EMMETT J. MURTHA

PRESIDENT & CEO
QED INTELLECTUAL PROPERTY (U.S.A.)
STAMFORD, CONNECTICUT

Emmett Murtha formed Fairfield Resources International in 1997 after 35 years with IBM Corporation. In 2001, FRI was acquired by Scipher P/C and merged into Scipher's QED IP Subsidiary. With the recent acquisition of Yet2.com by Scipher, QED IP is now the largest international IP consulting and licensing firm. The firm serves clients interested in developing, organizing and leveraging their intellectual assets, as well as in related strategy development and licensing transactions.

At IBM, Mr. Murtha was named Director of Licensing in 1981, leading a group which acquired rights from others under patents, copyrights, trademarks and technology, and also granted licenses under IBM's intellectual property. He was responsible as well for worldwide licensing policies and practices. Between 1987 and 1997, IBM's annual royalty revenues grew by over seven thousand percent.

From 1993 Mr. Murtha was responsible, as Director of Business Development, for finding new ways to leverage IBM's intellectual property and related strengths. Again, results were dramatic, with substantial transactions in medical technologies, and a continuous stream of future revenue opportunities clearly identified.

He has been a member of Licensing Executives Society for many years, including as an officer and a member of the Executive Committee. Mr. Murtha was President of the Society 1999-2000. He also headed the Intellectual Property unit of the National Advisory Committee on Semiconductors, is a frequent speaker on licensing, negotiating, and related topics, and is an Editorial Board member and a contributor of *The Licensing Journal* and *Patent Strategy and Management.*

Mr. Murtha has a degree in Accounting from the University of Connecticut and has completed executive programs at Columbia University Graduate School of Business and Harvard Business School. He is a member of the Board of Directors of the University of Connecticut Research and Development Corporation, and has served as a Director of several early stage high tech companies, as well as a member of the Advisory Boards of the Intellectual Property Management Institute and of the Information Technology Fund, which invests in emerging high technology companies.

01/03

LICENSING AS A BUSINESS

TWELFTH ANNUAL ADVANCED LICENSING INSTITUTE

FRANKLIN PIERCE LAW CENTER

July 15, 2003

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Licensing as a Business

- Trends in Intellectual Property
- US patent royalties
- Alternatives to licensing
- IP management styles
- Success factors
- Royalty benchmarks
- Examples of non-core licensing
- IP profile: large high tech companies
- Case study: IBM Corporation
- Lessons learned
- Common myths
- Patent factory
- Licensing process
- Expanding your licensing opportunities
  - Outsourcing
  - Risk management

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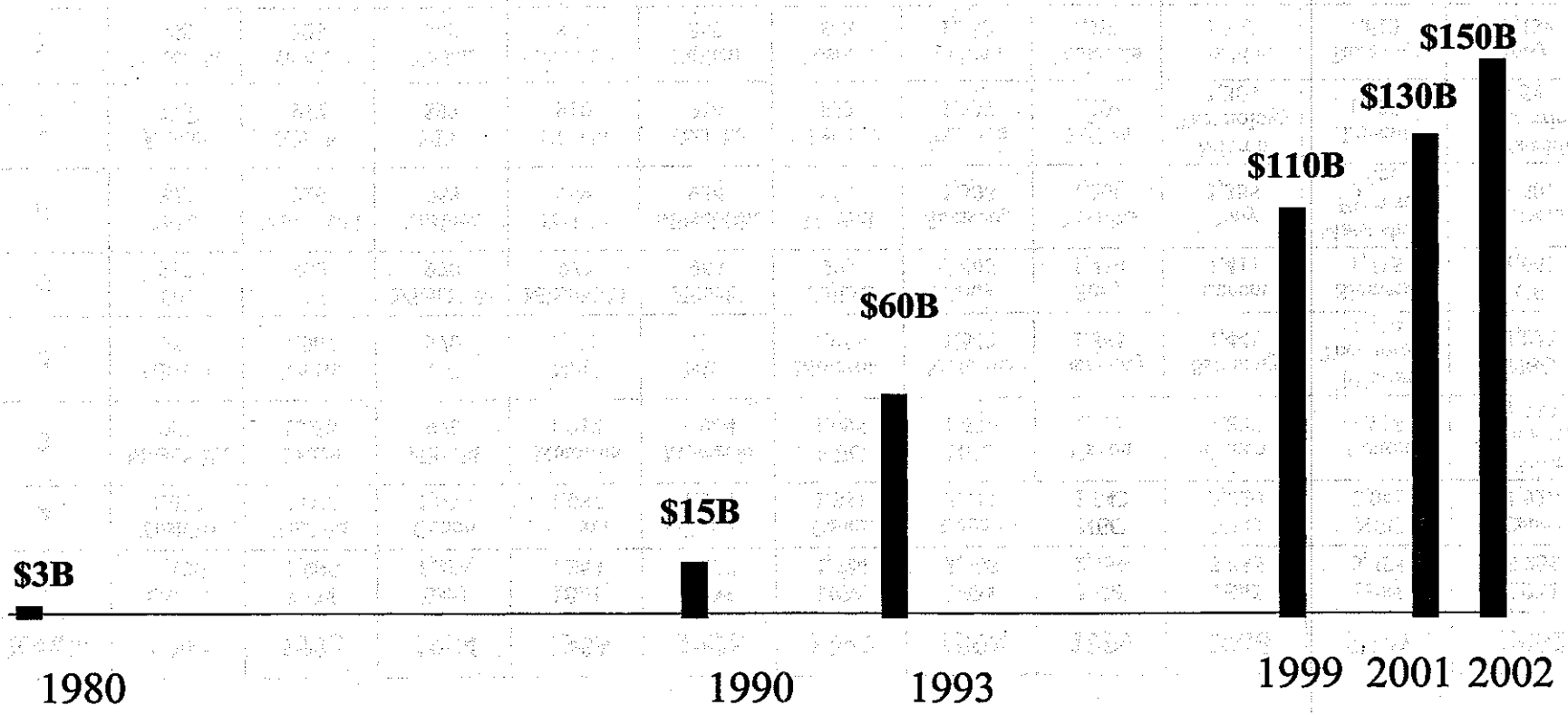
Trends in Intellectual Property

