

Invest in Growth - Stabilize supply chain

How LOT Network Addresses the PAE Problem

LOT Network CEO

Ken Seddon



Introduction of Ken Seddon

25 Years of Engineering and IP experience

- BS. EE Georgia Tech, Master's Device Physics from ASU, JD from ASU
- Motorola: engineer and patent prosecution
- Intel: Asst. Director of Patents - patent prosecution and licensing
- Numonyx: Chief IP Counsel
- Micron: Asst. General Counsel
- Apple: Strategic patent licensing, patent purchasing, NPE defense
- ARM: VP of IP

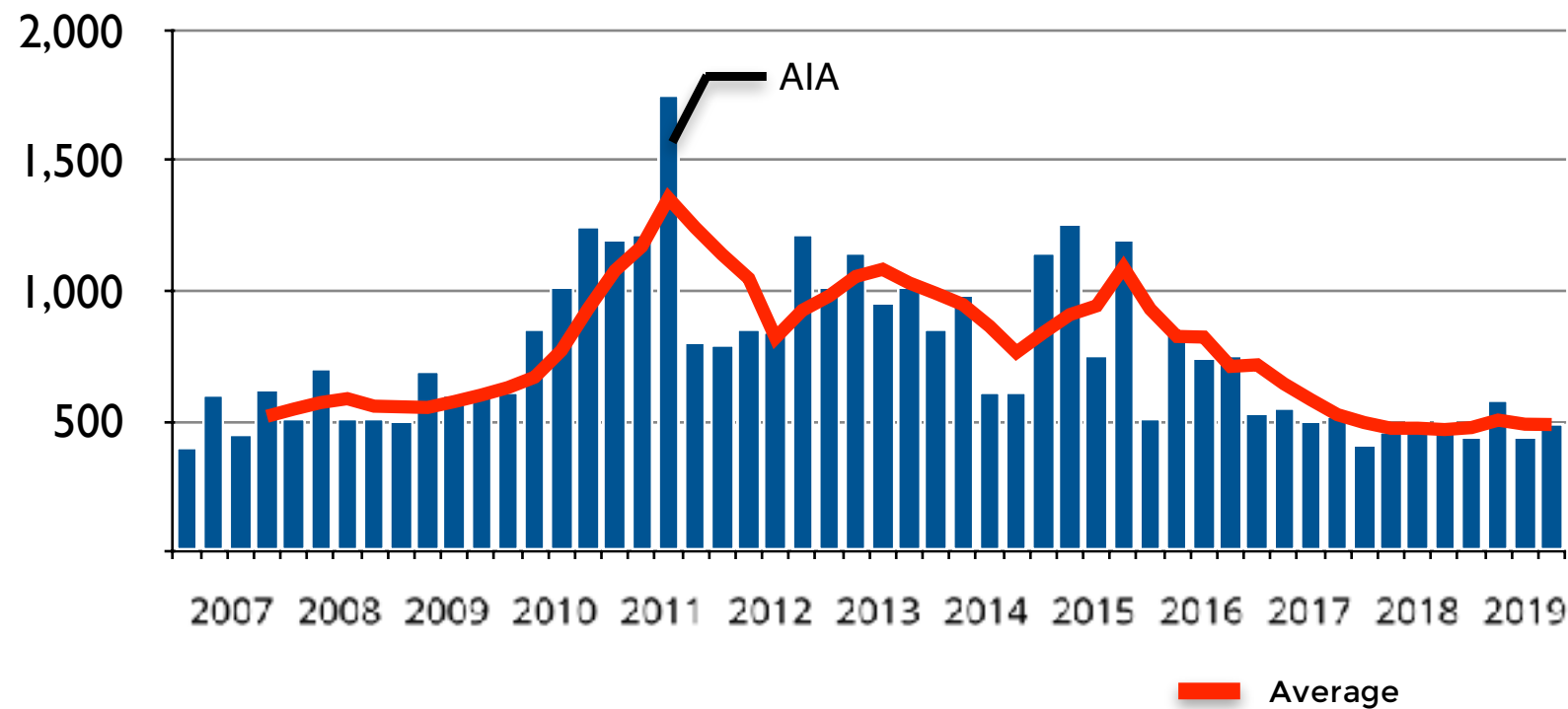
Annual Fixed Cost to Companies

Litigation, Licensing, Settlements

