

PATENT CALLS™ COMMENTARY

Rapid Portfolio Analysis of ICAP Ocean Tomo Auction Lots using Software as a Service Patent Tools Premium

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Summary: A Patent Calls independent analysis of patent lots available for purchase through an upcoming ICAP Ocean Tomo auction reveals a significant selection of “bargain” patents (priced \$500,000 or less), highlights a possibly “golden” acquisition opportunity, and demonstrates pricing tendencies toward “volume” based seller valuation.

Key Points:

- Quality patents can be acquired at the upcoming ICAP Ocean Tomo Auction with minimal capital investment.
- The ICAP Ocean Tomo Auction provides lots that may be of high interest to non-practicing entities seeking to license patents for monetary gain, or operating and aggregation entities acting “pro-actively” to prevent the same patents from being asserted.
- Seller price-setting motivations appear to be based primarily on overall lot volume.
- Owners of high-value patents may tend to undervalue their assets, while owners of low-value patents may tend to overvalue theirs.
- Buyers interested in acquiring “licensable” patents should focus their analysis on individual, rather than aggregate patent quality.

ANALYSIS:

Patent Calls conducted an independent analysis of patents available for purchase through an upcoming ICAP Ocean Tomo, comparing patents individually, and as lots using the Patent Calls Patent Tools Premium computerized Q Score function.

A Patent Calls computerized Q Score represents a statistical comparison of proprietary patent quality and value metrics in relation to all other valid patents in the patent database as determined by proprietary pre-determined computer ratings algorithms and is outputted on a percentile basis of 0-100%. In contrast, Patent Calls analytical composite ratings are based on a combination of the Computerized Q Score and an Expert Score, also calculated on a scale from 0-100%. However, when analyzing large volumes of patents, the Computerized Q Score alone serves as a practical “first pass” predictive indicator of patent quality.

Patent Calls independently analyzed 125 of the nearly 150 lots listed as available for auction from ICAP Ocean Tomo as of Friday, October 15. The current auction list and prices can be viewed at <http://icapoceantomo.com/auction/fall/catalog>. The lots selected contain at least one issued US Patent and provide a current pre-auction purchase price. Asking prices range from \$20,000 to \$15,000,000 with an average asking price of approximately \$1.28 million. About half of the analyzed lots are priced at \$500,000 or lower. Patent Calls also independently conducted a relevancy analysis of US Patent 6,880,750, found to exhibit one of the highest Q scores, and available for purchase as part of Lot No. 138 at a pre-auction price of \$7,500,000. (Interested parties may receive a complimentary copy of the relevancy analysis by email request to inquiry@patentcalls.com stating the requestor’s name, title, company and email address).

Because the 125 analyzed lots frequently included multiple patents, each having very different Q Scores from one another, part of the Patent Calls’ analysis compared lots to one another based on only the highest scoring patent in each lot. For example, if Lot A consisted of 3 patents having Q Scores of 89, 75 and 64, and Lot B consisted of 2 patents having Q Scores of 97 and 23, part of the statistical analysis reviewed below only relied on the Top Q Score 95 for Lot A, and Top Q Score 97 for Lot B. Q Scores were not averaged within lots since averaging Q Scores potentially “conceals” valuable patents contained in lots that include a large number of low scoring patents. In contrast, the relevance of a Top Q Score comparison is that purchasers are often interested in obtaining patents that can be licensed out to existing companies or enforced when necessary. Therefore, even though the average Q Score of Lot A (approximately 75) is higher than the average Q Score of Lot B (60), the latter is statistically more likely to be licensable since it contains a Top Q Score of 97, compared with 89 for the former.

“Bargain” Patents – What can \$500,000 buy?

Approximately half of all lots are available for purchase at \$500,000 or less. Comparing Top Q Scores in each lot currently being offered in this price range, the scores range between 97 and 17. Approximately half of the lots have a patent that scores 68 or higher, and patents scoring 90 or higher will rank in the third quartile of lots in the \$500,000 or less subset. Therefore, of the 63 lots available for \$500,000 or less, 14 of them contain a Top Q Score patent 90 or higher. As noted above, the Computerized Q Score provides a first-pass indication of a patent’s potential value. When these patents are fully analyzed, the ultimate composite scores may be somewhat higher or lower, depending on a thorough analysis of the enforceable market value determined by a Patent Calls expert.