US Patents Issued for Top 10 Companies

Rank	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1	Canon 1,106	IBM 1,085	IBM 1,298	IBM 1,383	IBM 1,867	IBM 1,724	IBM 2,685	IBM 2,756	IBM 2,886	IBM 3,454	IBM 3,288
2	Toshiba 1,020	Toshiba 1,040	Canon 1,096	Canon 1,087	Canon 1,541	Canon 1,381	Canon 2,011	NEC 1,842	NEC 2,020	NEC 2,041	Canon 1,926
3	Mitsubishi 957	Canon 1,038	Hitachi 976	Motorola 1,012	Motorola 1,064	NEC 1,095	NEC 1,639	Canon 1,795	Canon 1,890	Canon 1,918	Micron Technology 1,833
4	Hitachi 951	Kodak 1,007	GE 970	NEC 1,005	NEC 1,043	Motorola 1,058	Motorola 1,542	Samsung 1,545	Samsung 1,441	Micron Technology 1,724	NEC 1,821
5	GE 937	GE 932	Mitsubishi 970	Mitsubishi 973	Hitachi 963	Fujitsu 903	Sony 1,445	Sony 1,410	Lucent 1,411	Siemens 1,715	GE 1,667
6	IBM 842	Mitsubishi 926	Toshiba 968	Toshiba 969	Mitsubishi 934	Hitachi 903	Samsung 1,308	Toshiba 1,200	Sony 1,385	Matsushita Electric 1,666	Hitachi 1,601
7	Kodak 775	Hitachi 912	NEC 897	Hitachi 910	Toshiba 914	Mitsubishi 892	Toshiba 1,237	Fujitsu 1,193	Micron Technology 1,304	Lucent 1,633	Matsushita Electric 1,544
8	Motorola 658	Motorola 729	Kodak 888	Matsushita 854	Fujitsu 869	Toshiba 862	Fujitsu 1,232	Motorola 1,192	Toshiba 1,232	Samsung 1,623	Sony 1,434
9	Fuji 640	Matsushita 712	Motorola 837	Kodak 772	Sony 855	Sony 859	Kodak 1,145	Lucent 1,152	Motorola 1,196	Hitachi 1,494	Siemens 1,429
10	Matsushita 608	Fuji 632	Matsushita 771	GE 758	Matsushita 841	Kodak 795	Mitsubishi 1,092	Mitsubishi 1,054	Fujitsu 1,147	Sony 1,443	Hewlett Packard 1,390
US Total	107,394	109,746	113,587	113,834	121,696	124,068	163,147	169,086	175,980	183,975	184,531

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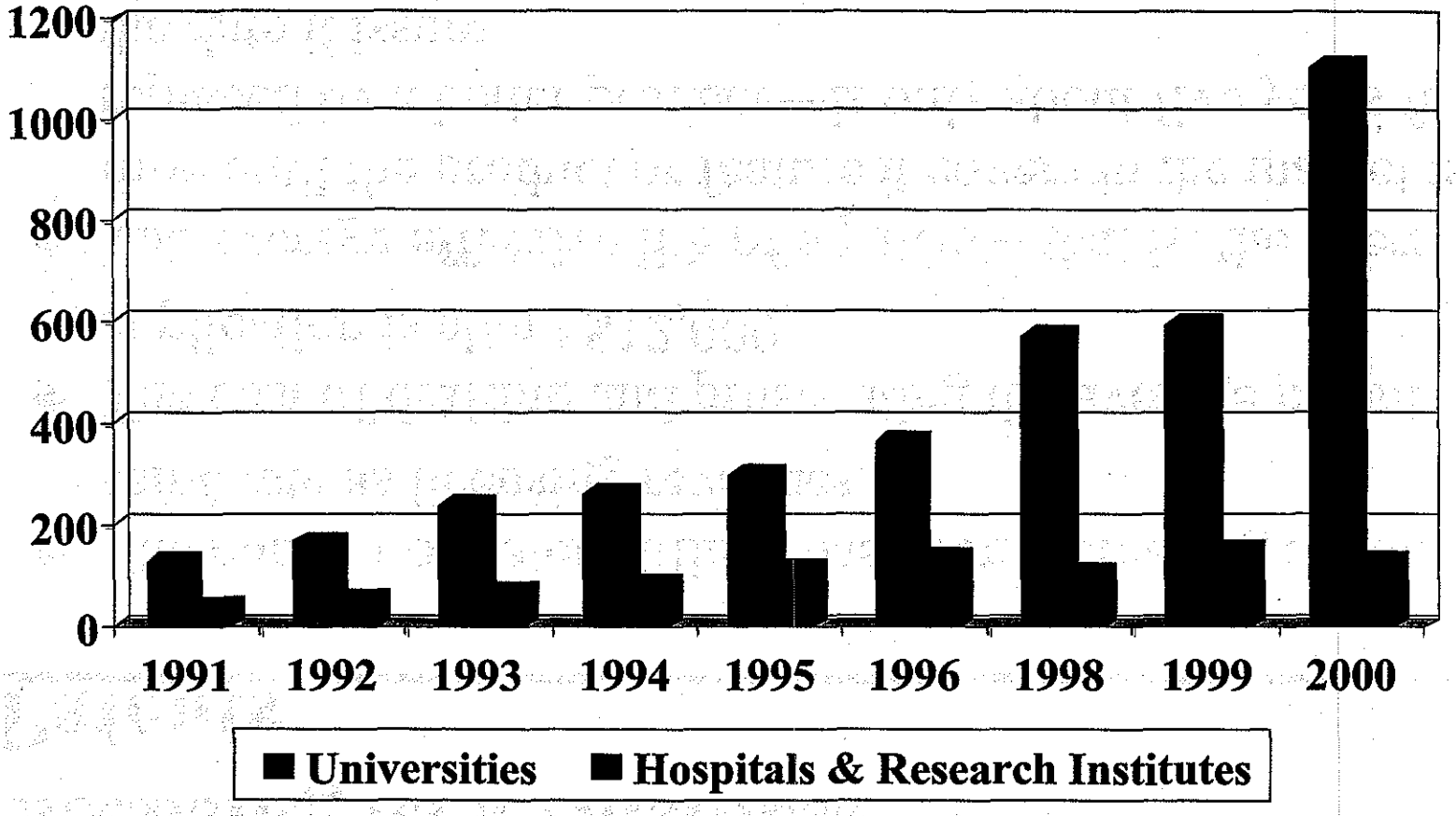
US Patent Royalties*