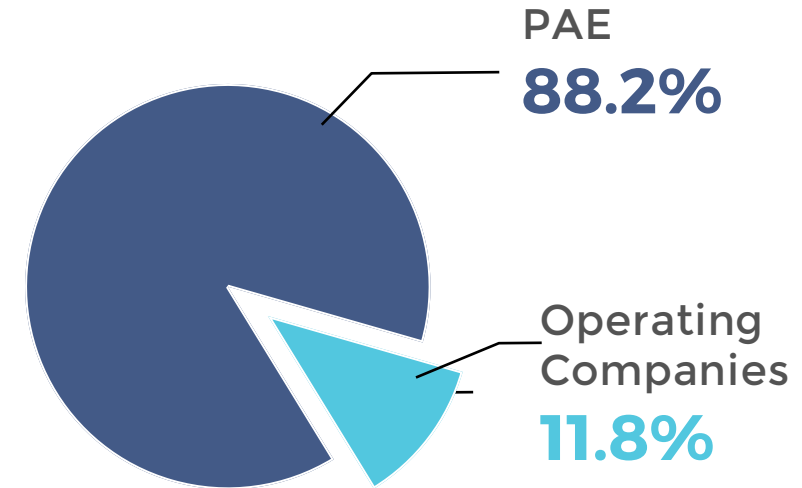
\$29 Billion

PAEs - hurting innovation

New PAE suits per quarter



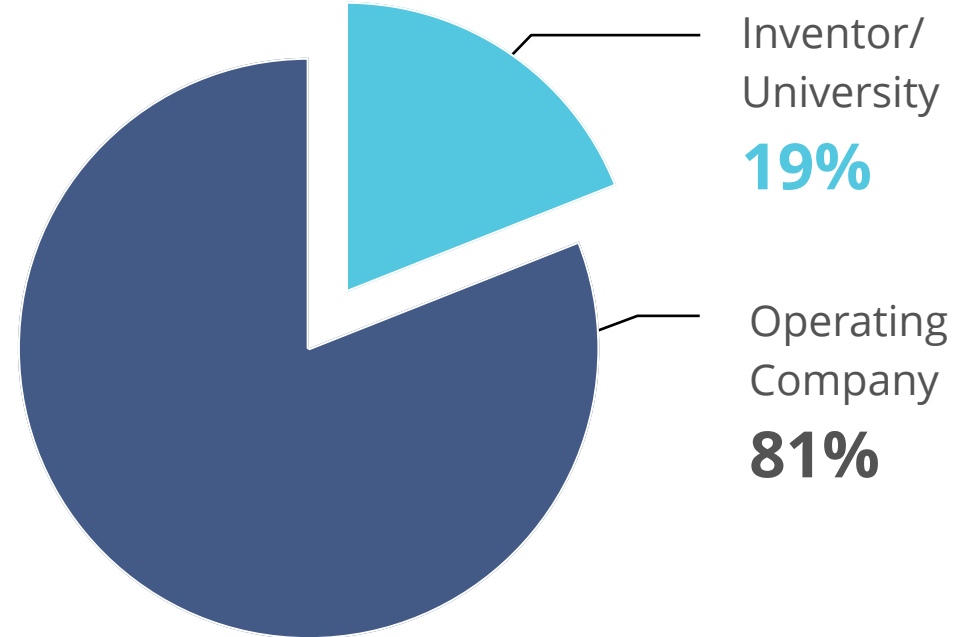
PAEs greatest litigation risk to high-tech companies



2019: PAEs are responsible for 88% of high-tech patent litigation in the US!

Where are the PAEs getting their patents?

81% of patents acquired from PAEs come from companies⁷



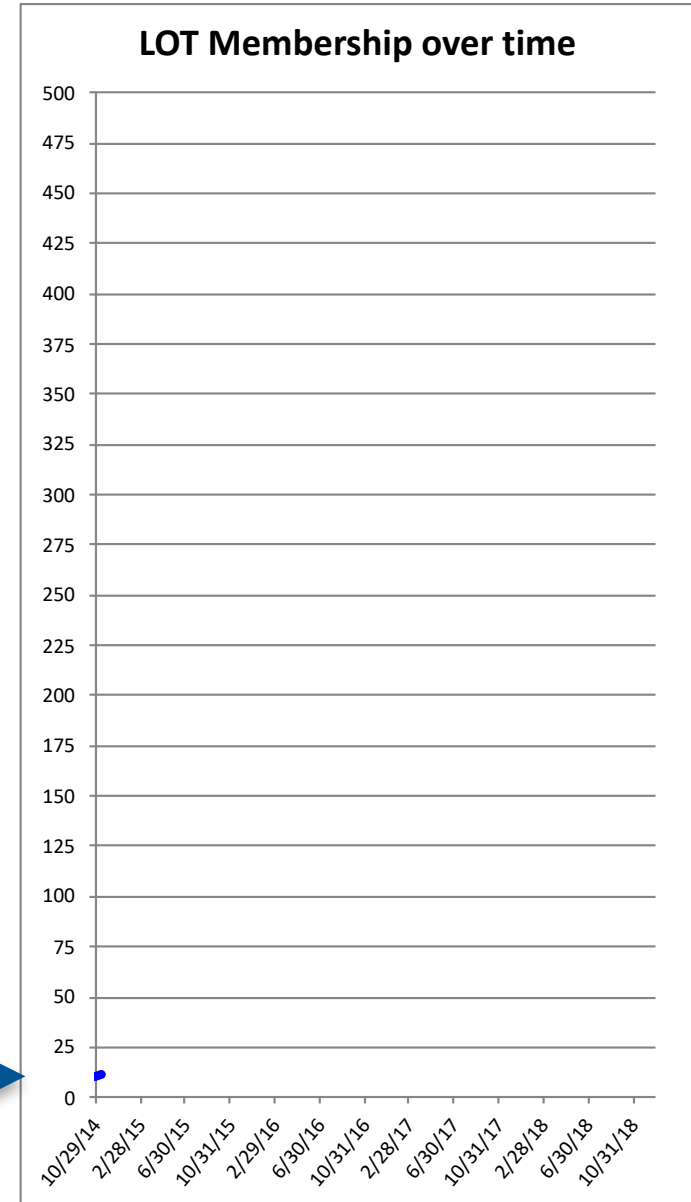
Companies provide PAEs with most of the patents

2014: LOT Network is formed as the solution

Board of Directors



LOT Begins →



LOT Agreement is scaling

Board of Directors



Canon

Google



Dropbox

JPMORGAN CHASE & CO.



