

The United States Patent Utility™

Subscription platform unlocks the value of patents

December 4, 2014

Prepared for



Prepared by



The U.S. Patent Utility™ Investor Summary

1. **Patent Properties recently launched The United States Patent Utility**
 - Platform model offers an entry level patent plan for businesses of all sizes, on monthly subscription basis
 - Includes licenses to targeted patents, legal support, and valuable information services
2. **Problem: Patented technologies are now ubiquitous, but most companies struggle to understand the associated risks and opportunities**
 - For all but the largest companies, it is difficult to access new innovations, monetize patent portfolios, manage legal risks, obtain useful patent information
 - The need for a viable patent market is increasing, due to the central role of patented technology in the U.S. economy and the rising costs of existing market inefficiencies
 - 230k+ U.S. businesses are acutely affected, representing a initial market opportunity of \$3.3 billion
3. **Solution: The U.S. Patent Utility provides a cohesive service platform to unlock patent value**
 - Connects companies & inventors for mutual benefit: generates revenue, opportunities, and reduces risk
 - Innovative platform solution uses Big Data analytics & no fault licenses to create market for licensing transactions
4. **This solution is coming at the right time, backed by the right team**
 - Jay Walker & Jon Ellenthal - core team has patent savvy, experience in scalable enterprise (Priceline, Synapse, Walker Digital)
 - Uses elements of existing successful business models, e.g. Priceline (unlocking perishable inventory), Synapse (innovative subscription platform)

The U.S. Patent Utility™ Investor Summary

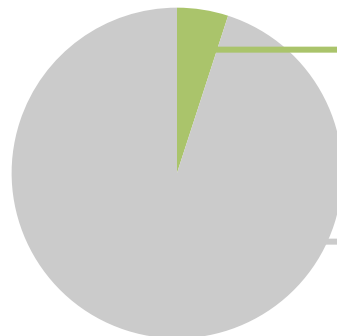
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Inefficiencies in Current Patent System

Process not scalable; largest companies dominate

- The U.S. Patent System exists to encourage innovation & commercialization
 - Inventors are granted transferable patent rights in exchange for disclosing their invention
 - U.S. economy depends on collective ability to invent and use inventions commercially
 - Patents are massively underutilized asset - \$1T in annual waste by U.S. firms, according to Forrester Research
- However, most companies and organizations are left out of patent activity, particularly licensing
 - Patent licenses are currently transacted in small groups via litigation-based processes – expensive and inefficient
 - Only very large companies have the financial resources and legal expertise to navigate these transactions
 - No affordable way for small and mid-sized firms to find critical information about patents
 - Most patents lack sufficient value to justify today's transaction costs, so are stuck on commercial sidelines
- As a result, the vast majority of organizations are not strategic in managing patents, missing out on valuable opportunities and vulnerable to increased risk

Of the 2.3 million active U.S. patents...

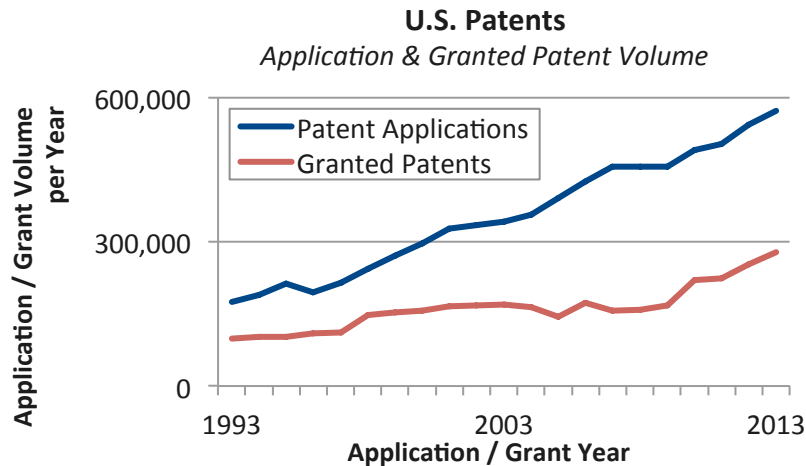


... only 5% of patents generate revenue
\$50 billion market for U.S. patent licensing,
dominated by large companies e.g. **QUALCOMM**

