

THE
TECHNOLOGY



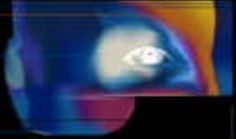
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Technology Resource of the Southeast, Inc.

Early Stage Valuation Workshop New Rules in a Changing Economy

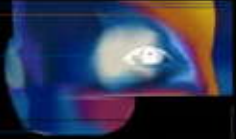
August 12, 2009

Realizing the value of ideas...



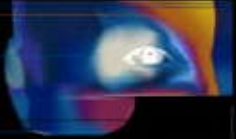
What does the EVALUATION process look like?

- Verification of all pertinent facts
- Patent Hierarchy Analysis
- Technical Assessment of the Technology
- Market Assessment of the Technology
- Competitive Assessment of the Technology



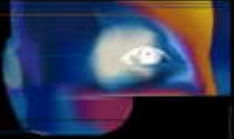
What does the VALUATION Process look like?

- Various methodologies for accomplishing the same end result. This can be simple or comprehensive, depending on your needs
- Full Valuation Analysis using “Triangulation” Methodology
- Valuation and Financial Modeling to build a framework for negotiation issues



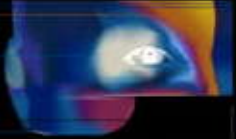
Types of Valuation Methodologies - Basic

- Book Value or Cost method
- 25% Rule
- Market Comparables



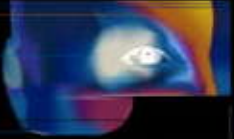
Types of Valuation Methodologies - Advanced

- Income Method
- Discounted Cash Flow
- Monte Carlo Simulations
- Options Pricing Theory (or) Black-Scholes
- Industry Standard Royalty Rates
- Replacement Cost Method
- Relief from Royalty Method



Why Value an invention?

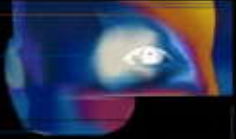
- What does it accomplish?
- What do you do with it?
- Is it accurate?
- How does it work?



Example – Cost Method

Biomarker for lung cancer

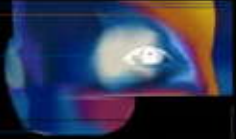
- Funded through NIH Grants - \$1,375,000
- Utility Patent application filed - \$15,000
- Self-funded lab research - \$85,000
- Cost Method Value = \$1,475,000 (one time fee)



Example – 25% Rule

Biomarker for lung cancer

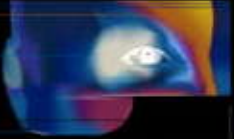
- Licensed to ABC Diagnostics Co.
- Company has Exclusive W.W. rights
- Typical Net Profit is \$20.00/assay
- Equals \$5.00 in royalties/assay
- 200,000 assays sold
- \$4,000,000 Gross Net Profit
- \$1,000,000 in royalties/year



Example – Market Comparables

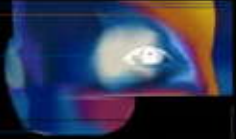
Biomarker for lung cancer

- Licensed to XYZ Diagnostics Co.
- Company has Exclusive W.W. rights
- Net Sales per unit = \$130.00
- 6% Royalty agreement
- 200,000 units sold
- \$26,000,000 Net Sales Revenue
- \$1,560,000 Royalty Income/year



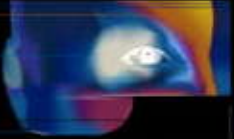
Comparisons – year one

- Cost Method = \$1,475,000 (one time fee)
- 25% Rule = \$1,000,000/year
- Market Comparables = \$1,560,000/year



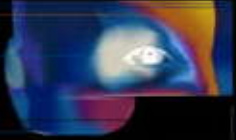
Comparisons over Patent life

- Cost Method=\$1,475,000
- 25% Rule=\$20,000,000
- Market Comparables=\$31,200,000



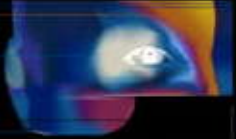
Which Valuation model to use?

- Why are they different values?
- How do I know which is the best for my purposes?
- How do I maximize the value for negotiations?
- How do I equalize the values?
- What else is available?



In-depth analysis

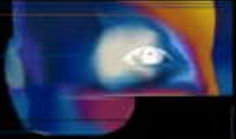
- What resources are available?
- What can a Valuation firm do to help?
- What else can I do?
- In-house vs. outside help



IP Bundling – what purpose does it serve?

