Monetization Strategy
Philips Patent Portfolio OTB

An outline of a Monetization Strategy adopted by the IP management team of OTB IP Management B.V. to market and monetize the patent portfolio of approx. 2,000 patents and applications of Royal Philips Electronics.

The Management Team
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A. THE VISION

Though investment in IP as an asset class has grown meaningfully over the last five years, it is still nascent in its evolution. Analysis of historical returns remains difficult, given limited data. Therefore, it is challenging to predict how the current financial crisis will impact on attitudes of institutional investors and the development of the asset class. What effect will this have on market perceptions (and valuations) of IP assets?

Dependent on how strong the after-effects of the financial crisis and economic downturn are, there are two possibilities. Either the IP sellers market will almost completely break down for some time, in the absence of more strategic buyers (like Coller IP Capital); or there will be a major new focus by CFOs on their companies’ intangible assets (with the aim of monetising existing IP positions). We believe that the latter is more likely to happen. For acquirers of IP, a potentially more effective route, however, would be to consider all-out corporate acquisitions (especially if opportunities exist to acquire smaller public companies whose share price is depressed). If liquidity becomes short for a while – or if a long-lasting recession takes place – companies will most likely react by toning down R&D activity. If this happens, they will generate less valuable patents and/or cash in parts of their IP portfolio. That would result in a buyer’s market for IP. If more IP holders try to go for licences, then they will all eventually have to share in whatever money is available. To argue by extreme extrapolation: we cannot imagine licence payments going up by a factor of 20 throughout industry. The resulting inflation would force a change in legislation. Therefore, this kind of activity will most probably be limited. The story is different where weapons of defence are concerned. If the trolls force licensing too much, or if they become too many, the problem of trolls will find a solution in legislation (a process that is already underway following 2007’s US Supreme Court decisions). Independent of the financial crisis, it looks as if we could see an IP asset bubble over the next five to 10 years, followed by a change in IP legislation. It is already impossible today to clean a complex technology of external IP, or at least to assess and quantify the risk of stepping into a trap. The number of worldwide patent applications is growing rapidly and with the coming more widespread use of IP rights (to make money) and a
changed risk perception among investors driven by the financial crisis, a doom scenario can be imagined where high-tech investment comes to a stop.\(^1\)

It is in this hugely challenging environment that OTB IP Management B.V undertakes it’s task of management and marketing of the Philips patent portfolio.

**B. THE MISSION**

OTB IP’s mission is to market the current technology patents we have in the portfolio to enable the customers to add value to their existing business. OTB IP wants to provide a customized technology focused approach towards monetization of the patents in the Philips portfolio, either individually or in clusters, suited for our customer’s specific needs.

**C. THE MEANS**

The means to achieve maximum value out of the portfolio for investors and customers alike, is to use the skills we have assembled in the OTB IP team to extrapolate opportunities, analyze and formulate targets and use our internal network to reach out to customers, potential licensees or other marketing targets. We have put in place an internal workflow by using our talents in the team to reach our Goals, as set out below. We intent to achieve this by using the skills and talents in our team, added by external specialist data providers. We external expects to analyze companies and their products to focus on specific needs for patents in specific technology areas and prepare for claim chart a analysis of patents, markets and how these read on our patent portfolio.

We furthermore designed an extensive web based environment for the OTB team to undertake the IP management task, based on Microsoft’s SharePoint. OTB customers recive an code for accsesing in depth reports+ documents related to each clustered patents.

