

INTELLECTUAL CAPITAL READINESS



Activities, Outreach and Support programs on IP & FINANCING

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Giancarlo Migliori at the
7th WIPO FORUM - Geneva, 15th SEP 2009

Reference CITATIONS :

- “Today’s markets are being transformed by intangibles, a growing number of them are scrambling to find methods that will help them better use, develop and communicate about them” NYT report Sep 07
- ”there is huge value & first mover advantage becoming a leading intermediary in this unconsolidated multi-billion ”corporate service” in Europe” Global head of technology, Merrill Lynch (14bn portfolio)
- Europe’s priority is the creation of OTTs (offices of technology transfer), be they internal like ours or external like MrgoodIDEA - V.Fykovski, former Head of technology transfer at University of California.
- Future competition in the world is IP competition - Wen Jibao, chinese prime minister
- “The Italian Model has finished its “value cycle”. Creativity, design, flexibility, adaptation of existing technologies no longer suffice. It needs true Research & Innovation!” G.Pietro, head Autostrade+Turin Univ.

I P (or is it TECHNOLOGICAL INNOVATION ?)

W H Y

H O W

W H E N

**CAN THIS TRADITIONAL SECTOR BASED
on SCIENTIFIC and LEGAL PRACTICES
CAPTURE the INTEREST of FINANCE or
(even less) the STATUS of FINANCIAL ASSET ?**

T H E

P R O B L E M S

FIRST : the Negative views

**Most IP, R&D and LEGAL experts say there
can never be such a thing as a MARKET for
INNOVATION, even less TECHNOLOGY,
less again INTELLECTUAL PROPERTY**

(...and without Market there will be no Financing !)

Can PRIVATE FINANCE go for TECH & IP?

- **Can the INNOVATION sector remain static ?**

No. There are irreversible changes in Corporate environment making an active Management of Technology and IP a priority - see 5 Drivers (financial, industrial, legal, administrative)

- **The finance sector will continue to consider Patents too hard to manage or value thereby investing only in companies downstream ?**

These assumptions are falling, Banks and VCs want to assess + back IP in leading countries (US, UK, Ger)

- **There can be no market without a better Innovation Value-Chain for Innovators (Supply) and Industrial Cos. (Demand)**

There are several projects creating a “filiera del brevetto” - an integrated Patent system.

- **The “not invented here” culture will always prevail ?**

No. It is breaking down quickly under the impossible pressures of A) global competition B) imitation & counterfeiting. Companies, especially when not investing in R&D, must use external traders and facilitators.

- **The “we know best” culture will always prevail ?**

As above, breaking down quickly. Competitiveness analysis - Valuation - Mapping - IP trade - by various experts shows the value of a marketplace and industry knows it (es. Confind: da 63 a 78% consulting study)

- **Innovation, Technology and IP still cost too much !**

There are many cost reducing news : low-cost valuation - trading on success-fee - auctions and tenders -
- IP structuring - portfolio or single IP outsourcing - IP financing

- **Tech & IP cannot resolve key problems like : know-how, software, tech-transfer or “incremental innovation”** - “Historical” problems now manageable in acceptable time and cost.

3 MAJOR FACTORS affecting IP FINANCING

1. The CONSEQUENCES OF GLOBAL COMPETITION

Industrialised Nations have 2 strategies to win (survive) in GLOBAL MARKETS :

1. To enhance the technology contents of their production - HIGH-TECH solution
2. To accelerate and improve their existing tech contents - ALL-TECH solution

Most countries are stuck with strategy 2 and need a HIGH FLOW of INNOVATIONS
That needs more supply, demand, trading, outsourcing, etc. - i.e. a MARKETPLACE !

2. The INEVITABLE INTEGRATION of IP and TECHNOLOGY

TECHNOLOGY is the downstream (proven) part of INNOVATION, a rich+vast sector full of outsiders - i.e. money men (lenders, investors, brokers)

IP is the upstream (unproven) part of INNOVATION, much poor and small sector dominated by insiders (scientists and lawyers) and without outsiders - i.e. money men

THEY WILL INTEGRATE as IP is the SOURCE where MOST TECH VALUE lies !
IT IS ONLY A QUESTION of REDUCING UNKNOWN INITIAL RISKS !!!

3. FINANCE SEARCH FOR TRADEABLE ASSETS

Sectors with traditional, hybrid (50% tangible/50% intangible), inefficient and static MARKETS have been targets for transformation and absorption by Finance.

TECH&IP Sector has similar limits/opportunities and is attracting Banks, PEs e VCs.

1st FACTOR: consequences of Global Competition (a)

- **INTERNAL R & D IS NOT ENOUGH.**

Enterprises + R&D World must **INNOVATE** via Sources of Ideas, Research, Patents, Licenses, Collaboration (i.e. Intellectual Property) from the MARKET

This means : Consulting, Brokerage, Trading, Licensing, Outsourcing

- **INNOVATION SOURCES must be MORE DYNAMIC.
INNOVATION ASSETS must be MORE MARKETABLE
(i.e. essential to improve spin-off & University sales)**

- **the LANGUAGE R&D to ENTERPRISE MUST EVOLVE**

Otherwise :

- perception of “unsurmountable complexity” will remain
- distance between Enterprises and Profit will remain
- disincentive to the Private Financial Sector will remain
- and with it, dependence on Public Funding

1st FACTOR: consequences of Global Competition (b)

- **SCIENCE and LEGAL**

APPROACH & METHOD must look more to **MARKET** and **FINANCE**

- eg. even the term **IP** is wrong in most **Markets, Boards, Financial circles**

- **PUBLIC SECTOR INSTITUTIONS**

APPROACH & METHOD must look more to **PRIVATE** sector and **FINANCE**

- eg. see long-term error of funding **LARGE CORPNS** and not **SMEs**

Is IP an ASSET CLASS in EUROPE ? Not Really...

■ TO THEORY

YES if we mean it is a **KEY PART** of **INNOVATION** the way **USERS** (industrial cos) and **PUBLIC BODIES** want it.