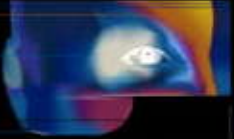
Provides answers to common business problems:

- Increase sales
- Develop new markets
- Develop and dominate new areas of core expertise



What does a technology bundle look like?

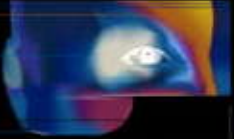
- Patent applications
- Design patents
- Trademarks
- Cooperative research agreements
- Pre-agreed terms on royalties/income
- Expanding to other “fields of use”
- In-Licensing of synergistic product concepts



What is the value proposition?

- Models are developed that make sense from a business plan perspective. This makes them attractive to investors and/or industry partners
- Individual IP valuations can be low when valued as single items
- Combined IP can provide a substantial addition to the valuation potential
- IP is searched and screened on basis of synergy

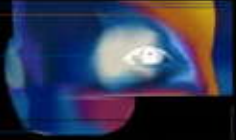
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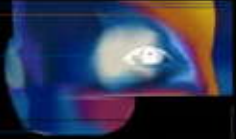
Realizing the value of ideas...



What is a technology Worth 1896

- American Cotton Oil
- American Sugar
- American Tobacco
- Chicago Gas
- Distilling & Cattle Feeding
- General Electric
- Laclede Gas
- National Lead
- North American
- Tennessee Coal & Iron
- U.S. Leather (Preferred)
- U.S. Rubber

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Today's Leaders

3M

DuPont

McDonald's

Alcoa

ExxonMobil

Merck

American Express

General Electric

Microsoft

AT&T

Hewlett-Packard

Pfizer

Bank of America

The Home Depot

Procter & Gamble

Boeing

Intel

Travelers

Caterpillar

IBM

United Technologies Corp.

Chevron Corp.

Johnson & Johnson

Verizon Communications

Cisco Systems

JPMorgan Chase

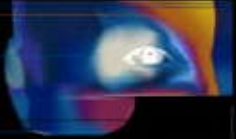
Wal-Mart

Coca-Cola

Kraft Foods

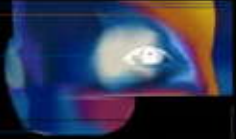
Walt Disney

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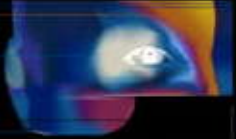
What is a Technology Worth? Circa 1996

- Mid 1990's - opportunity to generate wealth
- New entrants flooded venture capital industry
- Capital began to outstrip the number of quality opportunities
- **Valuations for Private Companies increase**
- As public equity markets collapsed in early 2000, so did the value of many venture partnerships



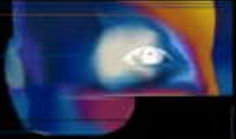
What is a Technology Worth? Circa 2009

- Every start-up faces roadblocks to funding.
- Financing of any type is difficult to find.
- Investors have lost fortunes and some will never recover. Most have problem companies that they are still trying to deal with.
- Because of this, they have developed a new set of rules and look for reasons not to invest.



What is a Technology Worth? The New Standards

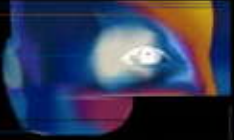
- No viable commercialization plan
- Afraid of new breakthroughs that have “no competition”
- Afraid of Company generated projections
- Lack of Experience
- Concerned about possible “cover-ups”
- Must be willing to work “double time”



What is a Technology Worth? What will attract Investors?

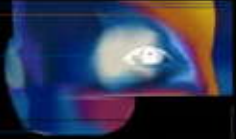
The current focus is to invest in regional areas that have the following baseline criteria:

- Strong Academic Research Institutions
- Access to Capital
- Effective I.P. Transfer
- Highly skilled workforce
- Stable and Supportive Public Policy



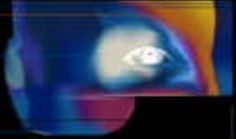
Who's going to believe me?

- In most cases, individuals and start-ups have the Technical knowledge and information to make convincing arguments for their plan.
- At this stage of growth, companies are typically small and require funds to complete Product Development.



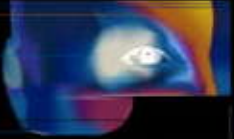
Who's going to believe me? (cont.)

- In this situation, the valuation, although important, is not the main event.
- Understanding the marketplace and the niche to be developed is the key item
- Short term focus is the final development.
- Long term vision is the potential profit.