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\(^1\) This comment originally appeared as part of Severin de Wit’s contribution to the article "A flight to quality" in IAM magazine, issue 33, published by Globe White Page Ltd, London (www.iam-magazine.com)
D. THE TEAM

We have assembled the best possible team for the task at hand. We have ten full time engineers from the University of NoviSad (Republic of Serbia), most of them PhD’s in the relevant technical fields, headed by two professors of the Novi Sad University. The management team of OTB consists of a former Senior Vice President at Philips Licensing and patent attorney dr. Hans Pennings, a video and audio engineer and software expert, dr. Otto Witte, a long time IP attorney, Severin de Wit and a US patent attorney Patrick O’Shea. Furthermore we have involved (and will continue to do so) external experts from IPEG Consultancy B.V. (prof. Albert Theuwissen, digital imaging experts, dr. Gordon Aspin, dr. Tim Mousley and dr. Brian Minnis, wireless and telecom experts, Bill Rosenblatt, DRM and content support and computer expert and prof. dr. Iain Richardson for reverse engineering purposes. As of May 1, 2009 our team we add Marcus Malek (who is in his final stage of study at Chalmers University in Göteborg, Sweden as an associate.

E. THE GOAL

The Goal is to deliver for investors in this portfolio a reasonable ROI. This mission can only be reached by adding value to our customers’ existing IP portfolio. This in itself causes a challenge, as many customers and target companies are currently being flooded with patent offerings from different parties, brokers and IP professionals. In this competitive fields only those parties will stand out that are being able to present a “must buy” business case for the customer or target. This involves time consuming and expensive reverse engineering as well as a very high degree of preparation before approaching potential customers or targets with our IP. We are preparing claim-charts against special on product(s) we identify as potentially covered by our higherst scoring patents in each cluster\(^2\) or against Industry Standards.

\(^2\) For cluster information, see our website www.otbip.com under Patent Portfolio
F. THE OPPORTUNITY

As this portfolio consists of mostly consumer electronics inventions – known for its relatively short technological shelf live – we aim to deliver our investment goal before 2011. We decided not to focus on short term results, rather than on specific target’s needs.

G. THE RISK

The economic crisis is making it a further challenge to present value propositions to our customers based on our wide variety of patented technologies. There are signs that the IP bubble - if not burst already - has at least started to deflate. The ultimate value of IP exists if a sale or license can be arranged to either an operating company or a strategic buyer, which has at least two risks: (1) they are being flooded with offerings right now and (2) cash is not in great supply and if there is, companies tend to not spend it on other then high priority projects and (3) technology changes rapidly.

H. THE PORTFOLIO

The Philips portfolio consists of approximately 2,000 patents, some 700 families. The technologies were patents we have patents can be found at OTB IP Management B.V ‘s website, www.otbip.com

<table>
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<tr>
<th>1. Video Chip Sets</th>
<th>Video processing in consumer electronics products, Chip sets for video processing</th>
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<tr>
<td>2. Mobile handsets</td>
<td>Mobile phones, wireless networks</td>
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<tr>
<td>4. LCD Plasma &amp; TV Sets</td>
<td>LCD TV-sets, Plasma TV-sets, Rear projection TV-sets</td>
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5. Digital Cameras (Digital cameras, High end mobile phones, Software)

6. Video Servers (Media servers, Digital head ends, Video-on-demand servers)

7. Video Search engines (Online TV and advertising, related services)

8. Video Conferencing (Videoconferencing via ISDN or via IP networks)

9. Digital Right Management (Music, gaming and other content distribution)

I. THE STRATEGY

Many companies, even the more sophisticated ones, need clear indications why it is that they “must have” the IP OTB IP offers to them. In our first contacts with interested companies we learned that there is a dramatic and recent increase in supply of patents offered on the markets by brokers, investment groups, industry participants disposing of their access IP.

This is an opportunity for OTB IP to stand out between the vast number of selling parties, as a result of which we adapted our marketing strategy to allow tailor-made offerings to specific needs of a particular customer. We need to do so by providing market analysis, claim charts, forward looking financial statements and if necessary tear down results or reverse engineering analysis. All this information is supported by intelligent market research data to shape – and if necessary reshape – our sales strategy towards customers and targets.

H. 1. Selling vs. Licensing

In today’s volatile, fragmented technology marketplace, licensing has been the intellectual property strategy of choice. It affords owners a viable means of maximizing revenue, while providing borrowers with cost-effective, relatively risk-free access to the intellectual property of others. However, licensing-in or licensing-out, the process is a complex one, involving, among other things, extensive market research, identifying prospects to sell or buy intellectual property, and successfully managing the relationship which all takes a heavy toll on available monetization budgets. A further major disadvantage of licensing over selling is that for
licensing a window of at least 5-7 years is to be expected, during which time technologies may diverge.