Included in the “bargain” category are patents being offered from various universities, inventors and research institutions. For example, Lot no. 85, offered by North Carolina State University, provides an exclusive license to US Patent 6,104,757, which claims a method useful for streaming video, where reference frames are reconstructed including “lost packets” that failed to arrive before the frame’s playout time. Lot no. 31, offered by Inventor David Elson, includes US Patent 5,671,416, which claims software development methods potentially relevant to the operation of modern software integrated development environments and version control systems. Other lots are available from the US Department of Energy, and the University of Utah Research Foundation.

Featured Patent – Is US Patent 6,880,750 worth the price?

Patent Calls conducted an independent relevancy analysis of US Patent 6,880,750, a patent that may be purchased in Lot no. 138 for a pre-auction price of \$7,500,000. The lot includes five issued US Patents having a total of 10 independent claims, along with two pending applications and 26 foreign patents. Independent Claim 1 of the ‘750 Patent claims an apparatus for ordering goods or services over a wireless network including a wireless telecommunications device, and a data receiving station. This portfolio takes advantage of the proliferation of wireless networks to enhance mobility for sales staff and customer service representatives, and may be relevant to customer solutions used or offered by companies like Apple, Fujitsu, RIM, HP, Nokia, SAP, Sage, Motorola, as well as retailers such as Staples, and point of sale (POS) solutions providers like Micros. A copy of this report can be obtained without charge by email request to inquiry@patentcalls.com stating the requestor’s name, title, company and email address

Q Score and Price – Do Prices Accurately Reflect Patent Strength?

In an effort to understand pricing motivations, Patent Calls independently analyzed Top Q Scores of available lots, correlating the scores with asking prices. The first comparison examines the relationship, if any, between the Top Q Score in each lot with the asking price of the lot. The selected lots were ranked according to the single highest scoring patent in each lot. Approximately half of the analyzed lots feature a highest scoring patent having a Q Score of 73 or better. Top Q Scores of each lot were ranked on a percentage basis against *all* patents available for purchase, rather than just against other top ranking patents. Determining percentage rank based on all patents provides a more accurate demonstration of relative patent strength against the portfolio as a whole. The Top Q Score ranges corresponding to the percentage rank ranges analyzed are shown in Table 1.

Percentage Rank	Top Q Score Range
Top 10%	99 – 90
Top 25%	99 – 82
75-50%	79 – 68
50-25%	68 – 53
Bottom 25%	50 – 17
Bottom 10%	34 – 17

Table 1 - Corresponding Q Score Range for Selected Percentage Rank Ranges

Next, current asking prices for the lots in each Q Score range listed above are examined, including the average and median asking prices in each range. Average and median asking prices for each Top Q Score range are shown in Figures 1 and 2, respectively. As noted above, and shown in Figure 1, the overall average asking price is approximately \$1.28 Million. However, two interesting trends can be observed from this analysis. First, when comparing by average asking price (shown below), prices for lots having a Top Q Score less than 34 tended to be higher than those having a top Q Score greater than 90. Moreover, average asking prices were the lowest for lots having a Top Q Score above 90.