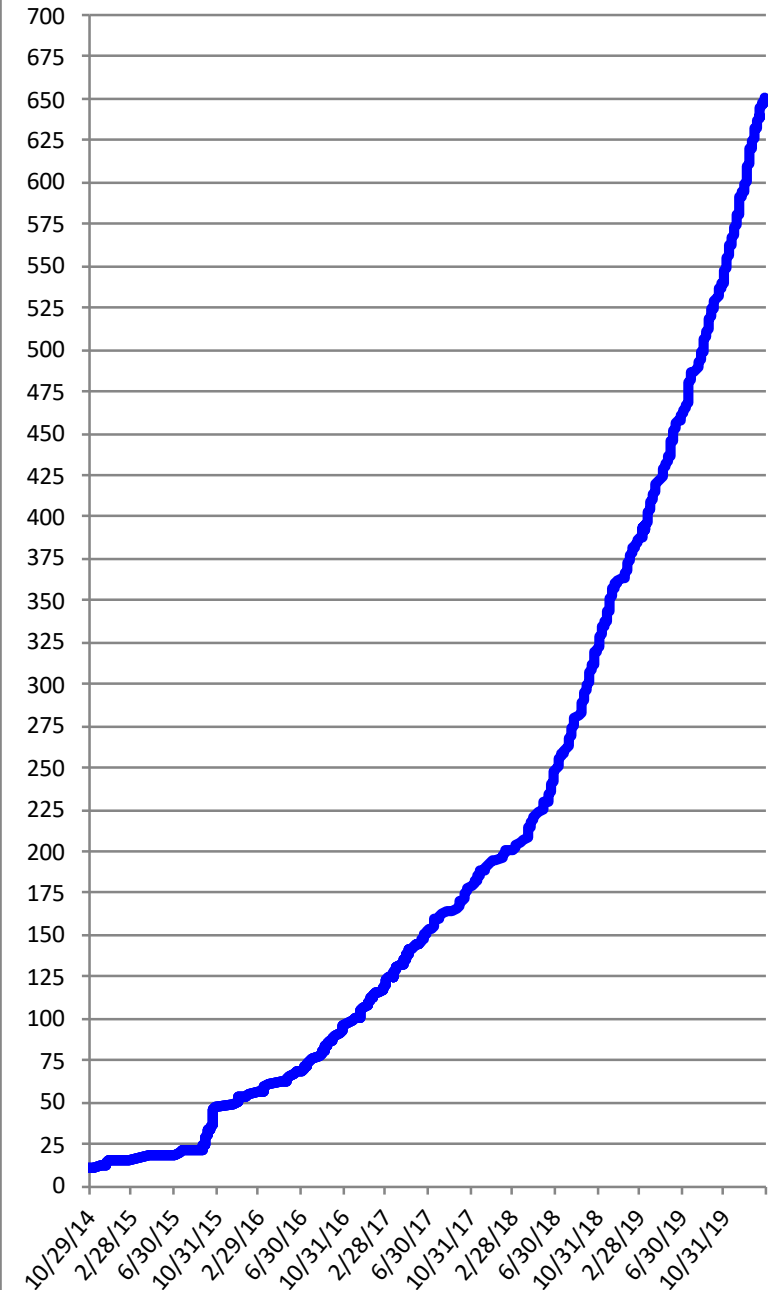
TESLA



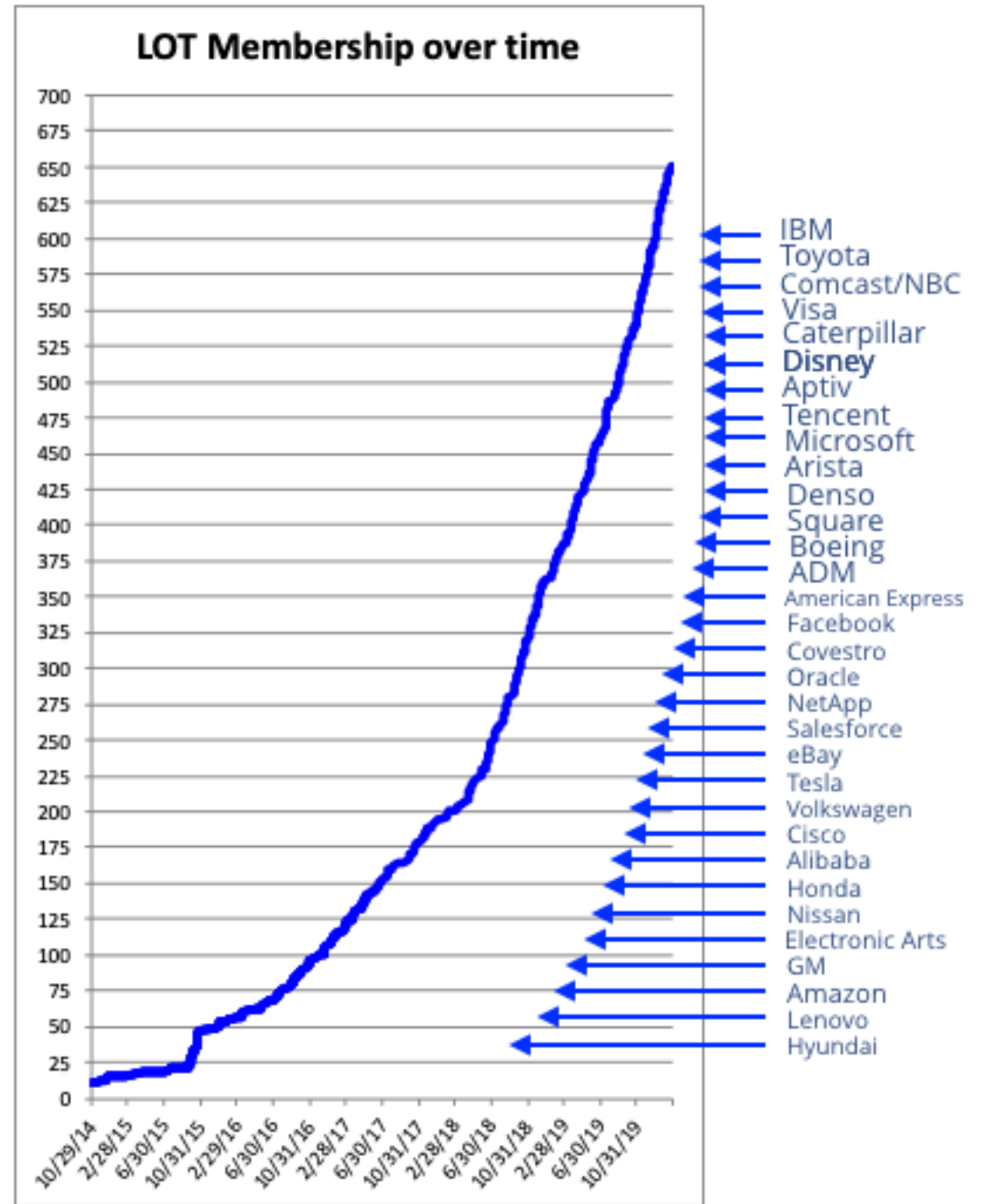
PURESTORAGE



LOT Membership over time



Today: LOT Includes
the most sophisticated
Global IP holders
across all industries



Who is joining and why?

Some of LOT's 650+ members

Software:





IBM signs up with the LOT Network

IBM has announced that it has joined the License on Transfer Network (LOT), becoming the latest major patent owner to sign up to the defensive operator.

The decision comes after the tech giant's acquisition of Red Hat closed last July. The open source pioneer was an early member of LOT and after the purchase was completed IBM had six months decide whether to join the network or to pull Red Hat out.

Soon after it announced its deal for Red Hat, IBM signaled that the merged company would remain committed to various initiatives including LOT.

The move is particularly significant as Big Blue has been one of the most active monetisers of patents, including through sales on the secondary market. Most of those deals have been with operating companies but the company has also worked with NPEs, including Finjan. In November, meanwhile, IAM revealed the divestment of over 500 assets to an entity named Daedalus Group. That transaction took Big Blue's sale of patents in 2019 well past the 1,500 mark and followed a deal with Pure Storage involving over 1,000 rights earlier in the year.

Joining LOT does not stop companies from buying and selling patents. However, membership does place more potential encumbrances on a portfolio, potentially lowering the secondary market value of the rights within it. Under the defensive network's terms, if a member sells patents to a patent assertion entity (PAE) then the rest of the membership automatically receives a licence to them. Sales that occurred before a party joins LOT are not covered by these rules.