Licensing of IP is a comparatively slow process, both in closing the deals (up to 2 years for the first objects to 5 years for later deals) and in realizing income (2 to 10 years dependent on lifetime of patents). Also, licensing is restricted to parties that are not already licensed by the former patent proprietor, and licensing is bound to encounter a certain level of resistance with objects. On the other hand, selling has the drawback that it can be done only once, although in some cases the possibility of selling to a consortium may be available.

One of the options OTB IP is looking into is carve out some of the high potential patents that have such a broad applicability that it is very unlikely we are able to extract the proper long time value by selling the patent. In that case we aim in setting up a license only vehicle that will acquire the patent(s) and subsequently license the patents on a longer term basis. Alternatively OTB IP is looking for partners to cooperate in this licensing opportunity.

H.2 Selling options

In order to create value from the available IP, it is necessary to find the right buyer, for whom the IP has some particular relevance, and to collect information (generally licensing opportunities) that shows such value to the purchaser. This information becomes part of the sale. This implies that an optimal result will be obtained by making the right deal for every patent or cluster of patents.

H.3 Cluster size

Selling very large clusters makes it unlikely to get the optimal result for all the patents in the cluster. Valuation is complicated, and finding an optimal buyer is unlikely. Selling very small clusters (less than 5 patents) has the drawback of focusing on the strength of individual patents. Cluster size is also related to OTB’s strategy. It is rather illogical to argue that there anything “special” about a very large number of patents. We will endeavor to distinguish ourselves from the herd by providing selling points and selling arguments.

OTB IP will focus on the selling small to medium-sized clusters (8 to 15 patents) that have little technological overlap with other clusters. This allows going after “low-hanging fruit” without doing or enabling any “cherry-picking”. The larger clusters may need to be split up, but should not lose their value by having the most interesting patent sold out of them.
H.4 Litigation Oriented Approach

Although litigating our patents is not our prime goal, OTB has made arrangements with US and European counsel to stand by to initiate patent litigation and Border Detention Orders to enforce our patents when we believe this is appropriate. We strive to offer our customers and interested parties good value for their money, but if we believe one or more of our patents are actually being used without the user ultimately interested in acquiring the patent or taking a reasonable license, OTB IP will use its litigation resources and experience to litigate whenever necessary.

J. THE CHALLENGES

The current economic conditions and the financial crisis we face make the monetization strategy that OTB set out above, a very challenging enterprise. Potential customers or targets for OTB, even if we can convince them to buy clusters, may face financial impediments due to the current crisis preventing them to buy.

We noticed that in the stream of patents that are being offered to various companies, many of our potential customers complained that the sheer number of patents make it impossible to judge which one they like. The big difference sellers can make is to identify which patent(s) read on products of their competitors or, alternatively, indicate why a certain patent has any strategic importance for the customer (with indications why) makes all the difference. Hence we see the need in the OTB management team to assign as much time and effort to “tailor” clusters of patents around specific customer needs. If need be, in case a customer we believe does not recognize the fair value of the offered cluster(s) we may need in the latter part of 2010-2011 refer to legal means to execute the marketing strategy. Although certainly not our first preference, market conditions, or specific information pertaining to a specific cluster of which we believe a party is infringing but refuses to buy or license, we may have to rely on a strategy based on legal action, preferably with means that will “convince” the target to take a license or buy the cluster.
K. THE FUTURE

The OTB team is convinced that despite the formidable challenges it delivers the best team to produce value out of this Philips portfolio. Investors need to be patient however that a positive outcome will not come within a too short time frame, due to the market conditions we described above. We feel that such patience will be rewarded. OTB’s target is to produce results with a fair market value based upon our guidance set out above.

*The Hague, April 2009*