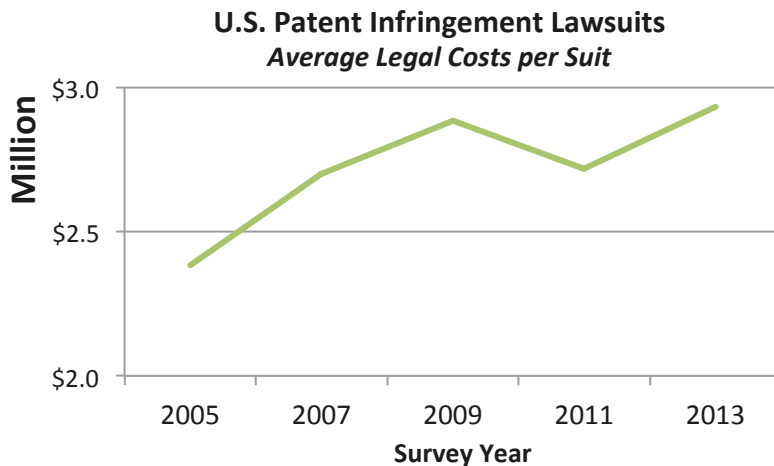
95% generate no revenue
Unknown potential market size

The Problem is Growing

Need for an entry level solution is increasing



- More than 500k patents filed per year in the U.S.
- Patented technology is increasingly ubiquitous (overlapping, across supply chain)
 - Economy ever more dependent on intangible assets, including patents
 - Global competition intensifies need for ongoing improvements to products & services



- Rising legal costs for enforcement and licensing
- Using litigation as the primary tool to force licensing is increasingly untenable
 - More challenging risk environment – growing concerns among in-house counsel