*Based on *The Economist, The Patent Wars, SmartPatents and Todd Dickinson (US Commissioner of Patents and Trademarks)*

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Patent Licensing Revenues for U.S. Universities, Hospitals and Research Institutes



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Licensing as a Business
Patents

- The number of patent filings has been increasing at about the same rate as licensing revenues.
- The cost of drafting and prosecuting the average patent application is about $12,000.
- The average **effective** life of a patent—that is, the average time until the product or feature it covers in the market is replaced by a better product—is only about five years from the date it issues.
- Only thirty-seven percent of U.S. patents are renewed 11.5 years after they issue.

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Licensing as a Business
Patent Licensing

- About 3 percent of all patents are licensed.
- In 2002, U.S. patent licensing revenue will reach about $150 billion.
- The average licensing value of any random patent is roughly $216,000.
- The bottom 50 percent of patents account for only about 10 percent of aggregate patent value, while the top 10 percent of patents account for about 40 percent of it.

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Licensing as a Business
Patent Licensing (Cont'd)

- Ninety-seven percent of patents are not licensed. The majority of patents are not licensed because the technology they protect is not useful, feasible or marketable. But many are not licensed because their owners secure more value by monopolizing the technology than by licensing it out. This is especially true in small or niche markets.
- Many people would argue that most of the value of patents lies not in what is actually collected from litigation or licensing, but from the market advantage they secure.

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Licensing as a Business
Patent Litigation

- Only about 1 percent of U.S. patents are ever litigated.
- Only 54 percent of patents that are litigated are held valid.
- Plaintiffs win the whole case about half of the time.
- In 1000 patent trials from 1990-1999, there were only 249 money damage awards.
- The average district court patent damage award is $18 million. (Median is $5 million.)
- Attorney fees and costs average about $1.5 million per side.
- A victorious plaintiff wins attorney fees and costs about half of the time.

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Licensing as a Business
Patent Litigation (Cont'd)

- About 61 percent of damage awards are appealed. About 32 percent of these are reversed and remanded, 41 percent affirmed and 26 percent modified.
- The average litigated patent is litigated 10 years after it is filed.
- Litigation lasts an average of at least two years.

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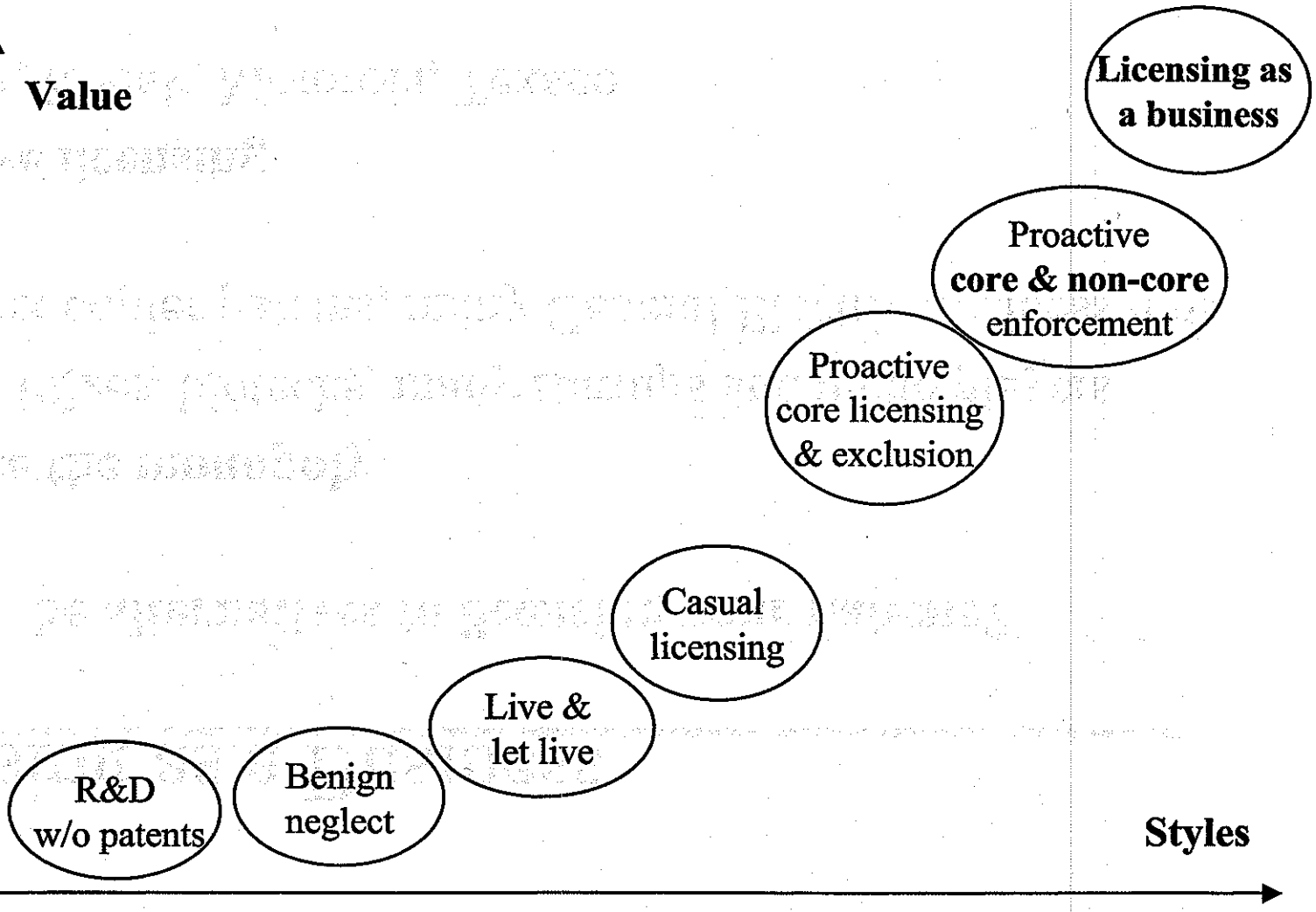
Licensing as a Business

What are the alternatives to licensing your patents?