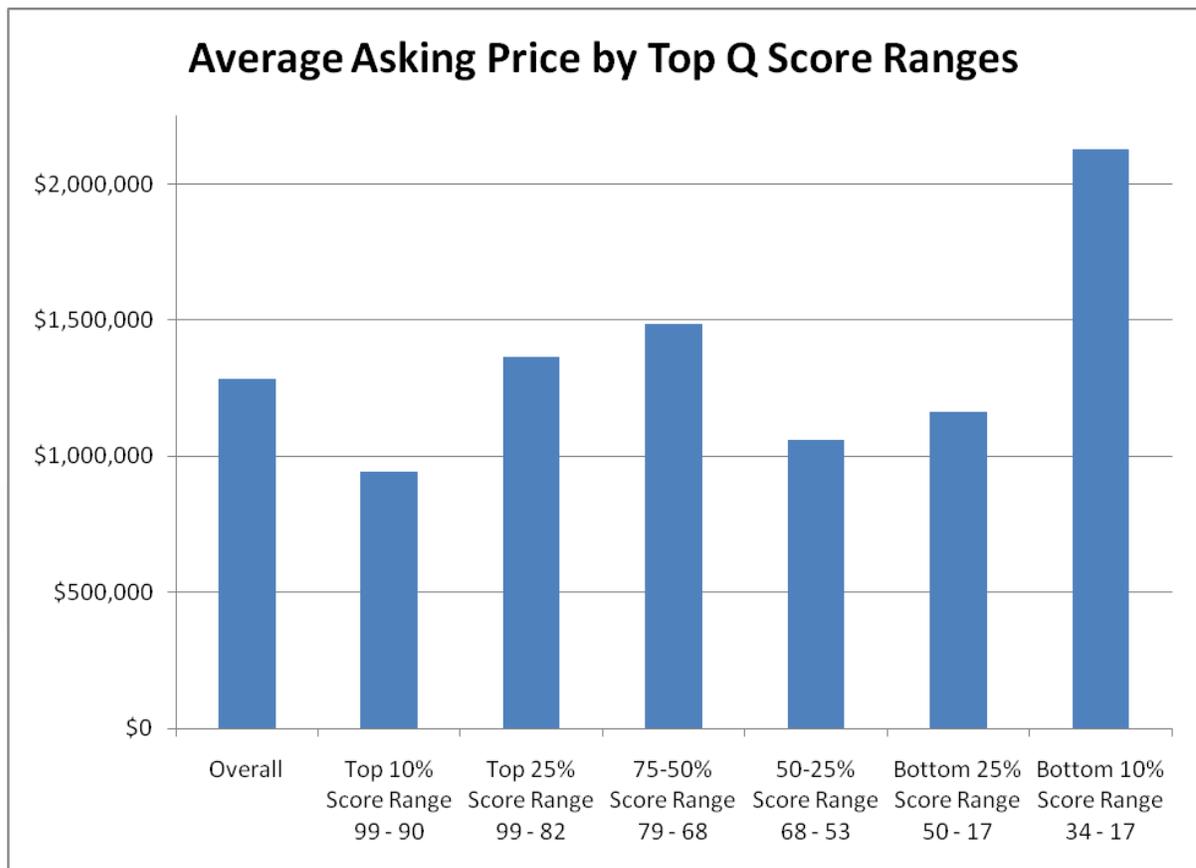


Figure 1 - Average Asking Price For Each Top Q Score Range

In Figure 2, below, these same Top Q Score ranges are shown according to the *median* asking price in each range. Overall, the median asking price for all of the analyzed lots is \$500,000, indicating that half of all analyzed lots can be purchased pre-auction for \$0.5 M or less. A trend first noticed with respect to average asking price continues here, in that lots having a Top Q Score greater than 90 exhibited the lowest median asking price of any group. In addition, lots with a Top Q Score in the range of 79 -68 exhibited the highest median asking price. Also, while the median asking price for the bottom 10% was higher than the top 10% (\$375,000 versus \$350,000), the two prices are significantly closer than when compared by average asking price. Further, although median asking price for the 75-50% range, by rank, appears to be significantly higher than the other Q Score ranges, note that the value of \$1.4 M is remarkably close to the *average* asking price for this same range, of nearly \$1.5 M. The differences between median and average asking price in each range are shown in Figure 3, and explored in the next section.