NO if we mean it is a reliable (stand alone) **LEGAL SECURITY**

■ TO MARKET

YES if seen as **UPSTREAM** part of more-or-less **Proven INNOVATION** or **TECHNOLOGY**

NO if seen as **SELF-SUFFICIENT PRE-TURNOVER** vehicle to **PROFIT**

■ TO DEAL-MAKING

YES if we mean there is **PLENTY** of **SUPPLY & DEMAND**

NO if we mean **SELF-SUFFICIENT** for **CREDIT/DEBIT**
- i.e. it is **NOT BANKABLE**

Essential elements to be an ASSET CLASS + MARKET

To my mind the main obstacles to being an Asset Class are :

- 1. BENCHMARK VALUATION MODEL**
- 2. BETTER KNOWLEDGE of IP Rules and Risks**
(i.e. by Financial Institutions and Investors)
- 3. A WIDER MARKET** (see pages on Tools & SMEs)
- 4. CORRELATION to SUPPLY & DEMAND**
(i.e. underlying assets and strategies)

After many years without focus on these issues, recent policies by **EU COMMISSION, EPO, Others** are addressing precisely these obstacles to a more liquid **INNOVATION** market.

SOME FACTS

and

POSITIVE TREND

MACRO FIGURES on INNOVATION & IP

The **VALUE** of **INTANGIBLES** put at 6.6 Trillion in EU,
5 Trillion in USA

1. PUBLIC SECTOR : figures are huge.

- eg. EU 3% of GDP in R&D investment
- eg. EU 300 BN in 7th Research Program

2. PRIVATE SECTOR : figures are modest

- eg. **VALUE** of Specialist **TECH&IP CAPITAL** est.
at 6 to 7 BN in USA, at 300 M. in EU
- eg. **DIRECT IP Investments** 125 M. (06/08)

PUBLIC FINANCE and APPROACH to IP

The EU COMMISSION feeds a complex system reaching national, regional and local sources of INNOVATION funding (R&D, IP, Technology)

- 1. Total Sums for years 2008/2013 over 900 BN of which 300 approx for Innovation**
- 2. R&D Levels throughout EU to go from 1% to 3% of GDPs**
- 3. Although Patenting is backed, most resources go to Research, TechTransfer, Innovation (Corp+Univ)**

PRIVATE FINANCE and APPROACH to IP

1. **BANKS** not accepting IP as asset for security
2. **Private Equity, Venture Caps, Hedge Funds**
not accepting IP as asset - (US-only) some use it for litigation
3. **Angels** keener on IP start-ups but insignificant in value
4. **Specialist TECH & IP Sector** growing fast
- 4a. **Specialist TECH & IP International EXCHANGE**
Key solution for SMEs, as based on Liquid Licensing tools

Example of IMPACT of TECH & IP

ALL KEY ECONOMIC BLOCKS - EU, USA, JAPAN, CHINA - are focusing on INNOVATION, CREATIVITY, TECHNOLOGY, INTELLECTUAL CAPITAL

(eg. Lisbon 2 in Europe, new-multiyear Obama plan in USA)

Example of RISK CAPITAL Commitment and Execution :

- 1. EU Countries use “public sector” backed by private finance** (eg. “close end funds”)
- 2. The USA use private sector methods plus “the market”** (i.e. zero public contribution)

RESULTS from these 2 Methods in ITALY :

- 1. EU Method : AIFI** italian assoc VC+PE (over 100 Funds) + € 4.5 BN available
 - Period 2006-8 investments made in innovative projects/companies : **127 Million**
(official data adjusted to investments by private-sector Funds only)
- 2. US Method : Ocean Tomo/MrGI** (2 private companies, 1 Usa, 1 italian)
 - Period 2006-8 investments made in innovative projects/companies : **125 Million**
(results obtained with no public contributions, only through bids/auctions on Patents)

NEW DRIVERS

to conquer

PRIVATE FINANCE

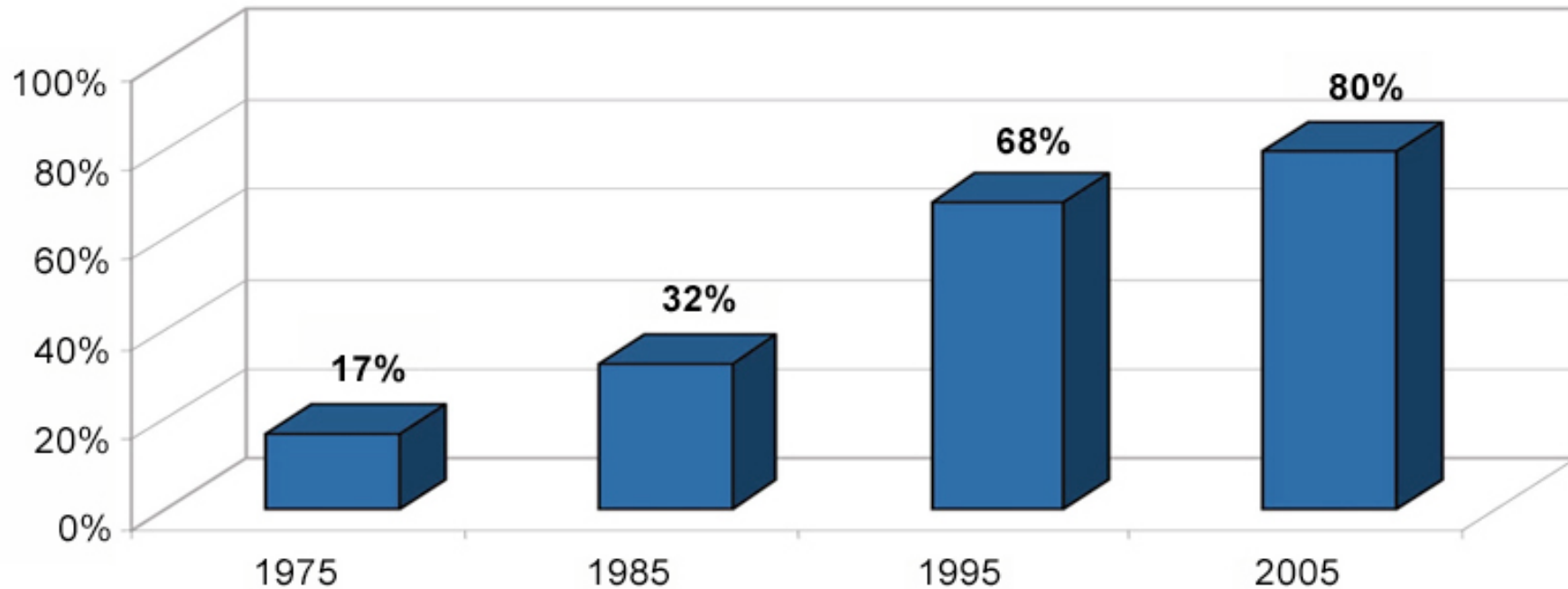
The (by now famous) STRUCTURAL INVERSION