- **Practice the monopoly**
  - 3M, Pfizer, biotechs, many startups and niche players
  - Xerox copier patents, many General Electric business units
- **Selective licensing**
  - Intel, Kodak, Motorola, Texaco
- **Licensing as a business**
  - Canon, Dow Chemical, Texas Instruments, Lucent & IBM

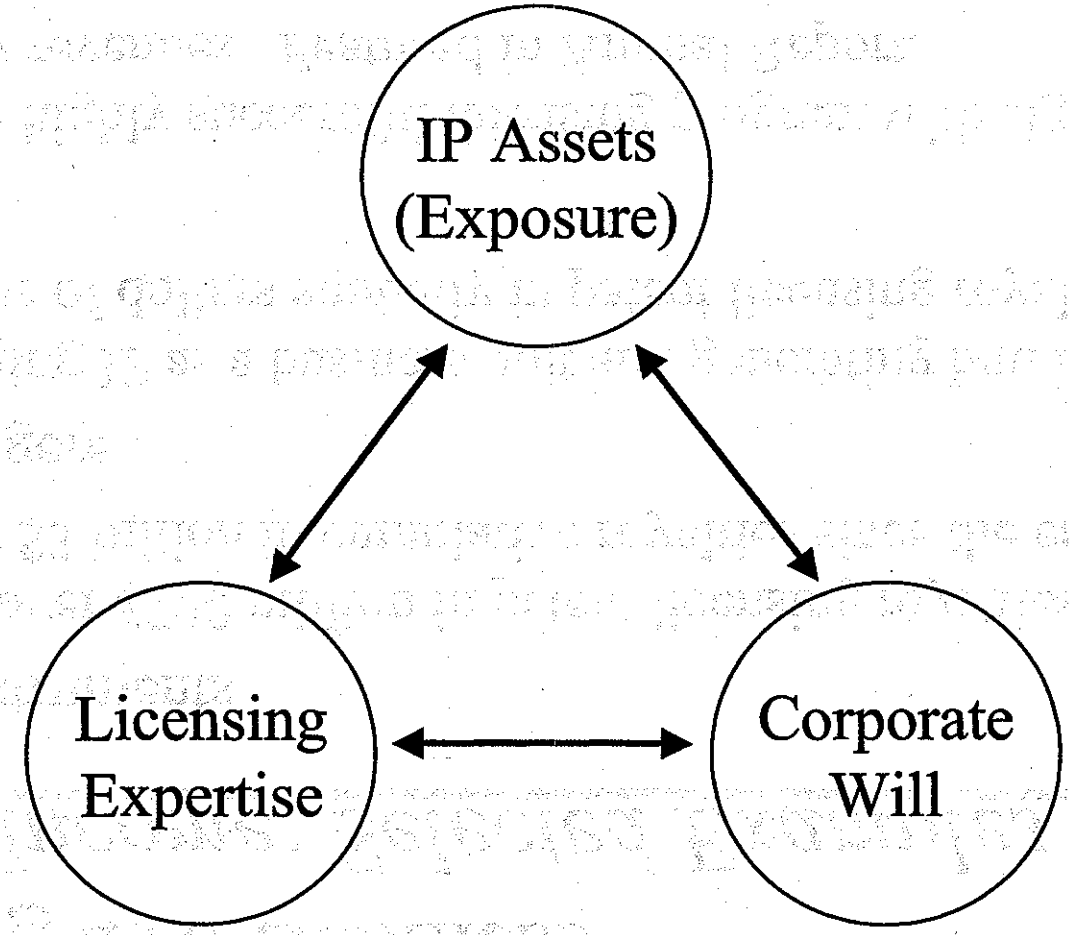
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IP Management Styles



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Success Factors



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Licensing as a Business
Royalty Income: Selected Examples

- Texas Instruments
  - Made over $700 million in patent licensing royalties in 1995 and almost $3 billion in cumulative royalties since the early 1980s
- Lucent/Agere
  - Managing IP as a business unit and generating hundreds of millions of dollars annually in patent licensing royalties
- Canon
  - Runs a highly successful licensing program with significant royalty revenues. Featured in Annual Report.
- IBM
  - Generating $1.6 billion annually in royalty income, which grew nearly 10,000% since 1987

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Examples Of Non-Core Licensing/Sale

npanyNon-Core Activities	***Income***	
Honeywell	Auto focus patents licensed broadly	$400M+
Eximer laser p		