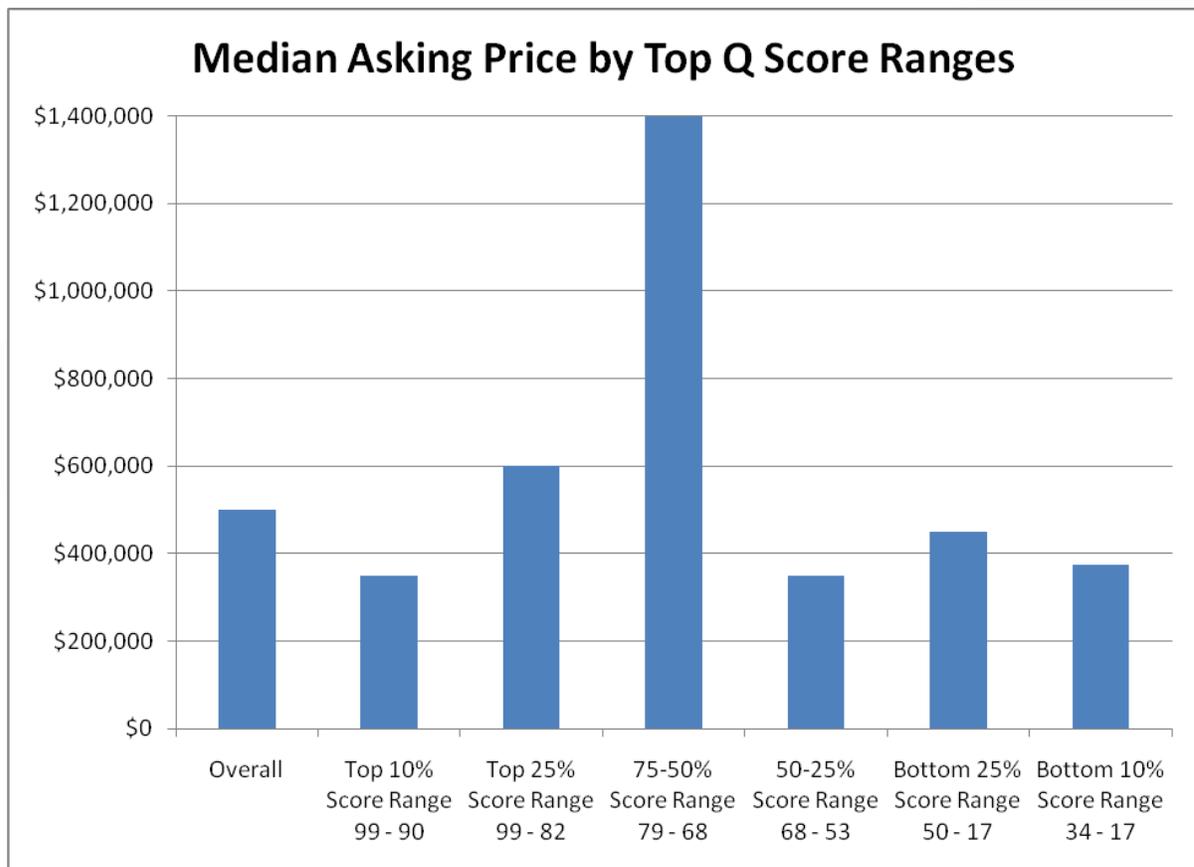


Figure 2 - Median Asking Price For Each Top Q Score Range

“Skewed” Averages – An examination of outliers

The difference between median and average asking price for each Q Score range is shown in Figure 3. The largest disparity between median and average price is for lots with a Top Q Score less than 34. In contrast, the smallest disparity between median and average price is for lots with a Top Q Score between 79-68. These disparities are attributed to a small number of lots being offered for sums substantially higher than the median, with the overall average price skewing higher as a result. In the 79-68 Top Q Score range, asking prices evenly spread around a median may indicate more widespread acceptance of a fair-market price with respect to patent strength. Conversely, outlier sellers at both ends of the Q Score spectrum could have pricing motivations that differ from those in the middle. For example, a \$600,000 disparity between average and median asking price for lots having a Top Q Score greater than 90 could indicate the presence of a small number of sellers trying to capitalize on the high value of an asset within a portfolio. A competing interpretation of the same disparity suggests a large number of sellers significantly undervaluing their assets to increase the likelihood of consummating a sale.