Dominance of “Intangibles” in corporate Balance Sheet values :

- 1975 : Tangible Assets 80% / Intangible Assets 20% - 2005 : the ratio has reversed
- In 30 years Intangibles have become the dominant economic value and a new *asset class*

Technology & Intellectual Property: the main “intangible asset ” for companies

S&P 500[®] Intangible Value as % of Market Capitalization



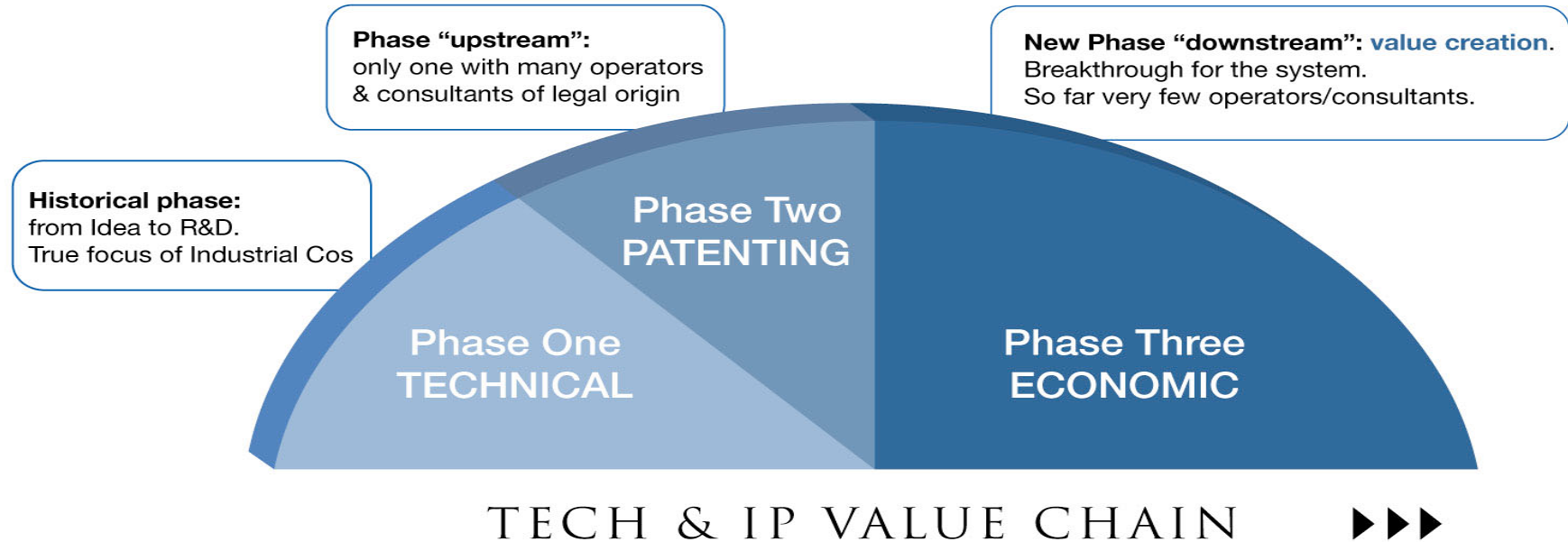
The 5 structural DRIVERS to IP

Irreversible changes are taking place which make a pro-active Tech & IP strategy inevitable for SUPPLY (R&D world) and DEMAND (industrial cos)

- **STRATEGIC Driver : impact of “intangibles” on Value of Balance Sheets.**
Intangible Assets have become the primary economic value and a New Asset Class.
Technology & Intellectual Property are the main “intangible asset” for Companies !
- **INDUSTRIAL Driver : Technology & IP are the 1° Factor of Competitiveness**
In situations of Competitive Gap, countries as well as companies are obliged to look at **Tech&IP Flows** as key to improving Exports and **Product / Process Innovation.**
- **LEGAL Driver : more incisive courts + more aggressive owners/speculators =**
Technology strategies before non after products going to market in order to avoid copying and litigation. It's the end of the bad habit of “first going to market then (perhaps) patenting” !
- **ADMIN Driver : by 2010-11 “Intangible Assets” in balance sheets. (IASB)**
International accounting boards are moving to ensure EU companies will insert intangibles in their accounts “even when not negotiated in active markets”. First among them : Tech & IP.
- **FINANCIAL Driver : innovation & technology improve profit and productivity.**
Banks, Funds and Investors prefer projects and risks which include IP and technology.

The Value Chain DRIVER is moving “downstream”

Phase 1 is essentially in-house R&D. Phase 2 is the classic technical/legal advisory deals in Phase 3 : the way of market-making and monetizing Tech&IP