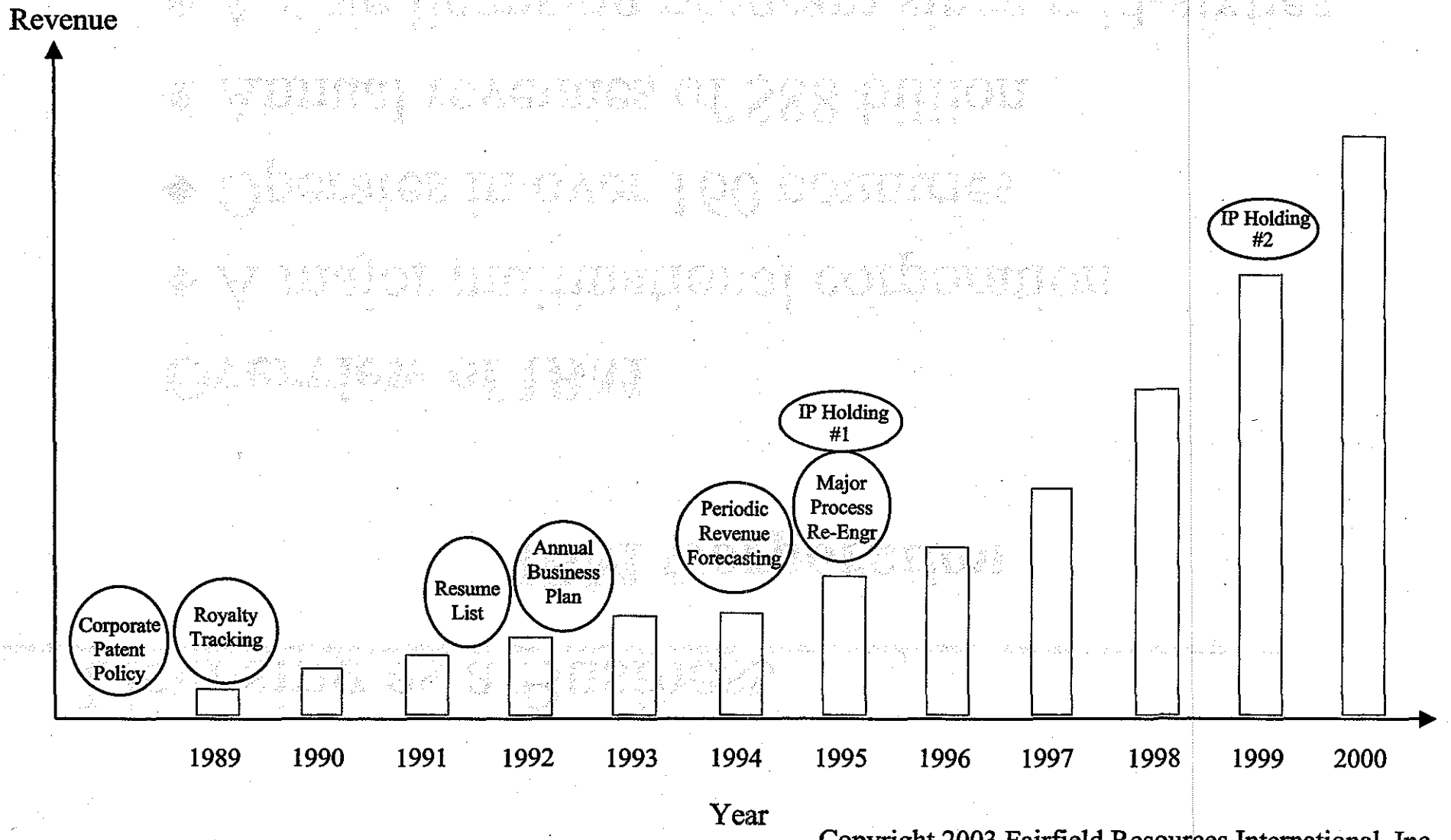
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Intellectual Property Profile of Typical Fortune 100 High-Tech Companies

Metrics	**Present**	**Potential**
Royalty income	<$10MM	$100 to $500MM
% of market li		

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Evolution of Patent Licensing Business at Lucent



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Licensing as a Business

IBM Corporation

Overview of IBM

- A major multinational corporation
- Operates in over 160 countries
- Annual revenues of $88 billion
- Active licensing program since mid-sixties

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Licensing as a Business

IBM's IP Assets

- Approximately 34,000 patents worldwide
  - Leader in U.S. patents issued since 1993
- Over 10,000 trademarks
- Vast portfolio of technology and software
- All intellectual property controlled by HQ
- Centralized licensing management
  - Licensing activity run as a business
  - Multinational staff
- Over 1300 active patent license arrangements
  - Almost half non-U.S.

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Licensing as a Business

- In 2001, IBM got twice as many patents as in 1997
- IBM received 1400 more patents than #2 NEC
  - The margin in 1997 was only 343
- Breadth of new patents (for 2000)
  - 1000 in software
  - 1000 in microelectronics
  - 400 in storage
  - 500 more in other areas
- One third of the IBM technologies patented in 2000 were already in the marketplace

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Licensing as a Business

IBM's Licensing Policy & Practices

- Information handling systems
  - Generally open licensing policy
  - Non-discriminatory terms
  - Reasonable worldwide royalty rates
  - 1% sales revenue per patent used; maximum of 5%
  - $25,000 creditable fee
  - No minimum payments
  - IBM gets a license option - on same terms
- Other fields (non-core)
  - Laser, medical, chemical
  - Case by case

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Licensing as a Business

IBM Corporation

Licensing Objectives

- Maximize return on intellectual property
  - IP is not like other assets:
    - » It is not on the balance sheet
    - » return highly profitable
    - » short shelf life
- Secure freedom of action through cross-licensing
  - Assure developers not blocked
- Promote open systems and greater use of IBM technology
  - by granting access
  - software availability for customers
- Gain access to other technologies
- Enable vendor and manufacturing relationships