The largest disparity, \$1.7 Million, between average and median asking price is for lots having a Top Q Score less than 34. This could indicate that a smaller number of sellers overvalue their assets by a wider margin. However, since these assets arguably may not be worth as much as the higher scoring assets, a logical explanation could be that outlier sellers have a greater opportunity to establish pricing distance from the rest of the group. Another possible explanation is that outlier sellers use the larger demand to build in a pricing “cushion” and would inevitably accept less than their stated asking price.

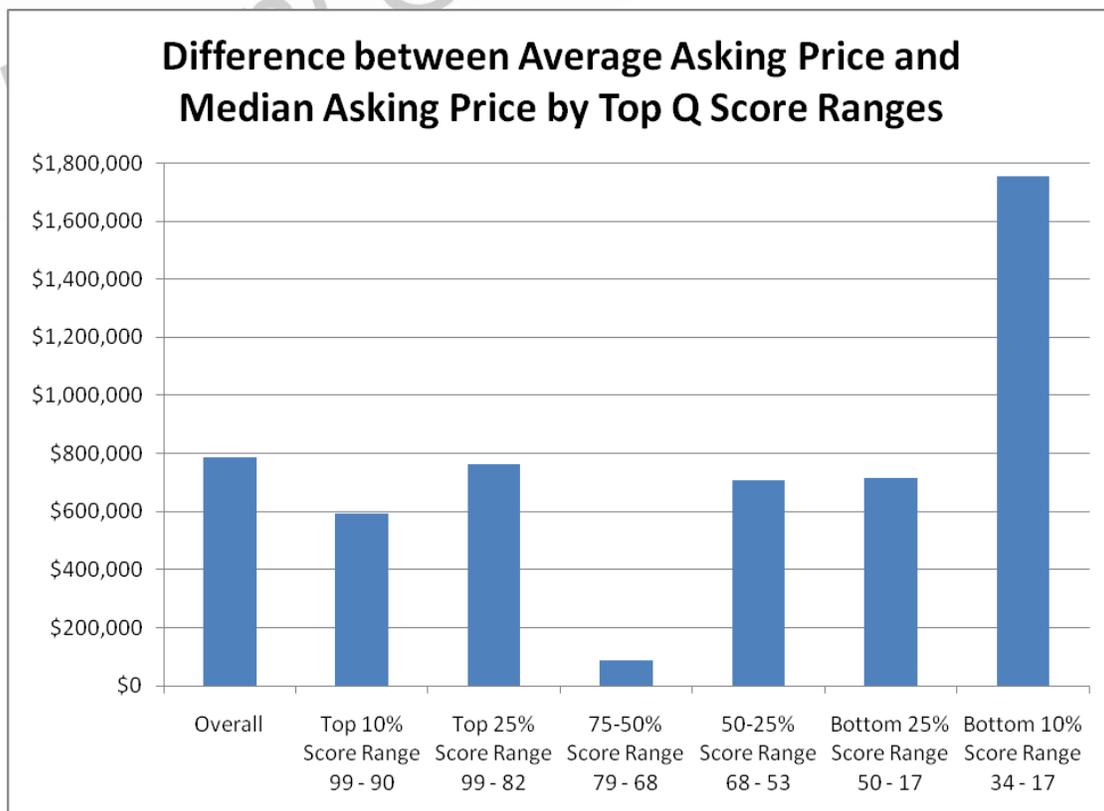


Figure 3 - Comparison of Average and Median Asking Price

“Volume-Based” Pricing – Should Patents Be Sold By The Pound?

Despite not finding any reliable correlation between Top Q Score assets within a lot, another observed trend indicates the use of “volume-based” pricing of assets. As mentioned above, Computerized Q Scores were obtained for each patent in the 125 analyzed lots. For this analysis, the Q Scores of all issued US Patents in an available lot were added together to create a “Total” Q Score for each lot, which were subsequently broken down by percentage rank similar to the previous analysis. The Total Q Score Ranges for each percentage range are shown in Table 2.