LOT says an outfit is a PAE (or, as it likes to term it, a patent troll), if: "The entity (including its parent and any subsidiaries) generates more than half its total revenue from Patent Assertion in a twelve month period, or if the entity has a plan approved by senior management to do so."

Commenting on the move Arvind Krishna, a senior vice president for cloud and cognitive software at IBM, said: "Through our membership in LOT Network, we are joining a group of like-minded organisations, including Red Hat, that see strong value in protecting the traditional uses of patents, while fostering open innovation for today and the future."

LOT CEO Ken Seddon welcomed Big Blue to the network's burgeoning membership and highlighted the company's status as a sophisticated IP player. "By joining LOT, they are providing a way for companies to mitigate risk from PAEs in direct alignment with the mission of LOT: strengthening our collective ability to mitigate patent abuse," he said.

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Some of LOT's 650+ members

Hardware:



闻泰科技股份有限公司

Some of LOT's 650+ members

Automotive:



Some of LOT's 650+ members

Financial Services

JPMORGAN CHASE & CO.

 **Alibaba.com**
Global trade starts here.™

 **Fidelity**
INVESTMENTS

**WELLS
FARGO**

 **TD Bank**
America's Most Convenient Bank®


Nationwide

FIS

 蚂蚁金服
ANTFIN服


**AMERICAN
EXPRESS**


BMO 
Harris Bank


Vanguard

 京东金融
JD Finance

stripe

usbank **VISA**

 **Square**

EQUIFAX

 **Erie
Insurance**

AIG

 **Prudential**

 **LOTNETWORK**


citi

**STANDARD
& POOR'S**

AON

Some of LOT's 650+ members

Entertainment/media

NETFLIX

The
WALT DISNEY
Company



PANDORA

Etsy

amazon

CBS

eHarmony

Roku



T2
TAKE TWO
INTERACTIVE

YY.COM

SQUARE ENIX

SHOWTIME



IAC



COMCAST

LOTNETWORK

Some of LOT's 650+ members

Retail:



Key Others:



Some of LOT's 650+ members in China



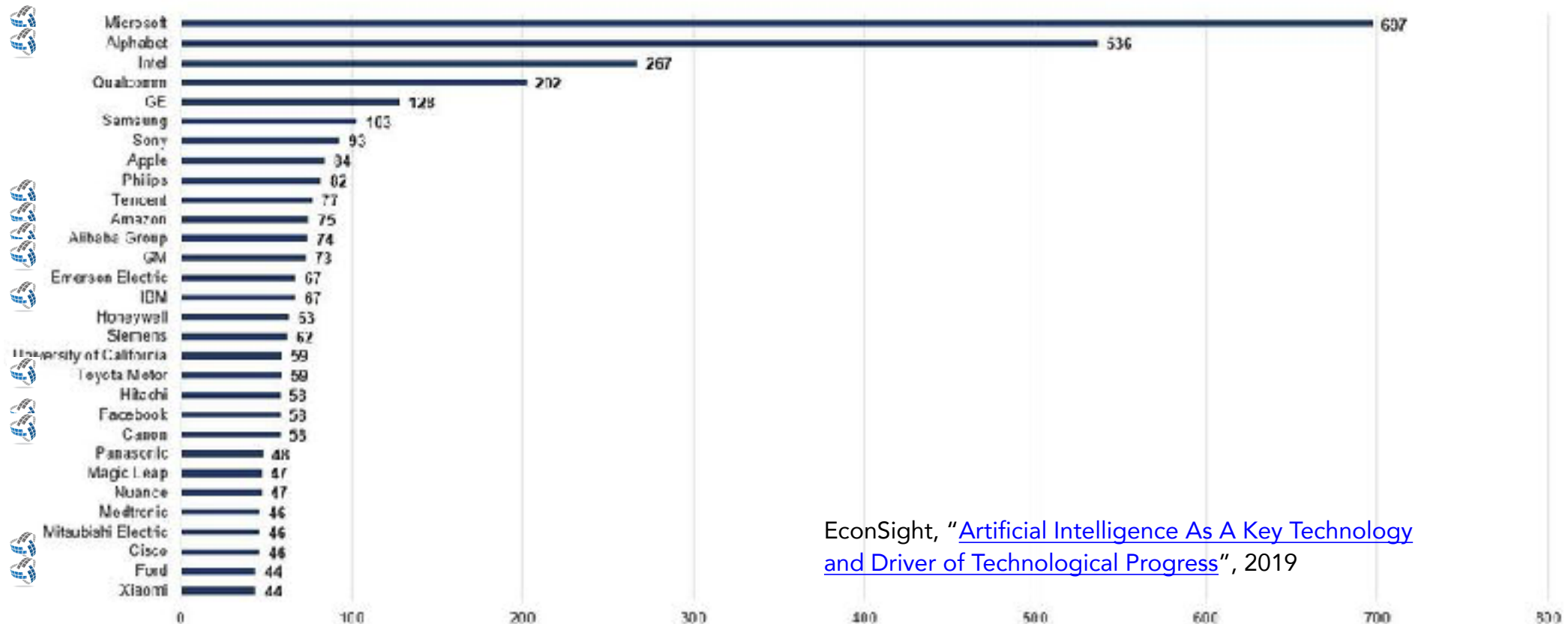


EconSight: LOT Network has 12 of largest AI Patent holders



Leading Companies and Research Institutions in Artificial Intelligence
Ranked by number of world class patents, Competitive Impact >3.5, November 2018

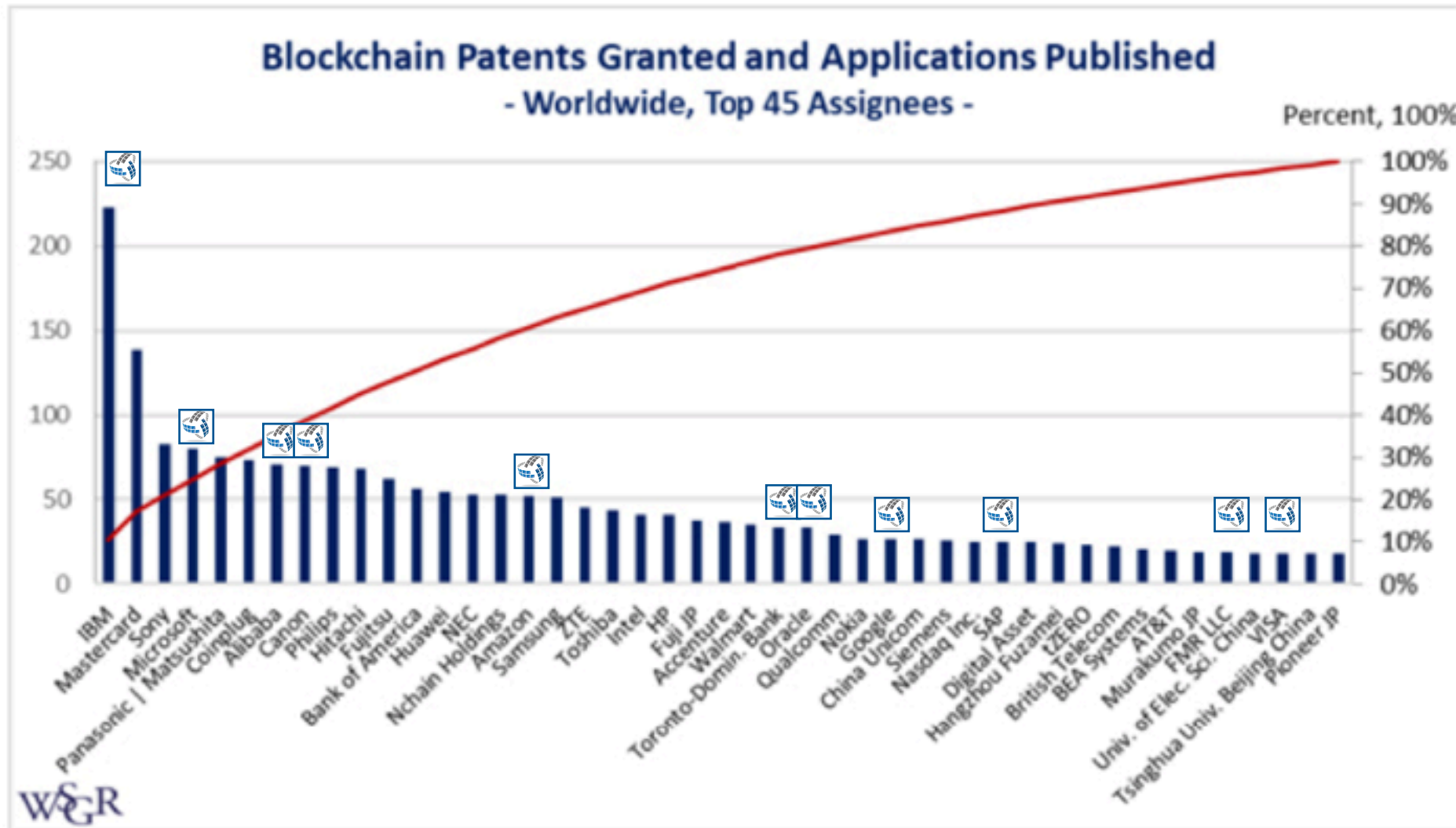
Source: Kai Gramice, Managing Director, EconSight Patent Analytics