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Licensing as a Business

Practices reviewed periodically

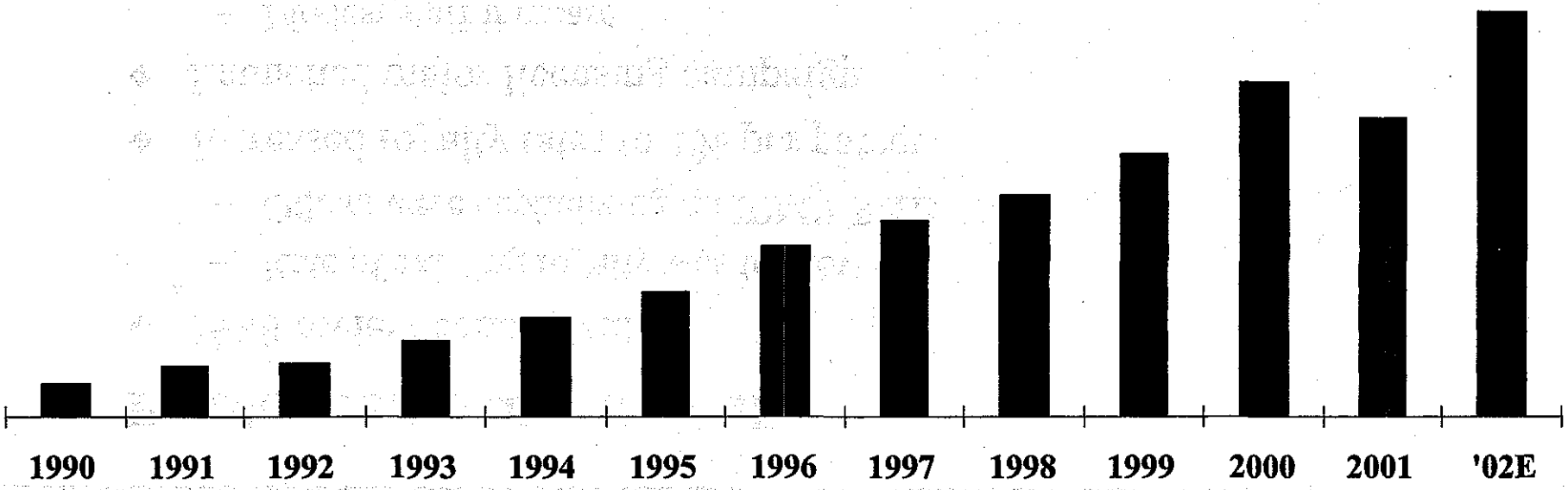
- 1988 review concluded:
  - Rate of existing royalty was too low
  - Others were capitalizing on IBM's R&D
- Increased royalty rates to 1% per patent
- Launched major licensing campaign
  - Modest staff increase
  - **Involved divisional resources**
    - » Analysis, infringement proof, patent review, increased filing

Results:

- Revenue grew by nearly 10,000% since 1987
  - **All income credited to divisions**
- Minimal litigation

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IBM's Licensing Income



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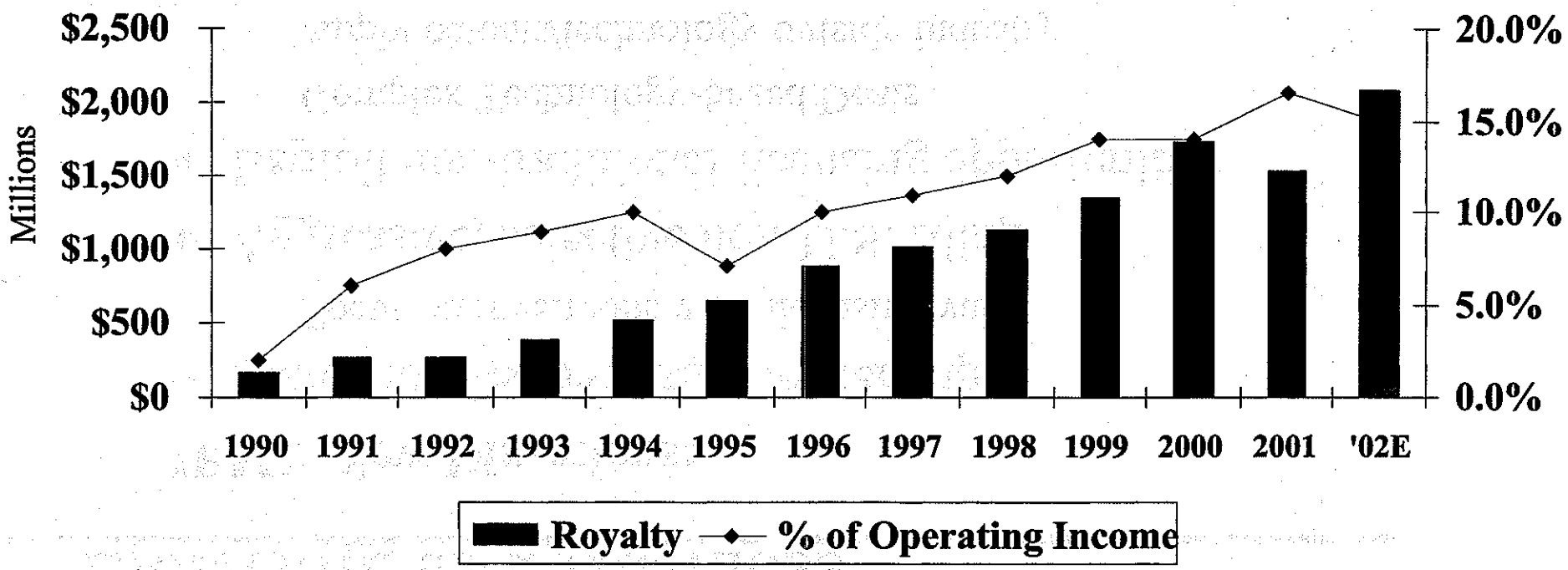
Licensing as a Business

IBM's New Directions:

- Maintain U.S. patenting leadership
  - Focus on inventions with licensing value
- Aggressive, selective non-U.S. filing
- Exploit non-traditional licensing opportunities
  - Complex Technology-based Deals
  - Apply patents/technology outside industry
    - » Laser medical/dental
    - » Polymer chemistry
    - » Electronic entertainment
    - » Medical diagnostics and instruments
- Trademark licensing
- Involve outside consultants and engineers*

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IBM's Patent and Technology Royalty Revenues 1990-2002



Source: Salomon Smith Barney

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Licensing as a Business

Lessons Learned at IBM

- Intellectual property is easily undervalued
- A persistent, professional and reasonable program can yield surprising results
- Involvement of business units is vital
- Litigation is a risk, not a necessity

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Common Myths about Patent Licensing

Myths	***Reality*** All it takes to generate licensing income like IBM and Lucent is to assign staff.