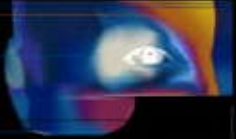
Does any of this make sense?

- Gives you a starting point, **BUT**, Valuations are based on many criteria.
- Developing a number according to any of aforementioned methods **does not** produce a final valuation.
- Requires analysis of the technology based on how it relates to similar or comparable technologies.



Make sense? (cont.)

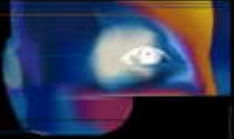
- Requires analysis of the extent of your Patent protection in relation to where the most likely market exists for breakthrough technologies.
- Requires analysis of other potential “fields of use” applications.
- Requires a valuation assessment of the Technology and its potential applications.



So, what's the common denominator?

- We are all involved in making some form of deal. It may be a **start-up, merger, acquisition, out-license, in-license, spin-off.**
- You may be a **Venture Capitalists or Debt equity provider.**
- The common denominator is to find a **Business model that actually works and is viable.**

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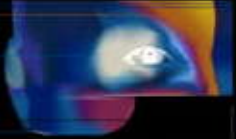


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Case Study:

Soft-Ride Equine Comfort Boots

THE BEST IN THE WORLD DEPEND ON

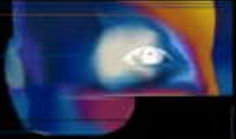
Soft-Ride

"I think there is a great need for this product at the racetrack. Many of the feet (heels) are compromised from the horses standing in the stall all day."



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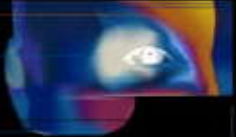


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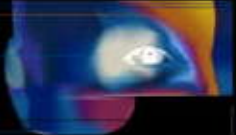
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US 20050072128A1

(19) **United States**

(12) **Patent Application Publication** (10) **Pub. No.: US 2005/0072128 A1**
Ruetenik (43) **Pub. Date: Apr. 7, 2005**

(54) **SLIP-ON ANIMAL HOOF BOOT ASSEMBLY**

Publication Classification

(76) **Inventor:** Monty Ruetenik, Clear Lake, TX (US)

(51) **Int. CL⁷** B68C 5/00

(52) **U.S. CL** 54/82

Correspondence Address:
Douglas Baldwin
2812 FM 1146
Marquez, TX 77865 (US)

(57) **ABSTRACT**

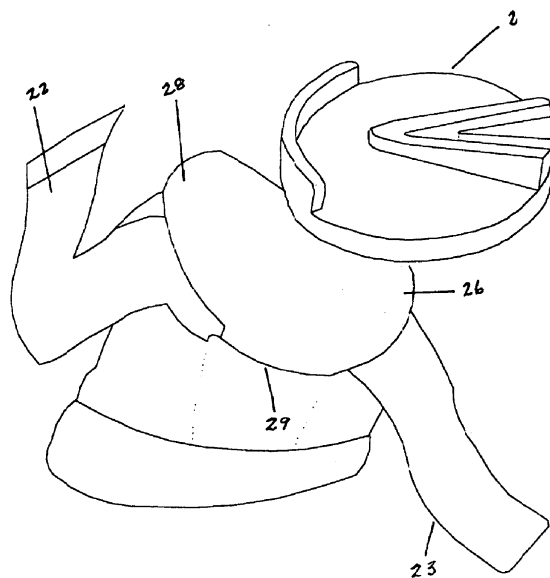
(21) **Appl. No.:** 10/926,771

(22) **Filed:** Aug. 26, 2004

Related U.S. Application Data

(60) Provisional application No. 60/508,775, filed on Oct. 4, 2003.

An improved animal hoof boot assembly that consists of a fabric boot and a critically dimensioned elliptical shock absorbing pad disposed inside at the bottom of the boot, the pad having a triangular raised frog support at the rear of a hoof stop at the front. The invention is also a method of transporting animals by fitting them with a boot assembly as described above.





