



Spinning Off Technologies to Raise Capital

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■ Introduction

- Several ways to leverage intellectual property to raise capital
- Spin off technology into a new company
- Licensing IP not in main line of business
- Sale of IP not in main line of business
- Patent sale

■ What do you have to leverage?

- Anything outside the core business of the Company
- OR that is not in the mainstream of the Company's short and long term business strategies
 - Assess the product lines,
 - patents and
 - non-registered intellectual property rights.
- Ask yourself:
 - What is it worth to your company?
 - What could it be worth to others?

■ So, now what do you do?

- Examine prior investment in R&D and costs to maintain the IP, and future budgeted costs
- Examine potential for raising capital on the IP outside the company
- Examine potential for raising capital by same investors (and new) as in the company with new management and a spin-off company
- Identify strategic partners and other likely candidates to interest in these assets.
- Consider if the company wants to retain rights in the assets for some future purpose or event
- Consider the tax implications of these transactions
- Consider regulatory limitations on licensing or disposal of assets with OCS funding

■ Spinning Off Technologies

- Once you have identified the IP that can be isolated for a particular business objective, you need to decide:
 - License it, or
 - Sell it outright?
- To whom?
 - To a third party?
 - Or a related company that will develop that business?

■ Licensing

- The pro's and con's of licensing:
- Pro's
 - Retain ownership
 - Limit the scope of the license granted by field of use, territory
 - Structure royalty payment stream and lump sum payments on milestone achievements
 - Taxable event throughout the term of the royalties agreement
- Con's
 - Continued maintenance of the technology
 - Issues of ownership of future developments by licensee
 - Will cross-license of new IP be needed by licensor
 - Harder for licensee to raise capital if license can be terminated
 - Royalty revenue may not be set off against carry forward business losses

■ Sale

- Pro's and con's of a sale of IP:
- Pro's
 - Buyer responsible for all costs related to maintenance of IP and patent registration fees
 - Easier for buyer to raise money on asset it owns outright, then one that is a licensed, particularly if the license can be terminated under certain circumstances
 - Seller can generally set off revenue against carry forward business losses
- Con's
 - Delayed revenue tied to ultimate exploitation of the IP by the buyer would need tax ruling for seller
 - If seller may want to use the IP in the future it will need a 'license-back'

■ Spin Off to an Affiliate

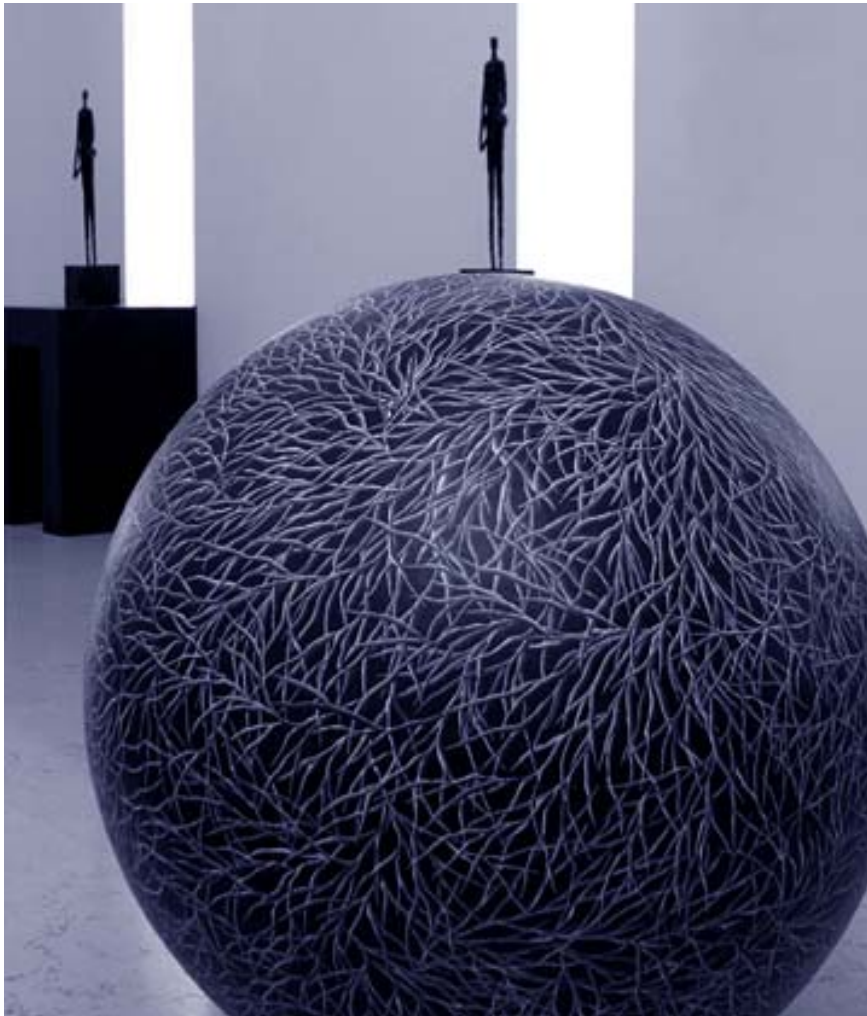
- Case Study:
- Company A identifies “another” non-core use for its central IP
- Company A offers its shareholders and other new investors an opportunity to invest in Company B with separate management and capital to pursue the use as its central business.
- Company A licenses the technology in a perpetual license to Company B
- Keeps Company A focussed on a particular field
- Keeps Company B focussed on a particular field
- Each company develops new technology in its own field
 - Some new patent families in each field
 - Some cross licenses between the affiliates as needed
- Increases shareholder value when the management team is focussed on its field and the licensing company receives revenue for the field(s) it doesn't have the internal capacity to exploit.

■ Spin Off to an Unrelated Third Party

- Case Study
- Company A develops good working product but determines new strategy that is based on new IP
- Should it abandon old IP, or consider selling it or licensing it to a third party?
- OEM partner for the original IP and product buys the technology and all obligations to maintain the IP rights
- Immediate cash to Company A to boost it's R&D activity in its new IP endeavors
- Investors do not need to make capital investment for R&D (or smaller investment)
- Future cash payments tied to exploitation by buyer may get deferred tax treatment with a tax ruling

■ Sale of Dormant Patent Portfolio

- Case study
- Public Company A identified patents and patent families not needed for core business
- Auction to monetize the IP assets
 - Maximizes the price obtained
 - Some are licensed
 - Some are sold
- Gives company income source(s) to be used in R&D or other activities
- Delays secondary offering on public markets and related costs to raise money on capital markets



Thank You

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