EconSight, "[Artificial Intelligence As A Key Technology and Driver of Technological Progress](#)", 2019



LOT Network includes 11 of the largest holders of Blockchain IP



What is LOT Network?



Non-Profit



Community



Protecting Innovation

LOT - community providing PAE immunization

How LOT Protects Members

A license to the other members of LOT Network that applies **ONLY** on and after transfer of the particular patent to a patent assertion entity
(License on Transfer - LOT)

No effect on traditional uses of patents

Free to
Cross License

Free to
Do Nothing

Free to
Assert

Free to
Sell

LOT - community providing PAE immunization

No effect on traditional uses of patents

- LOT Members involved in recent IP disputes:
 - Cisco
 - Arista
 - Waymo
 - Uber
 - Google
 - Oracle

No Burden to being a member



Don't have to
list patents



Don't have to
give notice



Don't have to
report

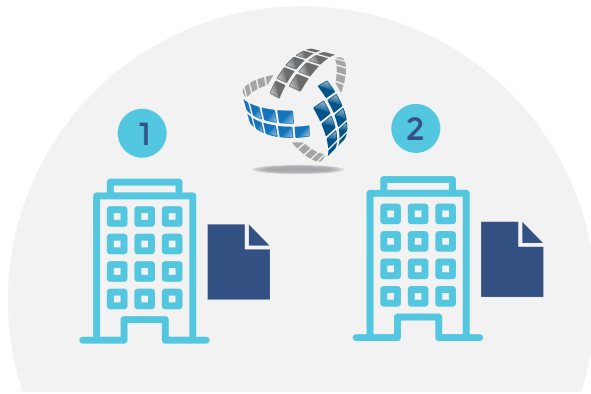
What is an assertion entity?

A patent holder, in combination with its affiliates,
that generates more than 50% of its
gross revenue from patent assertion.

How LOT works

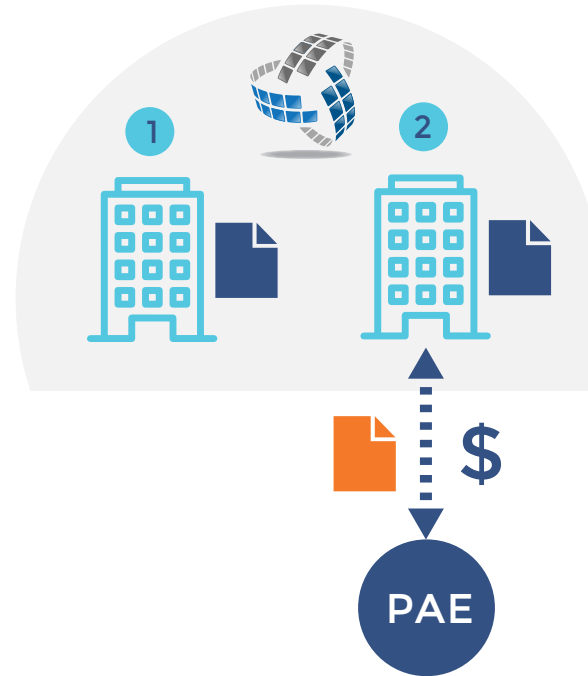
Illustration of the LOT Agreement's Operation

Today: Companies 1 and 2 join the LOT Network.



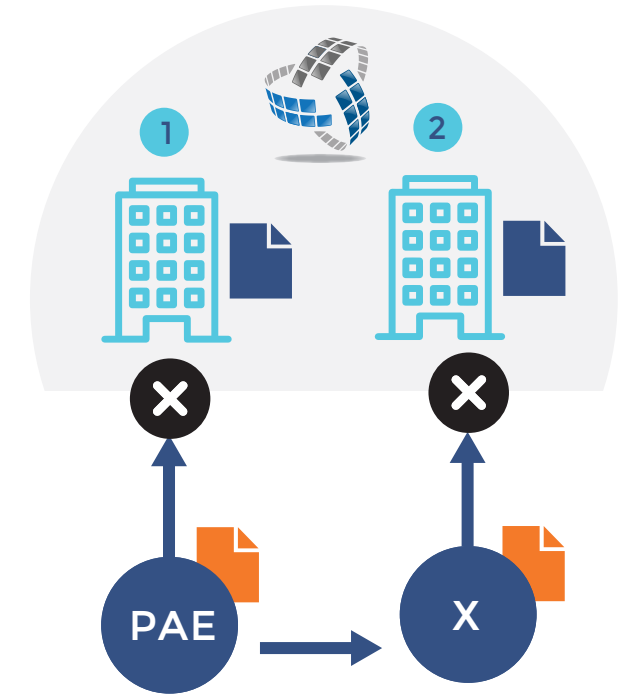
Over 2,381,000 WW assets
Over 651,000 US assets

Tomorrow: Company 2 sells a patent to a Patent Assertion Entity.