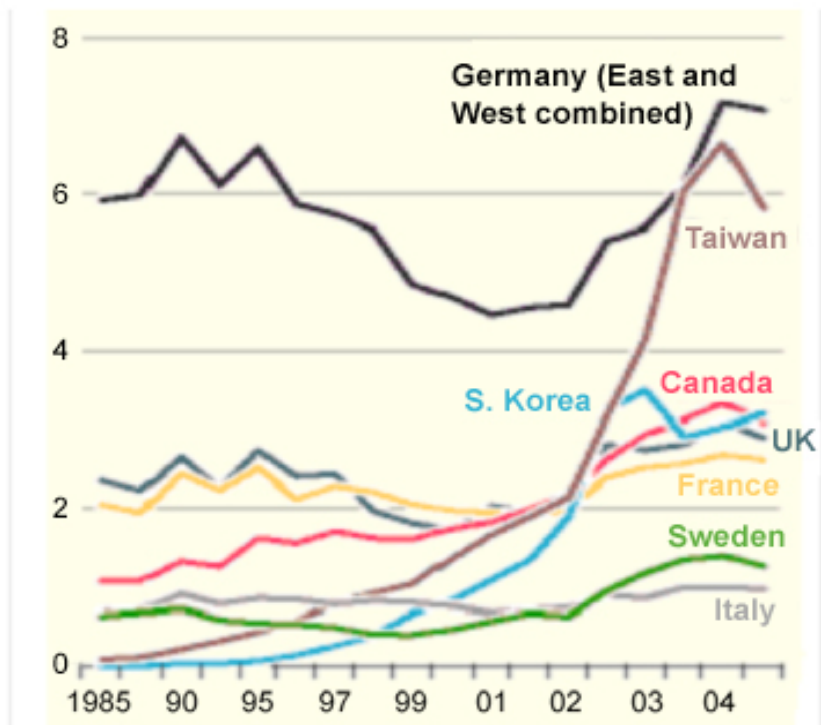
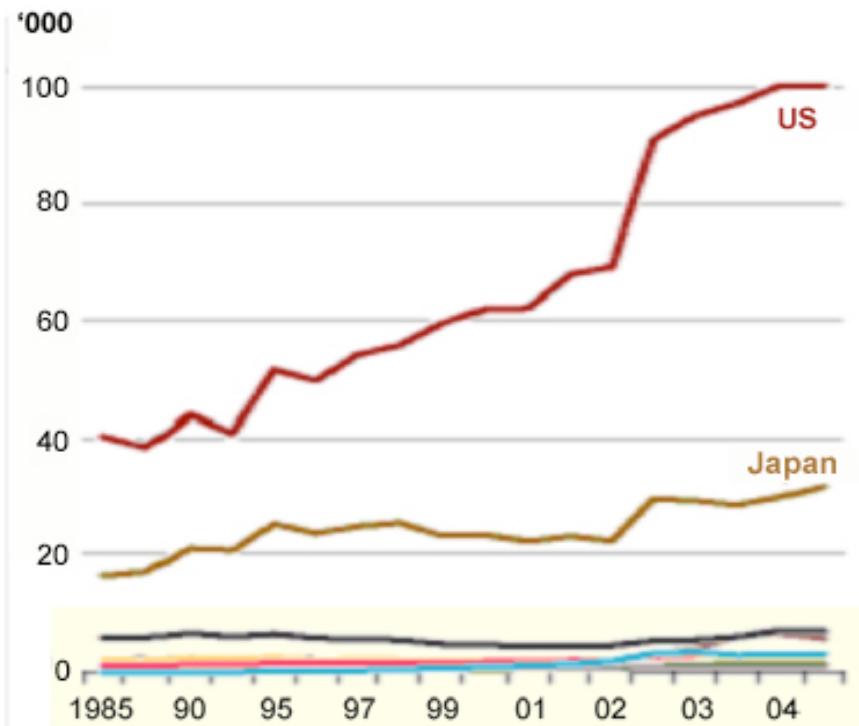


- * Technical Phase: from R&D to engineering, moulds, prototypes up to product/process in GEN 1
- + Internal Value Creation: product/process utilized in-house
External Value Creation: product/process sold, licensed, financed, in JV, etc

Competitiveness a strong DRIVER to Technology & IP

Europe is trying to revamp their “global competitiveness”

- Technology & Intellectual Property are the top competitiveness factor!
- Corporate IP & Technology flows need urgently to be “facilitated/accelerated/increased”
(below example of competitive gap of Europe and EU Countries in the area of patenting)



Data by CHI research

EBIT, T/O, Time-to-Market strong DRIVERS to IP

Impact of “360 Degree INNOVATION” on EUROPEAN ENTERPRISES (NB. the key element of innovation was Tech & IP)

	<u>Normal Cos</u>	<u>Innovative Cos</u>	
Average EBIT	3.5%	9%	
TurnOver from New Products	factor of 1	factor of 1.5	= + 50% revenues for innovators
Time-to-Market of Products	factor of 1	factor of 0.5	= +100% more efficient in the market
Owned Patents	factor of 1	factor of 5	= + 500% more : a. control of own assets b. barriers to competitors c. strength of brand
Cost of R&D	factor of 1	factor of 1.5	= + 50% costs (NB. against 500% more control)

(data from a pan-european study commissioned to ATKearney by Confindustria)

Such impressive improvements are attracting BANKS to innovative Companies !

“ANTI-CRISIS” ASSET a strong DRIVER to IP

- 1. “The intangible portion of the S&P 500 went from 80% in 2005 to 75% at the end of 2008. A strong measure of the value represented by intangible, especially IP”**
- 2. Tech&IP a perfect solution to “insufficient EXIT” options lamented by VCs, Banks, etc.**
- 3. IP anti-correlated to several Assets at the roots of this crisis - eg. real-estate, credit derivs, etc.**
(see 21-Month Perf of OT300 ! Constantly beating S&P)

BEST DRIVER

of all :

NEW TOOLS

“NEXT GENERATION” Tech & IP Services

MARKET DEMAND **TECH&IP PROBLEMS** **SOLUTIONS** by 

A NATIONAL “INDUSTRIAL TECHNOLOGY FINANCIAL” SYSTEM

- Industrial Cos
- Company Assoc
- Assoc inventors, technicians, scientists
- Techno & Scientific Centers and Poles

- Universities
- Public R&D
- Institutions (regions, provinces, cities)
- Finance (banks, VCs)

Approach

- Valuation of IP (patents)
- Technology Mapping as competitiveness strategy
- Tech & IP Development
- Technical & IP approach to innovative or tech projects

Value-creation

- Commercialization
- Trading -single, portfolio -private, public
- Licencing
- JVs on R&D & Projects

Financing

- Use of Tech & PI as new asset for Corp bal-sheet & cash-flow
- Financial Operations linked to benefiting or using Tech&IP

Services & Advisory “next generation”

- Valuation and DDR low-cost
- Portfolio & Relevance Analysis
- Mapping per sector or IP etc
- Consulting ‘upstream’ aimed at process (incremental) innovation

- Proprietary Trading Platform
- Tech&IP Marketplace (tenders)
- International expansion+cash-flow Projects through Licencing
- Tech-based Study/Consulting
- IP or R&D Swaps aimed at JV

- Credit Lines, Bank loans
- Grants and Public funding (UE, national, regional, local)
- Leaseback e Securitizations
- M&A based on Tech & IP
- VC+PE based on Tech & PI

Structure of new TECH&IP “Merchant Banking” services

□ DAY-TO-DAY MANAGEMENT of Technology and IP Assets

MARKET READINESS

Approach Products



VALUATION

QUALITY ASSESSMENT

MAPPING

MARKET ACTIVITY

Commercialisation,
Trading & Value Creation



TRADING (Private & Public)

LICENSING

ALTERNATIVE MARKET

Asset Management &
Investment Products



ALTERNATIVE INVESTMENT

HEDGING

□ DEAL-RELATED MANAGEMENT of Technology and IP Assets

1. CORPORATE FINANCE



LENDING - M & A - VC Investing

LEASING & ASSET-BACKED

INSTRUMENTS : IP Valuation - neutral and objective

Valuations Models acceptable to the financial sector are a breakthrough !