Identifying Target Market for The Utility

Segmentation by geography, revenue, industry, patent ownership

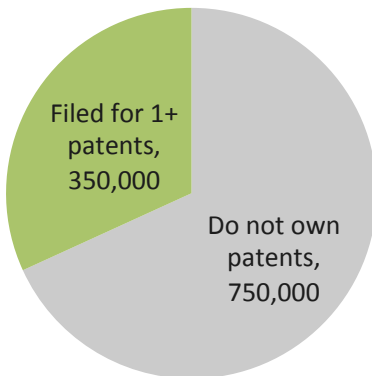


Geography: Utility initially offered in the United States



Patent Ownership

*U.S. business patent activity
Active patents & applications only*

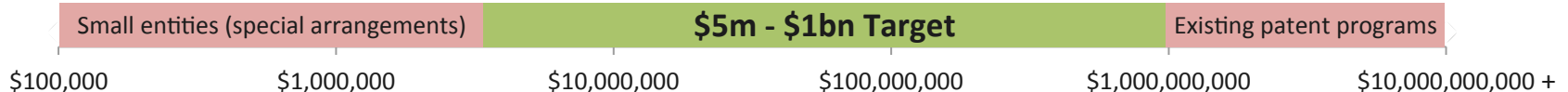


Target Sectors: Top 10 by patent lawsuits

Top 10 industries for patent infringement cases, 1995 - 2013

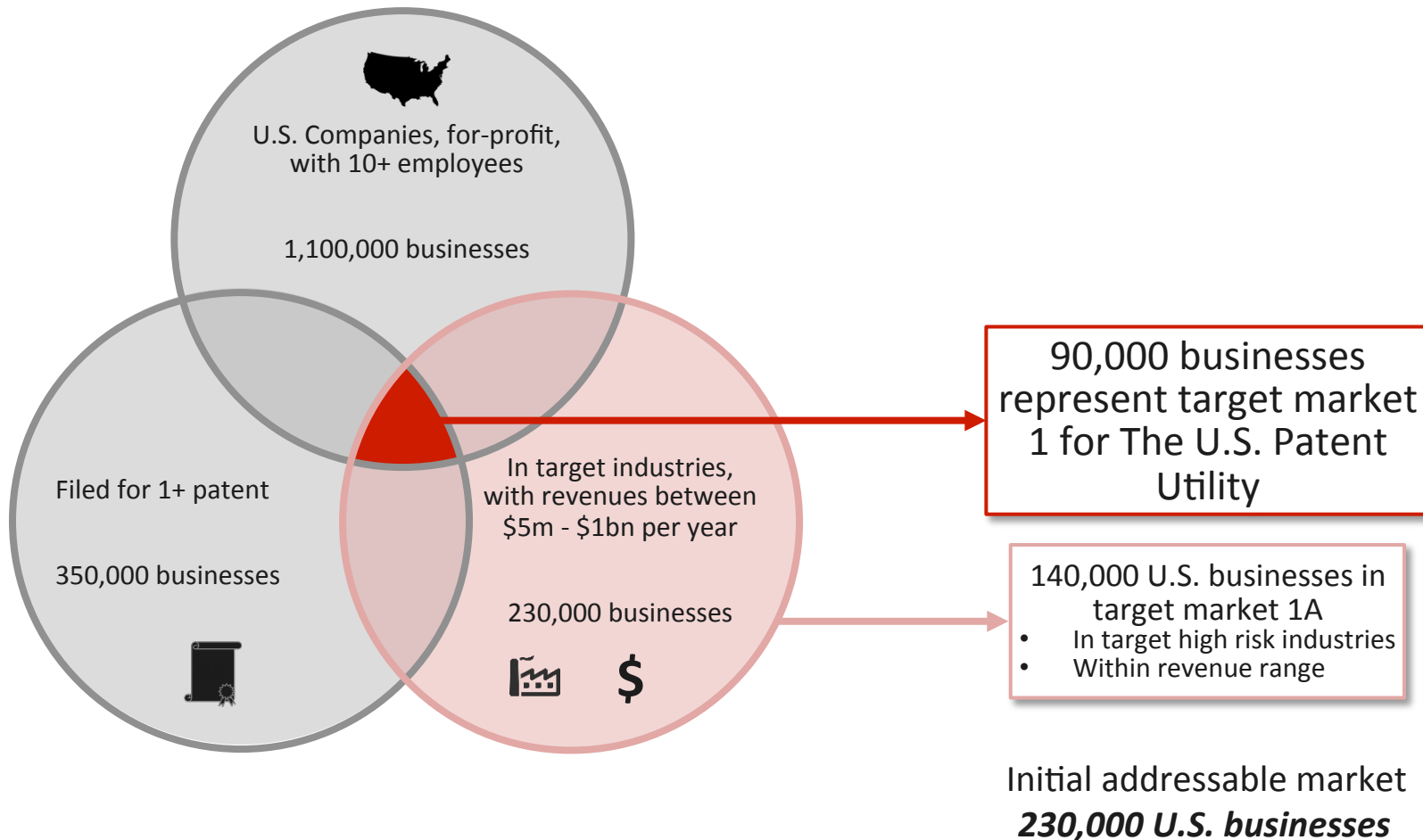
- Consumer Products (17% of cases in top 10)
- Biotechnology / Pharma (14%)
- Industrial / Construction (11%)
- Computer Hardware / Electronics (10%)
- Medical Devices (9%)
- Software (7%)
- Business & Consumer Services (6%)
- Telecommunications (5%)
- Automotive / Transportation (5%)
- Chemical / Synthetic Materials (5%)

\$ Annual Revenue:



Over 230k Businesses Face High Risk, Miss Opportunities

Segmentation by geography, revenue, industry, patent ownership



The Resulting Opportunity for Patent Properties

Sizing the initial addressable market of potential Utility subscribers

| | |
|---|-------------------------------|
| Number of companies in target market 1 <i>(High risk industries, have filed for at least 1 patent, U.S. going concerns, full time, 10+ employees, within target revenue range)</i> | 90,000 |
| Number of companies in target market 1A <i>(Have not filed for patents, otherwise same demographics as primary target)</i> | 140,000 |
| Total initial addressable market | 230,000 potential subscribers |
| Annual subscription fee for U.S. Patent Utility | \$14,400 |
| Estimated initial addressable for target industries | \$3.3 billion per year |

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The U.S. Patent Utility™ Addresses the Problem (1 of 2)

Core subscription features, \$1,200 per month flat rate

No Fault Patent Licensing



- Semantic matching engine uses big data to pair businesses with relevant patents
- 50 licenses included per subscriber
- Licenses to patents are without implication of infringement
- Subscribers listing their patents in Utility's licensing catalog qualify for a 5 year licensing revenue guarantee and an immediate advance
- Startups and small entities can subscribe with deferred billing for 2 years

Increases access to innovation, reduces business risk and licensing revenue

Financial & Legal Services



- Semi-annual review of patent legal & competitive environment with Utility-provided litigation counsel
- Legal defense cost relief of up to \$500,000
- Annual discounts on new patent filing service up to \$25,000

