

From \$1.5M to \$5.4M in 90 Days A VoIP Patent Sale Case Study on LongBoard, Inc.

LongBoard was founded in 1999 by two veterans of the telecommunications industry with a goal to build their business that would drive the convergence of voice and data networks. They recognized that Internet Protocol (IP) technology would eventually be adopted into Class 5 telephony switching, the technology now used by leading telephone service operators worldwide.

Bringing IP technology into the telecom industry required a number of innovations, including initiating and maintaining voice calls over the Internet (VoIP) and providing the same features via VoIP that phone customers had come to expect with common telephone service, such as voicemail, call forwarding, conference calling, etc. In the course of developing their IP telephony technology and products, the inventors at LongBoard created a number of patented innovations that would eventually be used in a broad range of IP telephony applications.

Unfortunately, in 2006, LongBoard found itself ahead of the market demand curve, resulting in sales revenue falling below plan. The companies' cash was running low and a bridge loan of \$5 million was outstanding. The board of directors had become interested in using its patent portfolio as a means of getting some short-term cash return on their technology investment. About this time, the board received a referral to an intellectual property consulting company, named IPotential. Shortly following initial discussions, IPotential was retained in a consulting engagement to investigate monetization options for the LongBoard patent portfolio. Completing its analysis on schedule, IPotential recommended various options supporting patent sale and licensing programs.

In parallel with IPotential's project, Longboard had received two unsolicited offers to purchase their patent portfolio. Each offer was for approximately \$1.5 million, one offer from a patent investor and the other from an operating company that LongBoard had previously engaged in acquisition discussions. Initially, the board leaned towards going with one of the current \$1.5 million offers. Not knowing the real value of the patents and not wanting to have these offers disappear, the Company provided each bidder the opportunity to make one more bid. One of the two bidders indicated a willingness to increase their offer to \$2 million.

In parallel with the board's deliberation on accepting the highest unsolicited offer, IPotential completed an initial infringement analysis on the patents and found that several of the patents contained claims that were widely adopted by VoIP Service Providers and Equipment Manufacturers. Knowing that the offer was much lower than the real market value, IPotential assisted the Board in understanding the true market value of the patents and the potential buyers to ensure that a fully informed decision was made. During this process, IPotential pointed out several factors for the board's consideration:

- A patent sale is analogous to conducting an M&A transaction - to get the best price, you need to talk to all the parties that might be interested in purchasing the asset, providing them the appropriate information and time required to make a good decision.

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- The LongBoard portfolio was in a technical area in high demand, and that the projected market price was in the \$3 million to \$5 million range.
- A patent bidder's goal is not to pay market price, but given the difficulty and risk in understanding the patents value, a bidder looks to mitigate that risk by paying the lowest price they can to acquire the asset. Therefore, the offers on the table are likely not 'best and final' and can usually be increased by further demonstrating the market use of the patents.
- A quality broker will do all the work for you; identifying and articulating the value of the patents in relation to products that have adopted the claimed technology, getting this information in the hands of many potentially interested buyers, and running a process that obtains the maximum price. This is all done at the broker's expense, removing the hassle and cost to the company.
- IPotential's sales transactions typically take 2-3 months to complete once we prepare our marketing material demonstrating the value of the portfolio. The additional time invested up front to prepare the IPotential marketing package ensures that the patent owner receives the best price the market has to offer.

With this new understanding of the process and benefits of selling patents through a premier brokerage service, the market potential for their intellectual property and the mitigated risk; the board hired IPotential to sell their patents. IPotential started its unique brokerage process immediately. In less than five months from the signing of the patent brokerage agreement, IPotential delivered a \$5.4M gross sale price for the LongBoard portfolio - about 2.5 times the original 'good offer'. IPotential divided the portfolio into two groups, selling each group to a different buyer. In this case, the parts were worth more than the sum.

"After talking with IPotential, we recognized that while the purchase offers on the table seemed fair, our duty to our shareholders required that we assure ourselves that we had gotten the best price that the market would provide," stated Carl Eibl, Managing Partner at Enterprise Partners Venture Capital. "Without a doubt, IPotential was the right party to maximize the value of our portfolio and provide the assurance that we had served the best interest of our shareholders!"

Take the low risk path to assure yourselves and your shareholders that the best price has been achieved....let IPotential assist you with your IP strategy, patent sales or licensing needs.