OCEAN TOMO PATENT RATING
IPQ1
US0543696
PATENT DUE DILIGENCE REPORT
 REPORT DATE: January 11, 2006

Patent: **US5436960**
 Filed: **5/20/1991**
 Priority: **5/20/1991**
 Issued: **7/25/1995**
 Inventor: **Campana, Thomas J., et. al.**

IPQ™ Score: 180.5
Overall Rating: A+

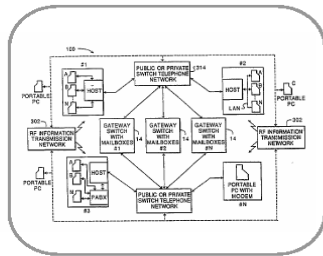
Assignee (orig): **Campana, Thomas J., Jr.**
 Assignee (amt): **NTP, Incorporated**
 Recorded: **006986/0769; 5/20/1994**
 Attorney: **Antonelli, Terry, Stout & Kraus**
 Current Status: **IN FORCE**

Field: **COMPU/SOFT**
 U.S. Class/Subclass: **455/412**
 Class Description: **Telecommunications**
 Int'l Class / SIC: **H04M / 3661**

Number of Claims (dep/ind): **89 (8 / 81)**
 Number of Related U.S. Patents: **5; 1 pending**
 Number of Related Int'l Patents: **1**
 Number of Forward Citations Rec'd: **42**

Summary of Scores/Ratings
 Intellectual Property Quotient (IPQ™): **180.5¹**
 Overall Percentile Rank: **99%²**
 Overall Patent Rating: **A+³**
 Nominal Expiration Date: **7/25/2012⁴**
 Remaining Life Expectancy: **6.1 yrs⁵**

Electronic mail system with RF communications to mobile processors and method of operation thereof



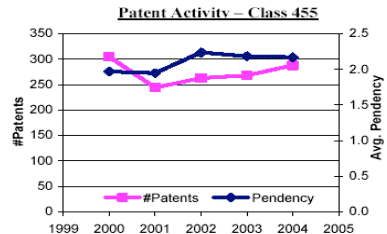
PATENT DUE DILIGENCE REPORT

REPORT DATE: January 11, 2006

Related Technology Space

The '960 patent is currently classified by the USPTO in primary U.S. Class/Subclass 455/412 ("Telecommunications") and Int'l Class G06M 003/00. The closest corresponding SIC code is 3661 (Telephone And Telegraph Apparatus). Major patent holders in USPTO class 455 are listed below along with a patent-activity summary for the trailing 5-years.

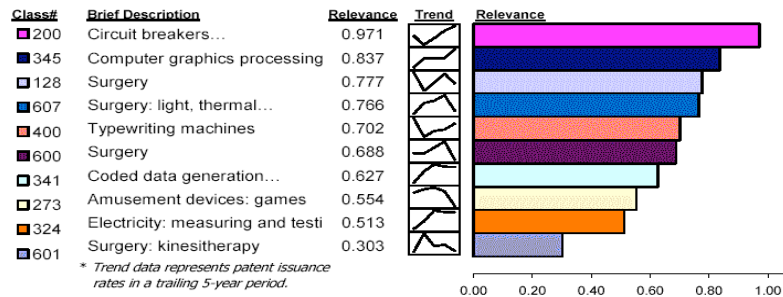
Patent Assignee	#Pats	IPQ
Xerox Corporation	19	96.3
International Business Machines Corpor	18	83.5
Brother Kogyo Kabushiki Kaisha	18	128.6
Lexmark International, Inc.	17	91.6
Eastman Kodak Company	16	111.3
ZIH Corp.	16	100.6
Fargo Electronics, Inc.	12	117.0
Pitney Bowes Inc.	11	119.0
Francofyp-Postalia AG & Co.	11	81.8
Monarch Marking Systems, Inc.	10	130.7



Patenting activity in USPTO patent class 455 has been gradually increasing over the past 5 years, as shown in the above graph, with about 1897 new patents now issuing per year on average. Average pendency times (time from filing to issuance) have been increasing over the past 5 years to about 3.55 years currently, indicating a somewhat higher than normal backlog of pending cases awaiting examination.

Of course, it should be noted that patent technology classification is an inexact science and relies largely on subjective review and analysis by human decision-makers. Because of this, some patents and patented technologies may be "misclassified" and/or put into existing classifications that do not exactly fit or aptly describe a particular technology. Thus, it may be beneficial to consider other possible patent classifications. Other relevant USPTO patent classifications in this case are indicated below along with estimated relevancy scores and growth trends for each.

Relevant USPTO Classifications and Patenting Trends



Scores & Percentile Rankings²

Factor ^a	Score/Rank	Raw Score ^b	Percentile Rank by Group ²				
			Overall	Field	Class	Subclass	Assignee
TECHNOLOGY	1.55	96.1%	90%	...	...	...	...
DISCLOSURE	1.24	80.8%	63.6%	85%	80.7%	...	...
CLAIMS	1.97	99.6%	98.7%	99.6%	97.7%	...	...
PROSECUTION	1.74	98.7%	97.8%	99%	97.9%	...	...
OTHER	1.37	89.6%	90.2%	36.8%	95.3%	...	...
IPQ SCORE ¹	180.5	99%	98.9%	99.7%	99%	...	...
IPQ SCORE ¹⁰⁰	162.5	97.3%	95.9%	98.5%	96.5%	...	...