US 20070107389A1

(19) **United States**
 (12) **Patent Application Publication** (10) **Pub. No.: US 2007/0107389 A1**
 Ruetenik (43) **Pub. Date: May 17, 2007**

(54) **EQUINE BOOT** (60) Provisional application No. 60/508,775, filed on Oct. 4, 2003.
 (76) Inventor: **Monty Ruetenik**, Kemah, TX (US)

Publication Classification

Correspondence Address:
Douglas Baldwin
 2812 FM 1146
 Marquez, TX 77865 (US)

(51) **Int. Cl.**
B68C 5/00 (2006.01)
 (52) **U.S. Cl.** 54/82

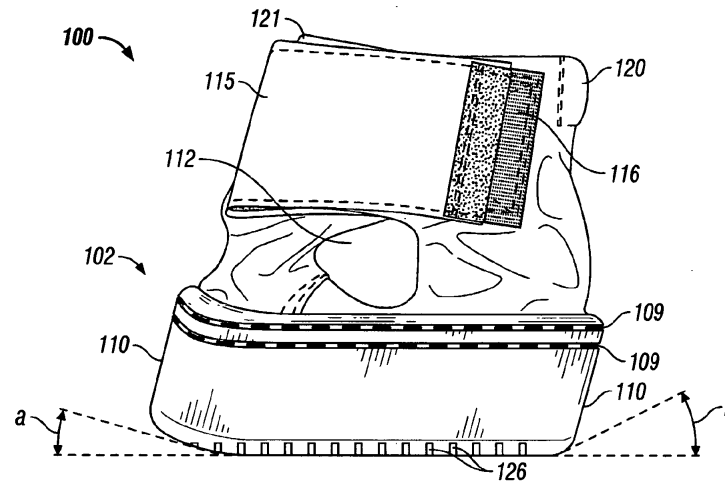
(21) Appl. No.: 11/652,187
 (22) Filed: Jan. 11, 2007

ABSTRACT

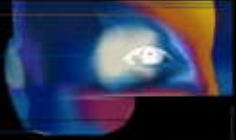
An improved equine hoof boot, boot pad and boot and pad assembly that consists of a fabric boot and dimensioned elliptical shock absorbing pad disposed inside at the bottom of the boot, the pad optionally a combination of soft and harder components and also optionally having a triangular raised frog support at the rear of a hoof stop at the front.

Related U.S. Application Data

(63) Continuation of application No. 10/926,771, filed on Aug. 26, 2004, now Pat. No. 7,178,321.



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Case Study: Factory Systems SPC/OEE

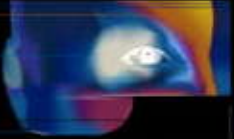


SPC & OEE

Quality and Productivity Solutions

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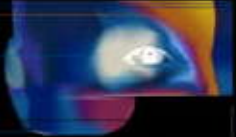


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 Digital I/O for
Closed Loop Control

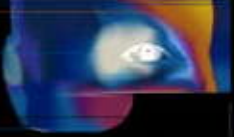
 Serial Interface to a
Wide Variety of Machines

 Virtual Interface to Networked
Production and Test PCs

 Connection to any
Electronic Gauge

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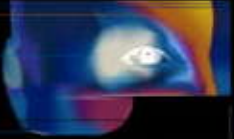
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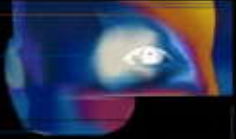


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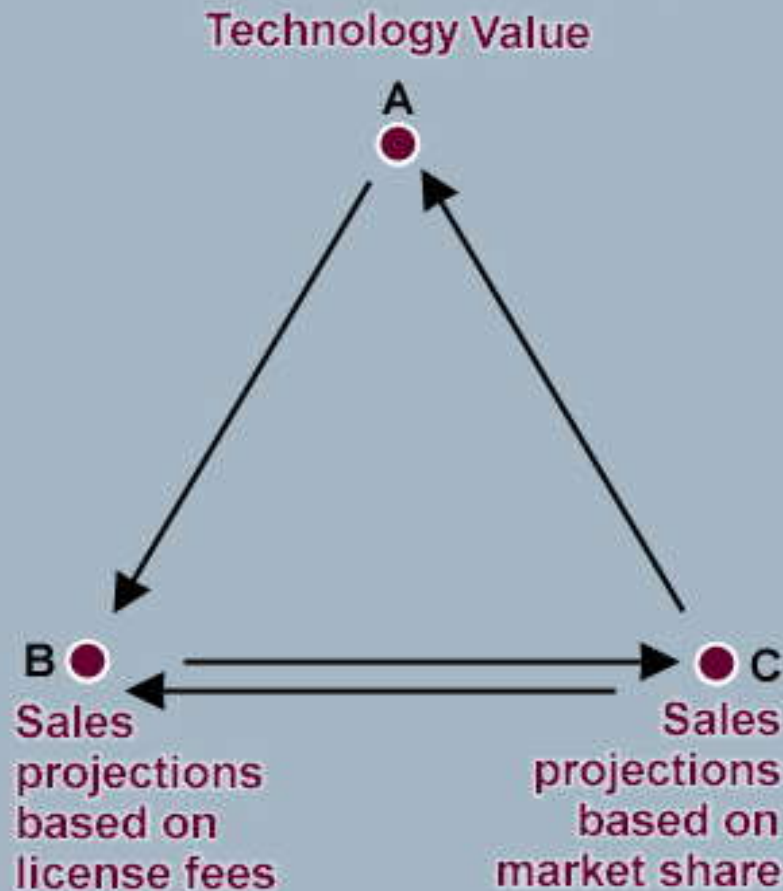