License to LOT membership automatically becomes effective.

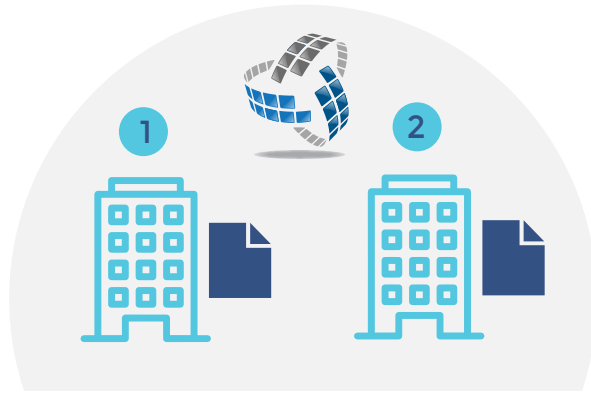
Future: LOT membership is immune from patent, regardless of the owner.



Legend:
= Transferred patent(s)

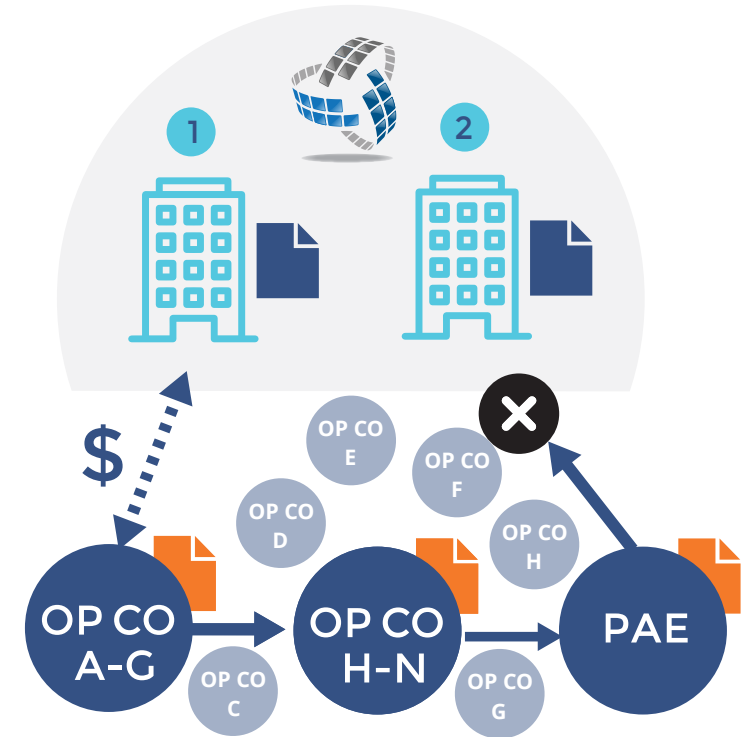
Illustration of the LOT Agreement's Operation

Today: Companies 1 and 2 join the LOT Network.



Over 2,381,000 WW assets
Over 651,000 US assets

Tomorrow: Company 1 sells a patent to an Operating Company

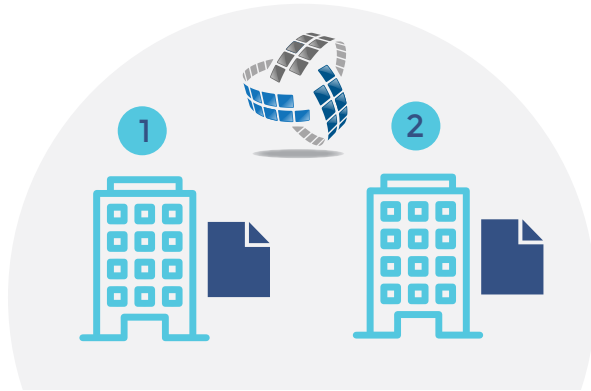


Legend:
 = Transferred patent(s)

License to LOT membership automatically becomes effective when transferred to PAE.

Illustration of the LOT Agreement's Operation

Today: Companies 1 and 2 join the LOT Network.



Over 2,381,000 WW assets
Over 651,000 US assets

Tomorrow: Company 2 becomes an assertion entity



License to LOT membership automatically becomes effective.