Life Exp. & Survival Probabilities⁶

Life Exp. (Years)	Y0	Y1	Y2	Y3	M1			M2			M3			
					Y4	Y5	Y6	Y7	Y8	Y9	Y10	Y11	Y12	
Exp. Survival	16.7	15.7	15.7	13.7	12.5	11.5	10.5	9.5	8.5	7.5	6.5	5.5	5	89%

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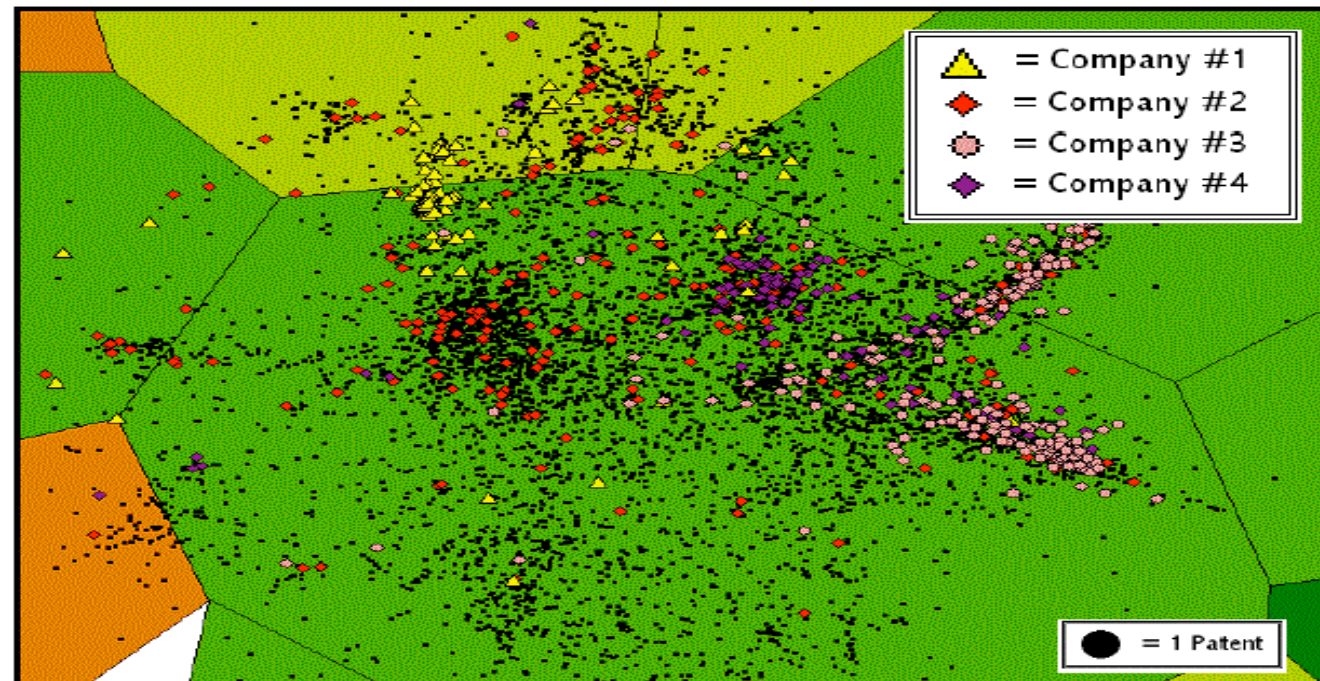
¹⁰For application notes on this page please refer to Appendix 1 attached hereto.

INSTRUMENTS: IP Mapping - competitiveness & relevance

- ❑ **PATENT MAPPING** through the use of **BENCHMARK RATING**
 - ❑ Rating and relational mapping
 - ❑ Tracking and ranking of Patent trends
 - ❑ Identification of “white” or void spaces
 - ❑ Relevance Analysis based on patent population - proximity - voids v. clusters overlaps - trends - saturation areas