What is triangulation?

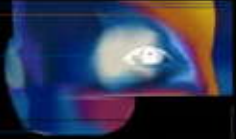
- In simplest terms, it is a valuation using three distinct methods to arrive at the same approximate value.
- Obviously, if there is a large discrepancy with any component of this method, the valuation may not be valid.
- Although there are other forms of triangulation, the focus will be on the methods practiced by **Technology ResourceSE.com**



Basic Triangulation Methodology



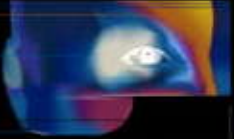
- Used for analysis based on a technology value.
- If B approximates C and C approximates B, and if A compliments B, then C must compliment A and thus confirms the Technology Value.



The Black-Scholes Formula

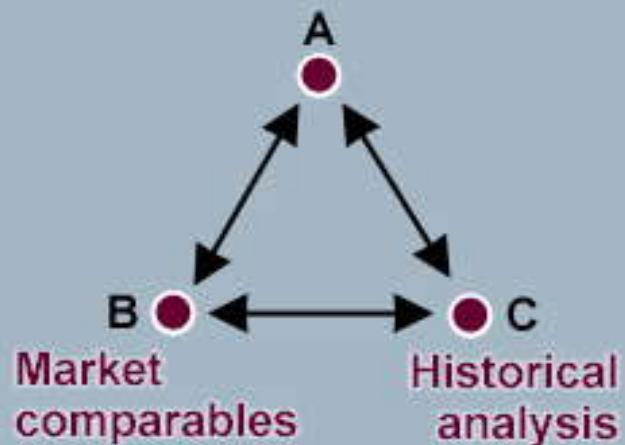
$$c_t = S_t N(h) - Xe^{-rt} N(h - \sigma\sqrt{\tau})$$

$$h = \left\{ \ln\left(\frac{S}{X}\right) + r\tau + \frac{\sigma^2\tau}{2} \right\} / \sigma\sqrt{\tau}$$