Gives low-cost access to legal support on patent issues

Information Services

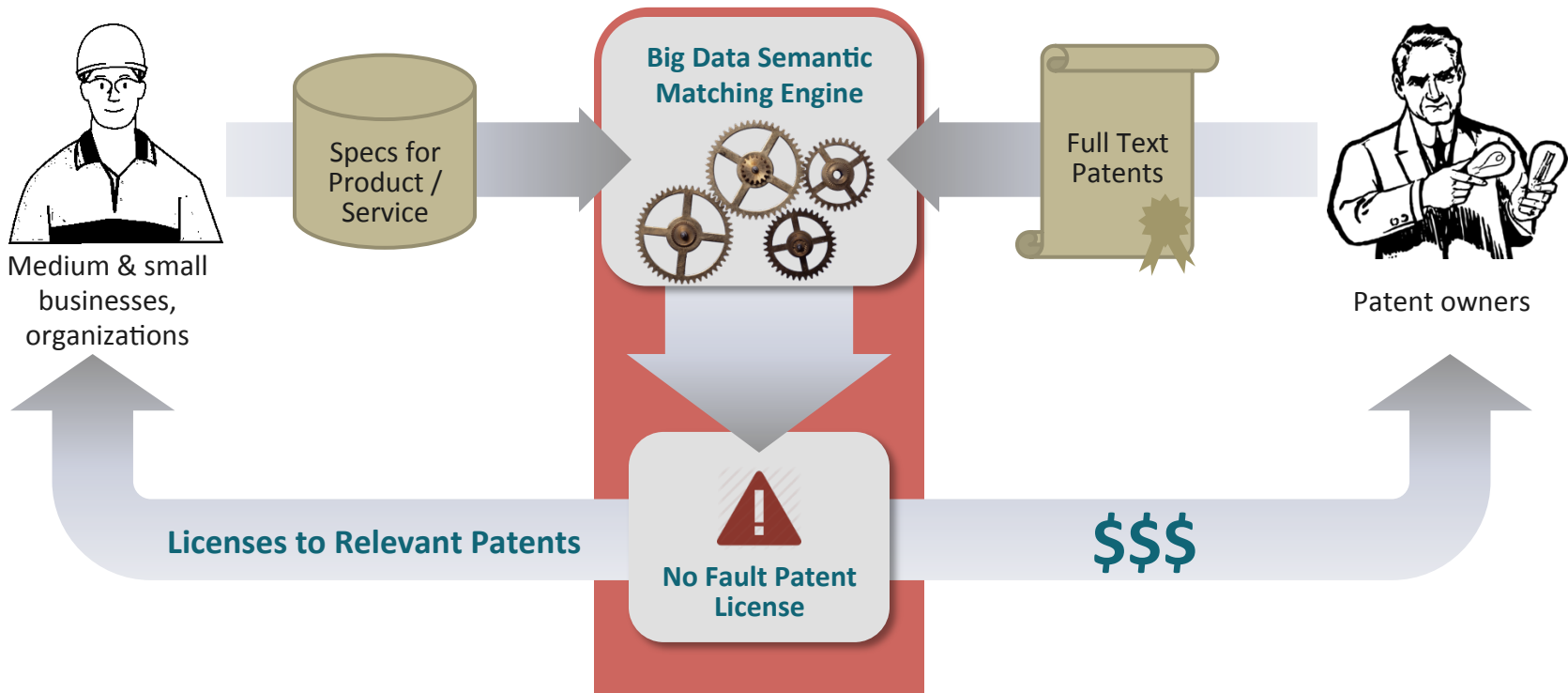


- Subscribers access detailed patent information, driven by 3rd party and proprietary data
 - Litigation reports to assess risk environment
 - Competitor reports to see what new products might be coming
 - R&D reports on complementary technologies, to improve products/services

Increases subscriber insight into their patent landscape

The U.S. Patent Utility™ Addresses the Problem (2 of 2)

No-fault license through data engine is key to establishing viable market



- Allows transactions without implication of fault, eliminating lawsuit risk
- Drives straightforward monetization of the “frozen 95%” of patents
- Enables increased access to innovation for businesses, revenue for inventors

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Core Leadership Team

Expertise in IP and scaling innovative businesses








- Hands-on experience establishing and scaling disruptive, market changing business models
- Deep expertise in intellectual property and innovation



Jay Walker



Jon Ellenthal

- Founder:    
- CEO: 
- Previous CEO:  
- Prolific inventor with over 700 patents

Building on Previous Successful Business Model Innovations



(Direct marketing subsidiary of Time Warner)

Connecting customers through new channels

- 30 million customers and 2 billion pieces of consumer promotion each year
- Co-founded by Jay Walker



Creating a marketplace for unique, perishable products, benefiting buyers & sellers