Percentage Rank	Total Q Score Range
Top 10%	2282 - 296
Top 25%	2282 - 186
75-50%	185 - 95
50-25%	94 - 56
Bottom 25%	53 - 17
Bottom 10%	40 - 17

Table 2 - Corresponding Total Q Score Range for Selected Percentage Rank Ranges

Average and median asking prices were calculated for each range listed in Table 2, and are shown in Figure 4, below. As a result, lots including multiple issued patents, regardless of actual quality, may have significantly higher Total Q Scores than lots including only a few, high quality patents. Nevertheless, when comparing asking prices to lots ranked by Total Q Score, a much more consistent trend is observed. Specifically, as Total Q Score decreases, the average and median asking prices also decrease. This may indicate that sellers still believe that volume is more important than individual quality. However, reliance on volume alone is overly simplistic, and may lead to erroneous conclusions.

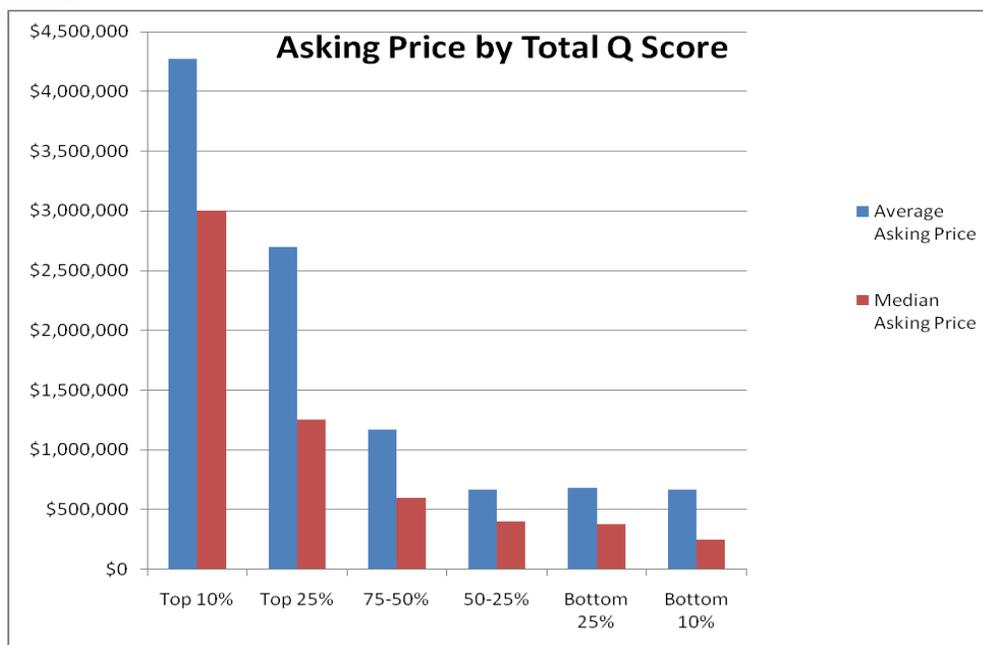


Figure 4 - Asking Price For Each Total Q Score Range

This chart reveals a generally downward sloping trendline, where lots having lower “Total” Q Scores are generally priced lower than lots having higher “Total” Q Scores. This trend is significantly more observable than data shown above with respect to Top Q Score, and suggests that lots consisting of large numbers of patents are more valued than lots with fewer patents, without accounting for individual quality. For example, Lot no 63 ranks in the top 10% by “Total” Q Score, and carries an asking price of \$15,000,000. However, its Top Q Score is only 34 (US Patent 7,581,101). A closer look at the portfolio suggests that while the patents generally relate to the mobile communications market, the patent priority dates ranging from 2003 to 2007 are relatively recent for the corresponding technology space. This can be seen more clearly in the Patent Calls’ prior art timeline for US Patent 7,581,101 shown in Figure 5, where the dashed gray line represents the ‘101 Patent’s filing date.