*IDENTIFY
COMPETITIVE
STRENGTHS OR
WEAKNESSES IN
YOUR COMPANY'S
PATENT SPACE*

*TARGET
FOR SALE,
DEVELOPMENT,
DEFENSE,
LICENSING,
OR INNOVATION*



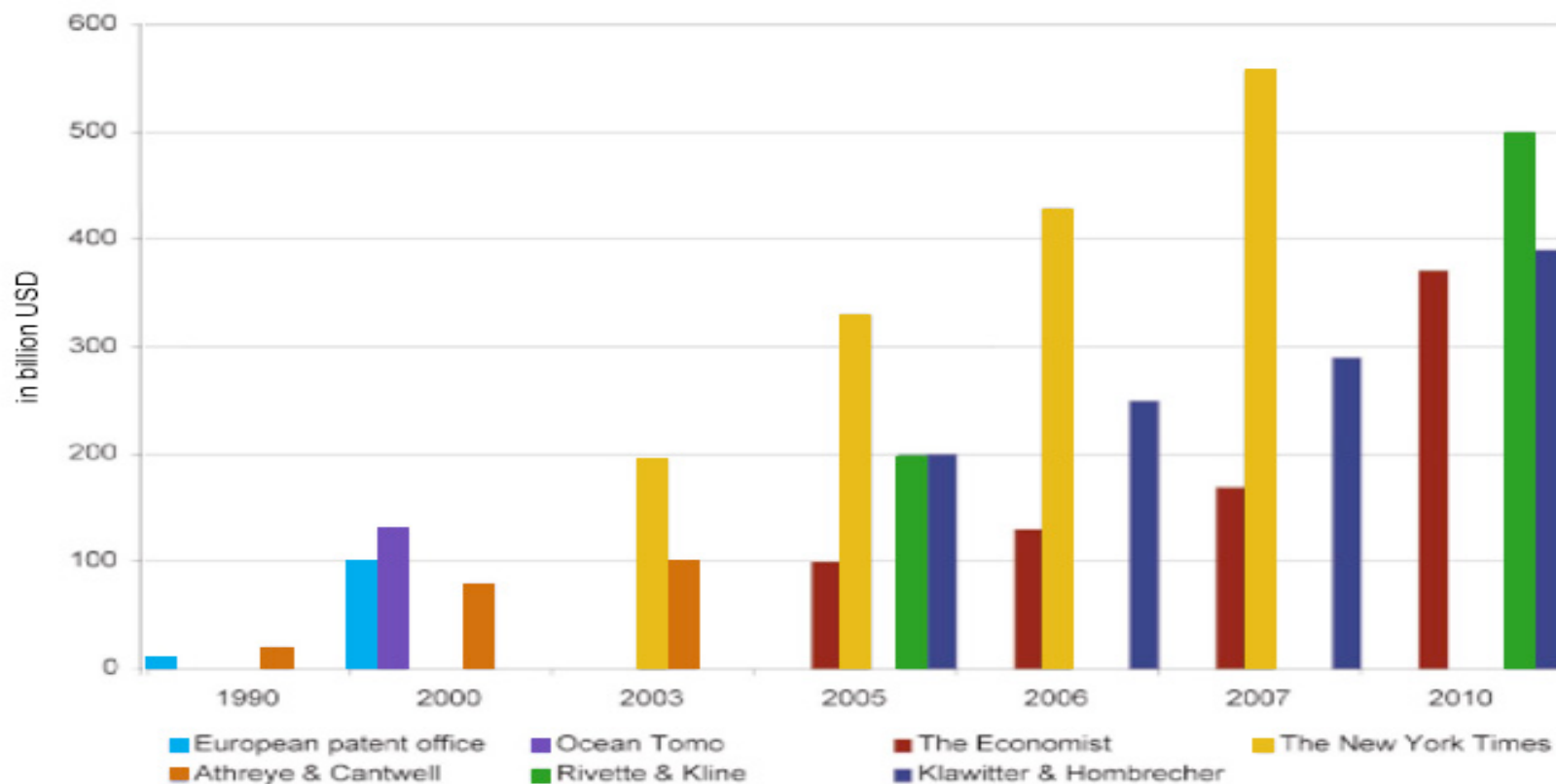
Source: OTPR analysis

INSTRUMENTS : Licensing and Commercialisation

In 5 years world-wide value of licences & royalties went from Zero a 200 BILLION!

RECENT REPORTS ON "LICENSING" AS SOURCE OF VALUE CREATION FROM IP PERIOD 1990-2010

Sources: european patent office, top press, leading operators, major research institutes



INSTRUMENTS : open Public Trading

IP AUCTIONS in US & EU raised Total \$ 125 in the period 2006-08



OCEAN TOMO AUCTIONS
2008 European Live IP Auction Catalogue

IPBC 2008 IP BUSINESS CONGRESS™
THE ANNUAL EVENT
FOR GLOBAL IP LEADERS
25/26 JUNE AMSTERDAM
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INCORPORATING THE IAN CIPD SUMMIT
AND OCEAN TOMO EUROPEAN IP AUCTIONS


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INSTRUMENTS : Private Trading and Corporate Finance

Example of Tech & IP value created through Corporate Finance operations

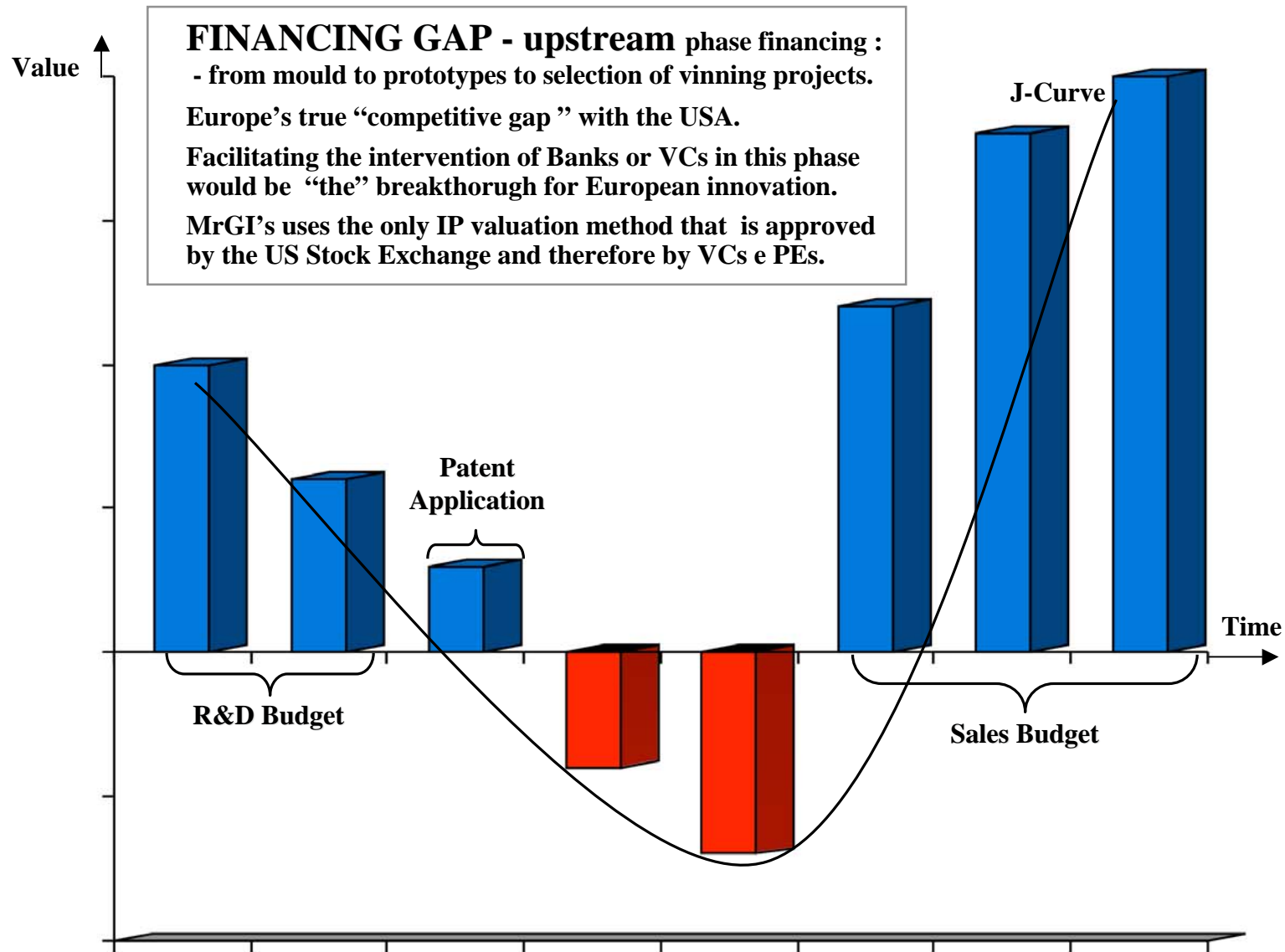
Strategies

- US IBM : corporate royalties flows up from 100M to 1.7 BN in few years
- EU BT : € 300M from Technology Transfer through outsourcing in only 2 years
- US UCAL : expected royalty flows of up to \$ 413M from 25 best IP under mgmt
- EU Wessex : UK technology hub created patent portfolio worth € 400M in 2 years

Single Deals

- US Arby's Restaurants : \$ 290M IP (franchising) loan based on future roy flows
- US Guess fashion : \$ 75M development capital based on IP value (brand)
- US Dreamworks : \$ 1 BN asset-backed finance package based on IP (royalties)
- EU CDT : UK start-up, raised € 15M on basis of patents not yet applied
- US BCBG : french fashion house, raised € 12M based on IP value (brand)
- US Ocean Tomo : structured \$ 200M fund per investments in IP & technology
- EU IPB : German co., raised € 100M from EU Bank to run IP investment funds
- US Commerce One : bankruptcy sale of all IP (patents+trade-marks) raised \$ 19.6M
- EU IPGroup : specialist UK IP investor publicly quoted in 2007 for € 250M

INSTRUMENTS : “neutral” valuation of IP for venture capital



S M E s :

t h e

S P E C I A L C A S E

SMEs : their 4 PRIORITIES for Innovation & Growth

1.

