging Assets."

Capital Raising Strategies Seminar
Financial Research Associates
New York, NY – February 28, 2007
Nancy Edwards Cronin, Principal Partner, presents "Leveraging Your Intellectual Property to Raise Capital."

Patent Pools and Proactive Licensing Strategies
World Research Group
San Francisco, CA – March 19 – 21, 2007
John Cronin, Managing Director & Chairman, and Douglas Roth, Senior Manager, present "Leveraging Innovation: New Business Opportunities Supported by IP."

To learn more about our upcoming IP events, please visit http://www.ipcg.com/thoughtleadership/events.htm.

Grow Your Business.

If you need an actionable intellectual property (IP) strategy that maximizes financial results, ipCapital Group can help. With over 150 years of collective experience, we develop tailored business solutions that address your market, product, technology, and human capital needs.

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