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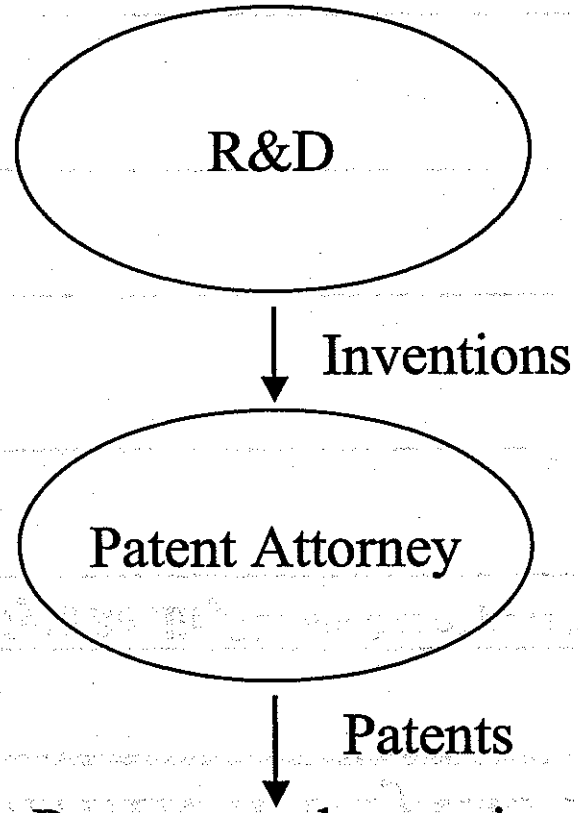
Common Myths About Patents & Licensing

Myth	**Reality** The number of patents is the most importantfactor in the licensing business.Many major A

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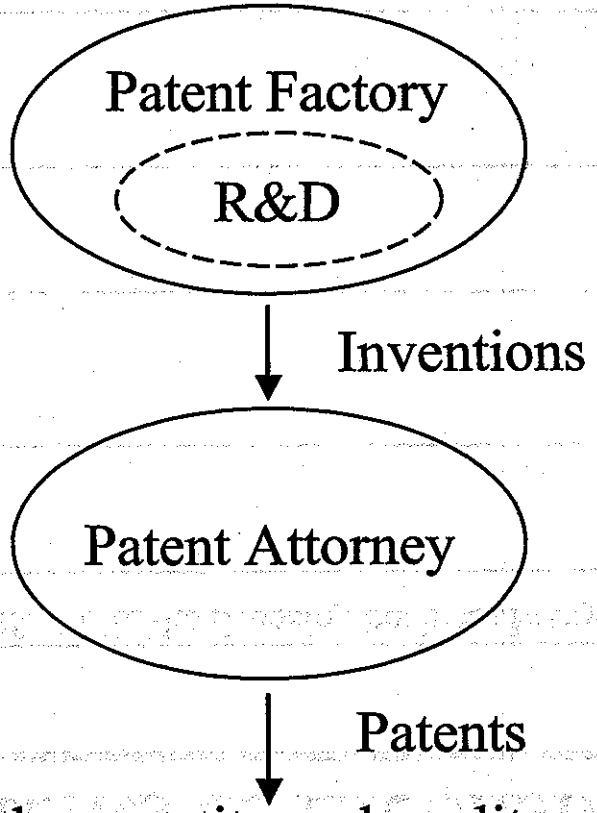
Patent Factory

Traditional Approach



Patents are the passive result of R&D!

Improved Approach

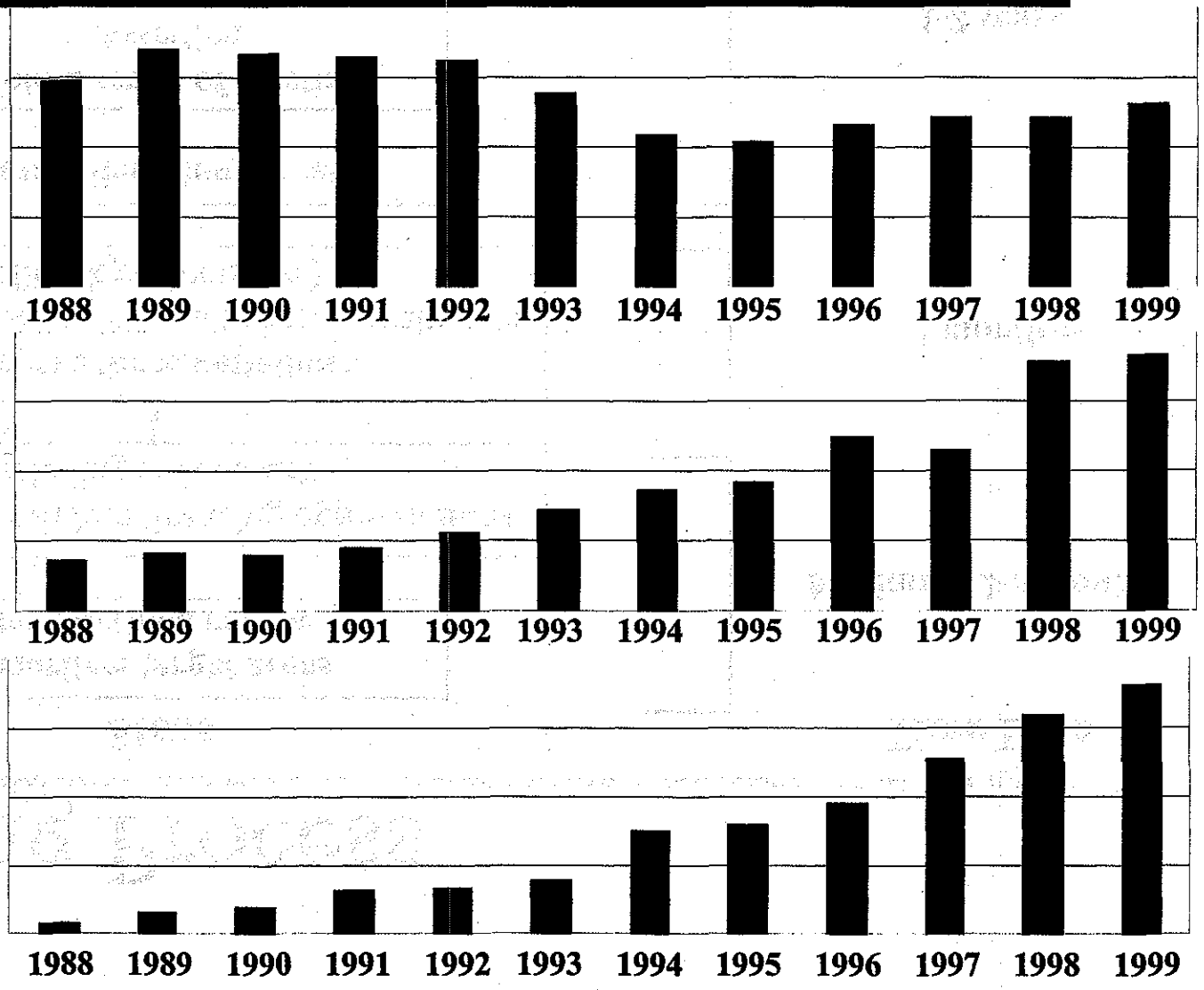


Both the quantity and quality of patents are controlled by the patent factory!