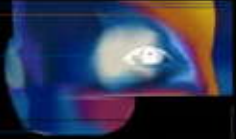


Technology Value Triangle

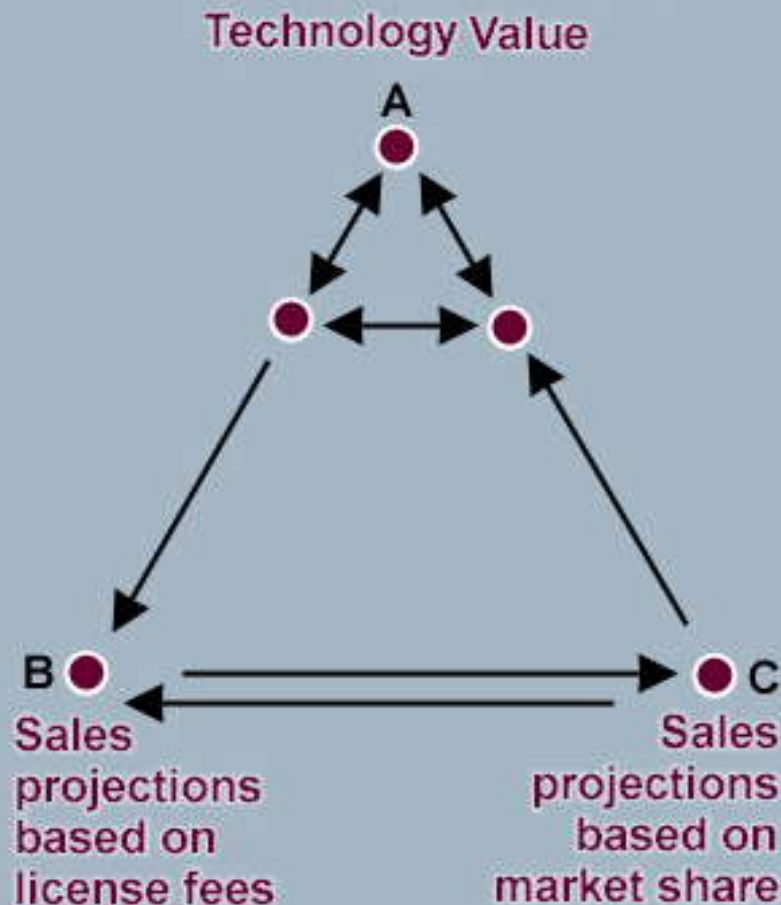
Black-Scholes Model



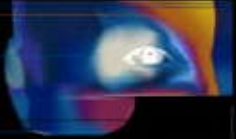
- The Technology Triangle within a triangulation model
- Each component compliments and verifies each other component
 - A approximates B
 - B approximates C
 - C approximates A



Double Triangulation Methodology



- Used for analysis that requires multiple confirmation of the technology value used in the calculation
- Same theory as previous slide but contains multiple means of verification of the targeted technology value.



Technology Curve - Product Life Cycle

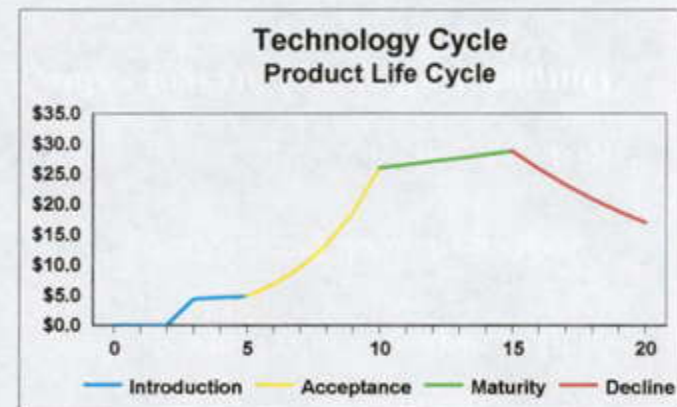
Technology Curve - Product Life Cycle

Phase	Length	Growth Rate	Sales
Introduction - Discovery	2	0.0%	
Introduction - Prototype	3	5.0%	\$4.4
Acceptance	5	40.0%	
Maturity	5	2.0%	
Decline	5	-10.0%	

Table 1

Phase	Year	Sales
Introduction	0	\$0.0
	1	\$0.0
	2	\$0.0
Introduction	3	\$4.4
	4	\$4.6
	5	\$4.9
Acceptance	6	\$6.8
	7	\$9.5
	8	\$13.3
	9	\$18.6
	10	\$26.1
Maturity	11	\$26.6
	12	\$27.1
	13	\$27.7
	14	\$28.2
	15	\$28.8
Decline	16	\$25.9
	17	\$23.3
	18	\$21.0
	19	\$18.9
	20	\$17.0