VALUATION/ MAPPING/ COMPETITIVE TECH POSITIONING

These services are “priorities” for SMEs and their supporting institutions

The optimise R&D & Tech investments and establish the SME positioning in terms of “competitiveness of its intellectual capital” - nowadays 60-80% del Balance Sheet !

2.

VALORIZATION & COMMERCIALIZATION of Patents & Licenses

with Private (brokerage) and Public (tenders, auctions, internat PI exchange) Markets

3.

INTERNAZIONALIZATION, M&A&A (Mergers, Acquisitions, Aggregations)

4.

INVESTMENTS & SPECIALIST FINANCING for TECH&IP

Through techniques of risk reduction and IP portfolio management supply of a range of services typical of a “specialist Investment Bank” - eg.:

Re-structuring, Loans, Leasing, Risk Capital - all using IP and Patenting ASSETS !

SMEs : the TRUE INNOVATION DRIVERS

SMEs have not been the focus of most public-sector policies towards INNOVATION or IP. That was a mistake and things are improving in the EU.

- 1. IN EVERY REGION, SMEs ARE the DOMINANT FACTOR**
- eg. in Europe, they represent 99% from ITALY to SWEDEN
- 2. INNOVATION is needed in large Volumes for SMEs.**
That means ALL-TECH Policies and not just HIGH-TECH ones
- 3. SMEs DOMINATE EVEN HEAVY INVESTMENT SECTORS**
- eg. see extraordinary BIOTECH industry in ITALY (see Pg. 40)

SMEs need a **DYNAMIC MARKET** in IP ASSETS

Has IP got the ESSENTIAL ELEMENTS for a MARKET ?

- 1. SUBSTANTIAL SUPPLY**
- 2. SUBSTANTIAL DEMAND**
- 3. INTERMEDIATE SECTOR** (brokers, traders, market-makers)
- 4. Benchmark or Standard VALUATION** of ASSET and RISK
- 5. TRANSACTION TOOLS**
- 6. STATUTORY & LEGAL framework**

Surprisingly, we believe the answer is YES !

WIDER IP MARKET : the growing role of SMEs

It is generally assumed SMEs count in old, established, low-to-mid tech sectors, where IP is low-to-modest in Value.

Data from an International BIO-TECH Conference in June 09 :

- 1. Over 70% of 4.2 BN Investments in Bio-Tech and Life Science in Italy is made by Micro-to-SME companies (N.B. Italy's has 4th largest Bio-Tech sector in the world)**
- 2. Equally, over 70% of Revenues from same sector is generated by Micro-to-SME companies**

N.B. studies tend to indicate Bio-Tech and Healthcare as the sectors most adverse to SMEs due to exceedingly high levels of planning and investments + Conglomerate dominance !

WIDER IP MARKET : top TMT from Italian SME

From the Italian Tech&IP Portfolio of MrGI comes ADCAST.

This technology has always belonged to one individual.

It has been developed in Italy. It is in the IT space.

It is still in a pre-revenue phase. It just completed a market test.

1. In the USA its appeal to IP investors was limited to Litigation and its value over 2 years rose to 28 Million.

2. In the USA its appeal to industrial/financial investors in 1 year rose to 75 Million. The Company is purchasing a Nasdaq-quoted target so as to float shares on OTC by October and reach full Exchange by 1st Quarter 2010.

Silicon Valley finance circles put likely value by 1st Qtr '10 at up to 200 Million, despite difficult market conditions.

WIDER IP MARKET : PUBLIC deal from Italy

As part of the administration of European Funds to Innovation, **REGIONS** play an increasingly central role.

- 1.** There are at present 2 Northern Italian Regions with fully funded Budgets of € 1 BN dedicated to “new solutions” in the areas of Intellectual & Human Capital.
- 2.** There is at present 1 Southern Region with fully funded € 14 BN up to 2013 dedicated to Innovation. They are looking for new ideas/methods/tools on how to spend these huge resources ...
 - eg. They have signed an 80 Million R&D deal with an American University.

WIDER MARKET : PUBLIC/PRIVATE MIX from Italy

[Following is a “virtuous model” tipped to be repeated throughout Italy and the EU]

SUDTECH - a new Public/Private Innovation VC Fund

- 1. The Ministry for economic development makes available € 37.5 M. for specific investments into Innovative projects and companies provided these have significant Intellectual Property.**
- 2. Private VC and PE Funds are invited to match such Capital to build a € 75 Million mixed Fund.**
- 3. The Fund is fully capitalised in June 2009, including several quality bias (eg. specific ip/sectors, geo focus, size of deal, etc.)**
- 4. RESULT : through typical credit leverage (up to 100% of capital base) the Fund has turned a strategic view by a Public authority into a € 150 MILLION Targeted IP and Innovation vehicle for Italy !**

CONCLUSIONS

A WIDER IP MARKET with CLOSER LINKS to both CLASSIC FINANCE and IP FINANCE means :

- **ALL-TECH** **Low-to-Mid-to-High Tech**
- **ALL COS** **Micro (start-ups) to SME to Large Corps**
- **ALL IP** **Patents, Trade Marks, Brands but also Know-how, Rights, Trade secrets**

In my opinion, this would produce :

- 1. MORE VALUE** (both in quantity and quality)
- 2. BETTER RISK REDUCTION & MANAGEMENT**
- 3. BETTER PENETRATION - SMEs competing with Large CORP**
- 4. MORE WIDESPREAD thus SUSTAINABLE GROWTH**
- 5. MORE BANKS+VCs, KEY to ASSET CLASS Market liquidity**