- Founded by Jay Walker in 1997, now ~\$60 B company



THE AMERICAN SOCIETY OF COMPOSERS,
AUTHORS AND PUBLISHERS

Connecting mass-market user groups with efficient bundled licensing

- Manages rights to over 8.5 million musical works
- Unlike The Utility, is not a neutral arbiter & will sue infringers (represents content owner rights)

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APPENDIX



Initial Target Market Calculations

Geography

| Data description | Number of businesses | Source |
|---|----------------------|------------------|
| Total number of businesses in the U.S. | 5,600,000 | U.S. Census 2011 |
| Number of businesses fulfilling demographic criteria – full time, 10+ employees | 1,100,000 | U.S. Census 2011 |



Initial Target Market Calculations

Industry

| Sector | Number of relevant businesses | NAICS codes used to cross-categorize (de-duplicated) | Source |
|---------------------------------|-------------------------------|--|---|
| Consumer Products | 208,153 | 31-33, 44-45 | U.S. Census 2011 business data by NAICS codes |
| Biotechnology / Pharma | 13,188 | 3254, 541711 | |
| Industrial / Construction | 107,009 | 21, 23 | |
| Computer Hardware / Electronics | 5,553 | 334 | |
| Medical Devices | 2,567 | 3391 | |
| Software | 10,462 | 51121, 334611, 541511 | |
| Business / Consumer Services | 332,760 | 51, 54, 56, 61, 71, 81 | |
| Automotive / Transportation | 4,734 | 336 | |
| Chemical / Synthetic Materials | 4,001 | 325 | |
| Telecommunications | 2,503 | 517 | |
| Total | 690,930 | | |



Initial Target Market Calculations

Annual Revenue

| Industry | Number of businesses in target revenue range (\$5m – \$1bn) | Source |
|---|---|--|
| Consumer Products | 112,870 | U.S. Census 2011 business data by NAICS codes and revenue data |
| Biotechnology / Pharma | 2,515 | |
| Industrial / Construction | 51,552 | |
| Computer Hardware / Electronics | 3,436 | |
| Medical Devices | 929 | |
| Software | 3,653 | |
| Business / Consumer Services | 66,997 | |
| Automotive / Transportation | 2,782 | |
| Chemical / Synthetic Materials | 3,137 | |
| Telecommunications | 1,247 | |
| Total | 258,561 | |
| | | |
| % of businesses in target industries with non-target legal forms of organization (non-profit, government) | 10.71% | |
| Total businesses excluding non-target LFOs | <u>230,874</u> | |



Initial Target Market Calculations

Patent Filing Activity

| Number of patent filings | Estimated number of U.S. companies | Source |
|--------------------------|------------------------------------|---------------------------------|
| 1-5 | 265,872 | Metadata provided by Innography |
| 6-9 | 40,746 | |
| 10-19 | 21,838 | |
| 20-29 | 7,014 | |
| 30-39 | 3,380 | |
| 40-49 | 1,950 | |
| 50+ | 7,614 | |
| Total | 348,414 | |



Initial Target Market Calculations

Identifying Target Market

| | | Figure | Source |
|---|---|----------------|--|
| A | Number of businesses in the U.S. fulfilling demographic criteria – full time, 10+ employees | 1,100,000 | |
| B | In 10 target industries | 690,930 | |
| C | Within target annual revenue range (\$5m – \$1bn) | 230,874 | |
| D | % of target businesses within revenue range | 33.4% | Calculation: B / C |
| E | % of 2012 patents filed in target industries | 78.1% | USPTO filings by NAICS data |
| F | Number of U.S. businesses who have filed for at least 1 patent | 348,414 | Innography metadata |
| G | Number of U.S. businesses target market 1 | 90,968 | Calculation: D * E * F |
| H | Number of businesses in target market 1A | 140,000 | Calculation: C – G |
| | Overall target Market | 230,000 | Calculation: C, rounded to nearest 10k |

Sources

- PWC – 2014 Patent Litigation Study
- U.S. Census – U.S. Business data, 2007, 2011 – by revenue and NAICS industry codes
- USPTO – Patent filing volume data, patent filing by industry
- Qualcomm 2013 10K
- Association of University Technology Managers (AUTM) – 2013 Licensing Report
- American Intellectual Property Law Association – 2013 Report of the Economic Survey
- U.S. Patent Utility product materials provided by Patent Properties
- U.S. business & patent metadata provided by Innography
- “Monetizing the Rembrandts in the attic”, Beyers & Sobon, Intellectual Property Magazine, September 2014
- Company websites – ASCAP, Synapse, Patent Properties, Priceline