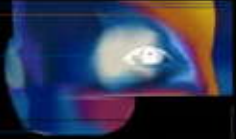
Table 2



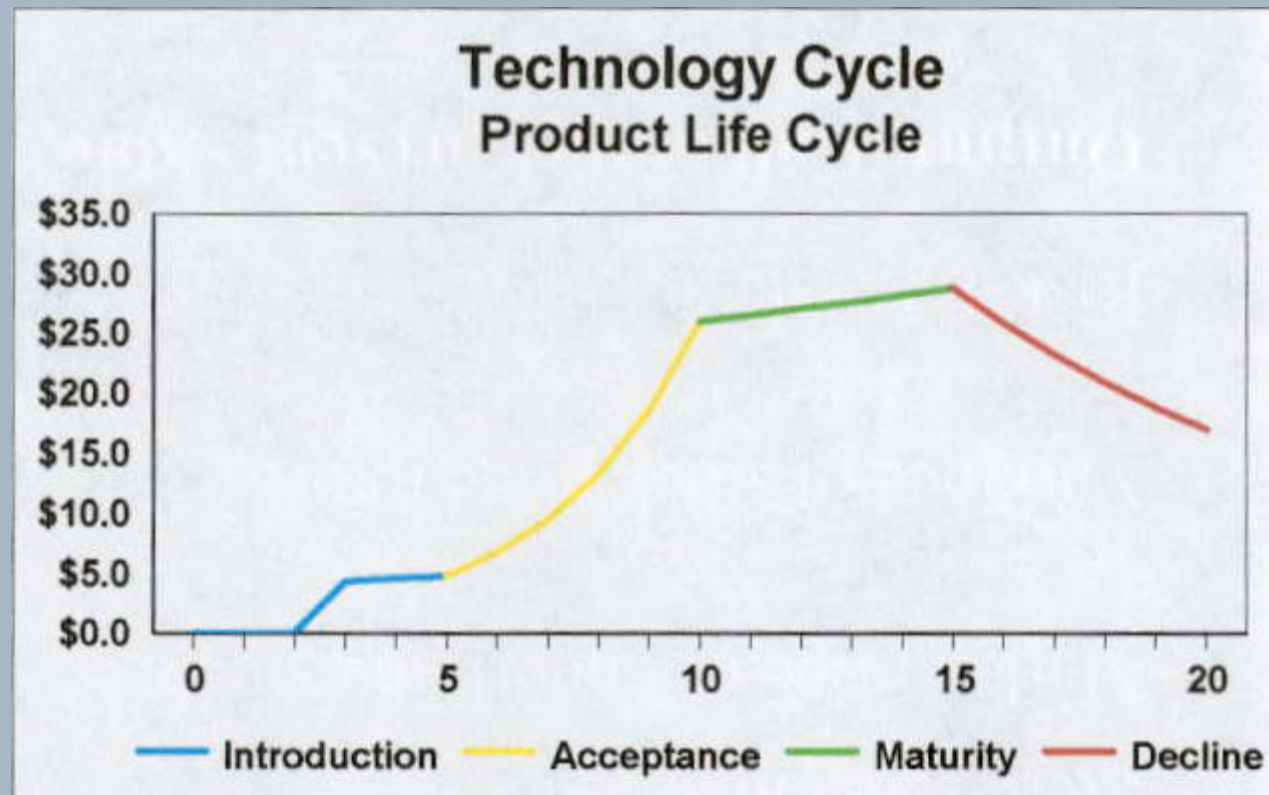
Graph 1

Sales Summary	Phase		Total	
Introduction	\$13.9	4.17%	\$13.9	4.17%
Acceptance	\$74.3	22.33%	\$88.2	26.50%
Maturity	\$138.5	41.61%	\$226.7	68.11%
Decline	\$106.2	31.89%	\$332.9	100.00%

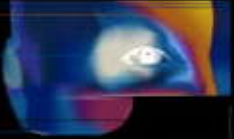
Table 3



Technology Curve - Product Life Cycle



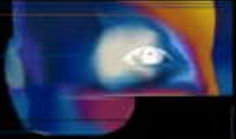
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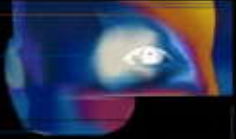
Questions?

Realizing the value of ideas...



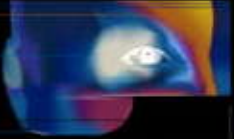
Why doesn't everyone value technologies themselves?

- It takes a lot of time to conduct a proper search for critical information
- Not all of the information needed may be available
- All technologies must be clean and Patentable
- Foreign rights must be in a preserved state
- All agreements must be “exclusive licenses”



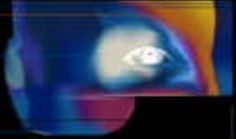
Who knows for sure?

- No one can determine a value in absolute terms.
- An analyst applies accepted principles and methodology to arrive at an estimated value.
- This value is based on a combination of:
 - **competitive intelligence**
 - **market analysis**
 - **financial modeling**



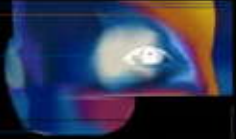
Are “Experts” ever wrong?

- IBM turned their backs on an investment originally called the Haloid process.
- Market research showed that only 5,000 of these “inventions” would ever be sold before saturating the marketplace.
- The device, invented by a Patent Attorney, later became known as Xerox.



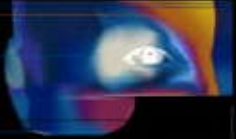
Any recent blunders?

- AT&T was asked to invest in a new venture based on a Government experiment in the early 70s.
- AT&T had recently been through a monopoly breakup and had its core businesses diluted and dispersed. They were looking for the next “**big wave**”.
- They turned down an offer to become the lead company in what is now known as the **Internet**.