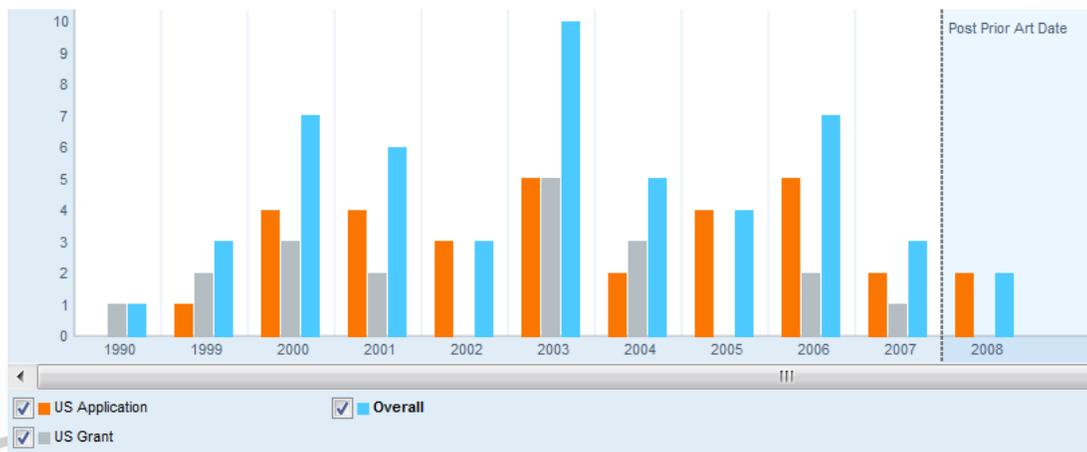


Figure 5 - Prior Art Timeline for US Patent 7,581,101

Meanwhile, Lot no. 124 ranks only slightly above the median in “Total” Q score, but features a Top Q Score of 99 (US Patent 5,845,267) and carries an asking price of \$600,000. A closer look at the Patent Calls’ prior art timeline for this patent illustrates that the overwhelming majority of related inventions post-date the subject patent, as shown in Figure 6.

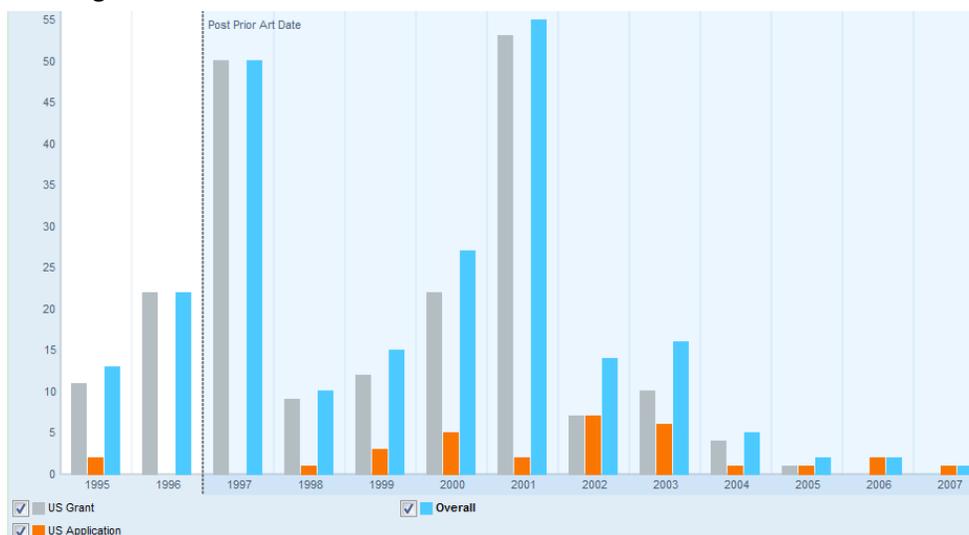


Figure 6 - Prior Art Timeline of US Patent 5,845,267

While reliance on “Total” Q Score analysis explains the difference in pricing, including the difference in pricing of these two exemplary lots, the Total Q Score computation fails to account for the individual quality of patents within a lot. While a large quantity of “low” value patents might be useful to a certain type of buyer, the investor seeking to monetize by licensing acquired patents should study the available lots with a careful eye toward individual quality.

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