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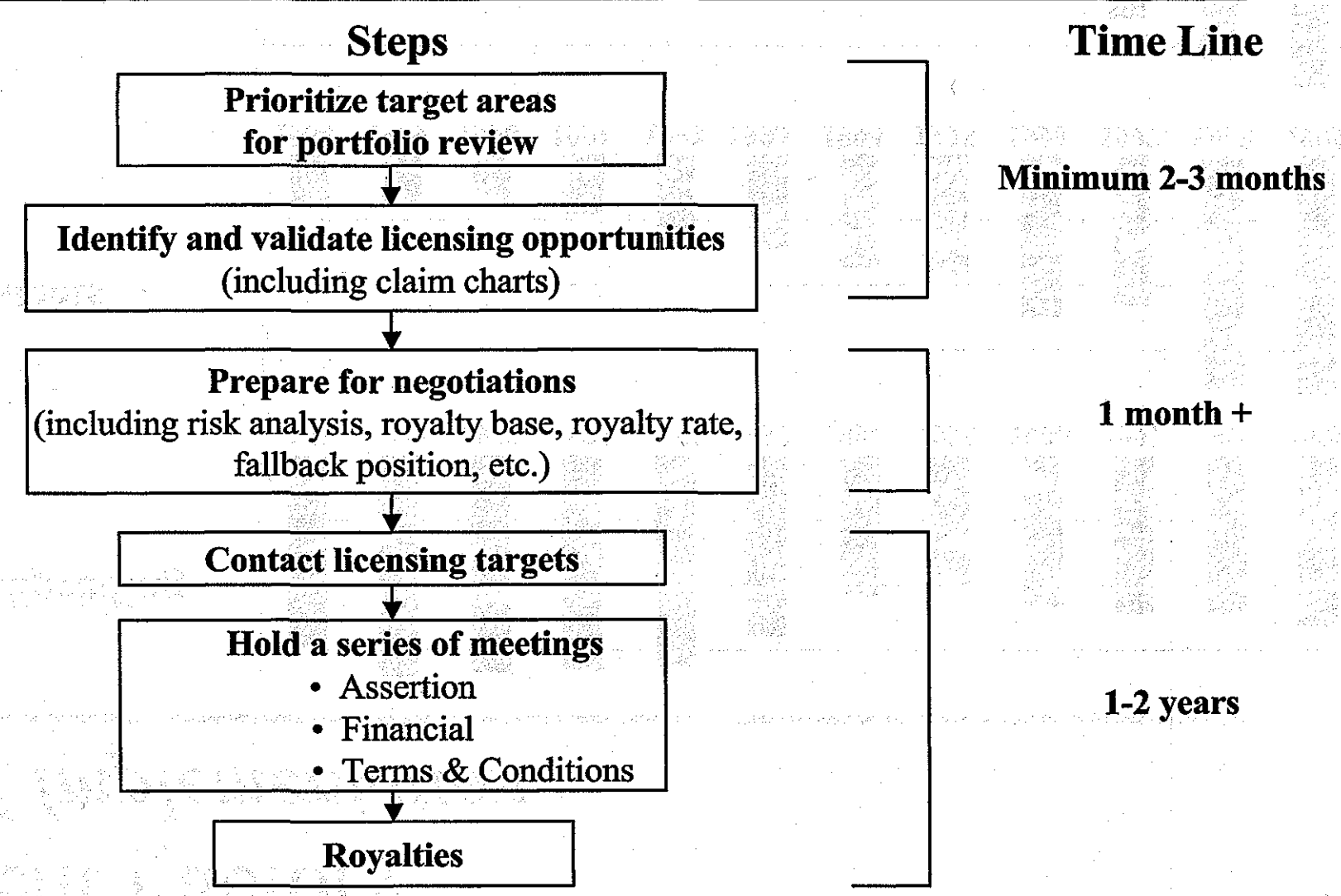
Patent Factory

IBM Implementation



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Licensing Process



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Licensing as a Business
Key Benefits of IP Outsourcing

Dimension	**General**	**Specific**
Revenue	Experience, contacts, reputation	Expertise in non-co

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Licensing as a Business
Risk Management in Outsourcing

- The client should control:
  - Licensing terms
  - Litigation
  - Press releases
- Trial candidates with minimal impact on core licensing:
  - Non-core patents
  - Patents from abandoned businesses or projects
  - Industries with minimum overlap with core licensing
- Performance metrics and success-based compensation

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Licensing as a Business
Summary and Conclusion

- Licensing is a **Strategy**, not an event
- Royalty revenues are **Pure Profit**
- Portfolio quality is the key
- Extend your capabilities with outside help

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Ce qui est bien, c'est que la vie est belle.

Ce qui est mal, c'est que la vie est courte.

Ce qui est bien, c'est que la vie est courte.

Ce qui est mal, c'est que la vie est belle.

Examples Of Non-Core Licensing/Sale

Company	*Non-Core Activities*	*Income*
Honeywell	Auto focus patents licensed broadly	$400M+
IBM	Eximer laser patents sold to LaserSight	$15M
	Wave division multiplexing patents sold to Tellabs	$6M
Cirrus Logic	Graphics patents sold to S3	$40M
Dytel	Voice processing patents sold to Syntellect	$3.7M
Lucent	Various non-core programs covering musical instruments, consumer electronics, office products, healthcare, horticulture, automotive, manufacturing, toys, PC software, etc.	Confidential
GE	Highly established non-core programs covering various markets	Confidential

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