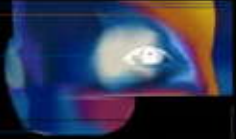
Anything else?

- Economists have conducted a study to determine the relationship between wealth and IQ.
- They have found that one IQ point is equivalent to \$8,000 of net worth.
- If your IQ is **125** you would have, according to this calculation, a net worth of **\$1,000,000.00**.



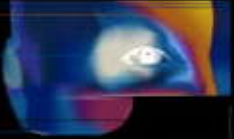
What can I do to help insure success?

- Long term vision, short term focus
- Appropriate market niche

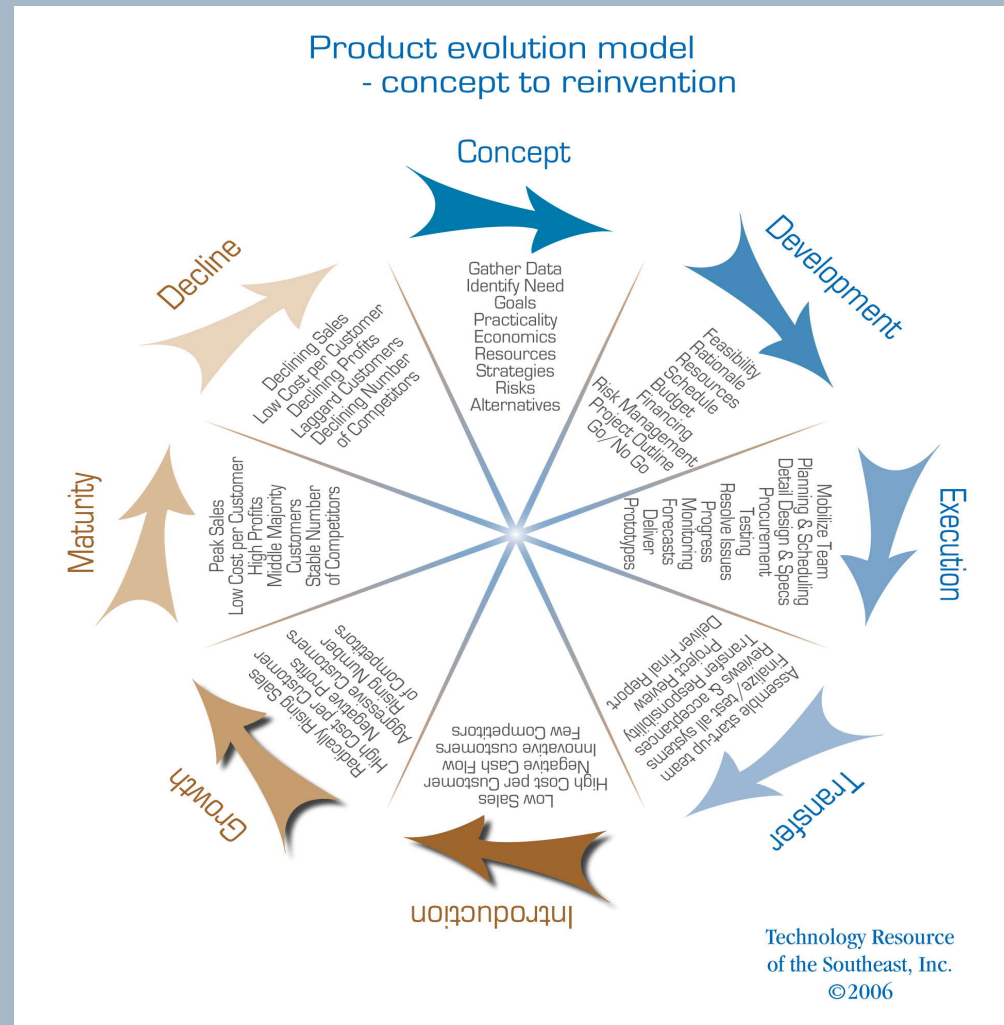


What personal attributes help drive values?

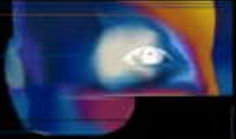
- Vision
- Drive
- Determination



One final reason to Value



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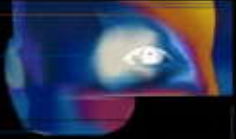


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Final Questions?

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