LOT Network is non-profit: Annual Fee

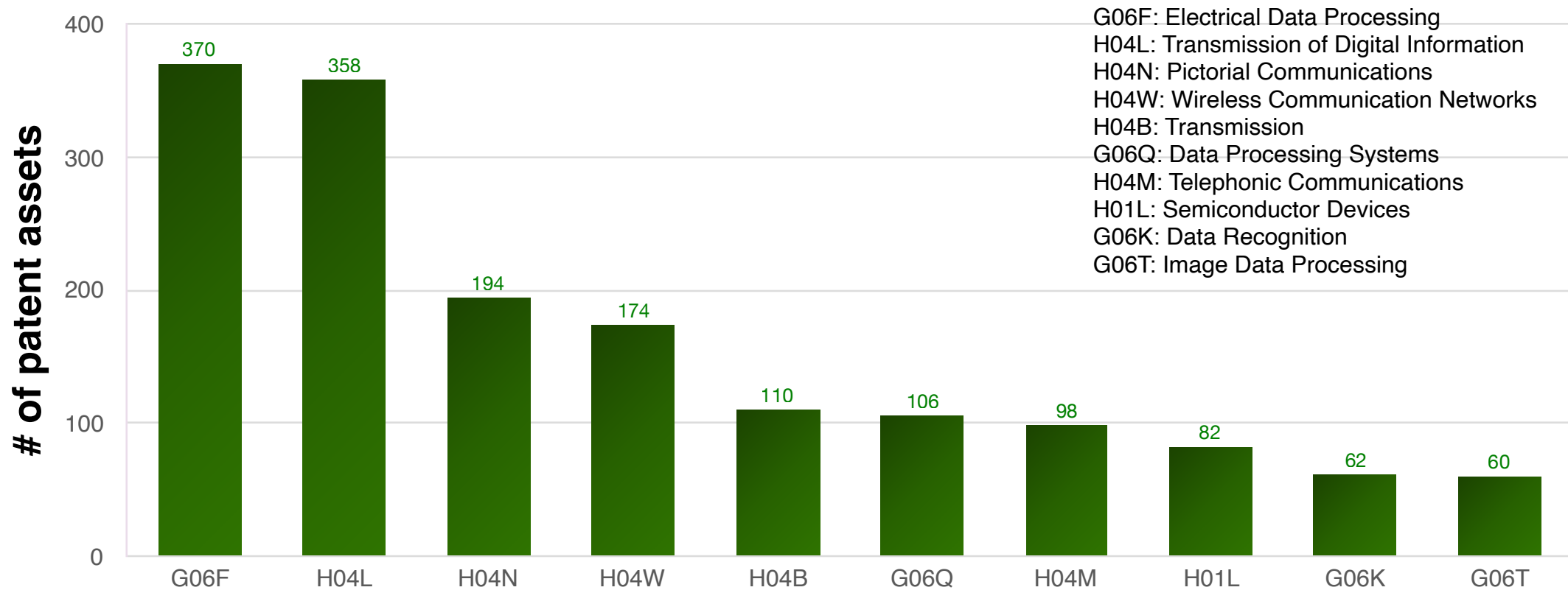
LOT Member's Annual Revenue	Annual Membership Fee
Less than \$5 million	Free
Between \$5 and \$10 million	Free
Between \$10 and \$25 million	Free
Between \$25 and \$50 million	\$5,000
Between \$50 and \$100 million	\$10,000
Between \$100 million and \$1 billion	\$15,000
Greater than \$1 billion	\$20,000 (cap)

LOT provides value to its members

Analysis of assets litigated by PAEs

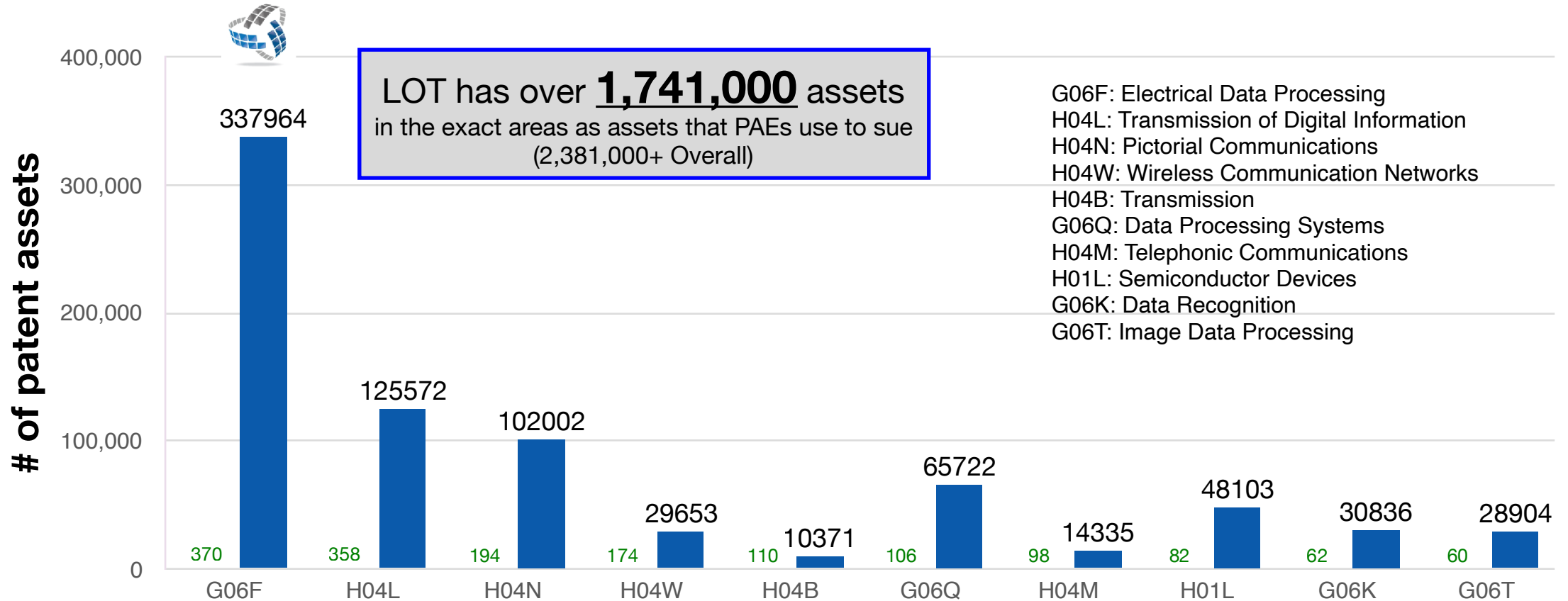


What type of patents did PAEs assert in 2019? (2,072 litigations using 1,188 patents worldwide)





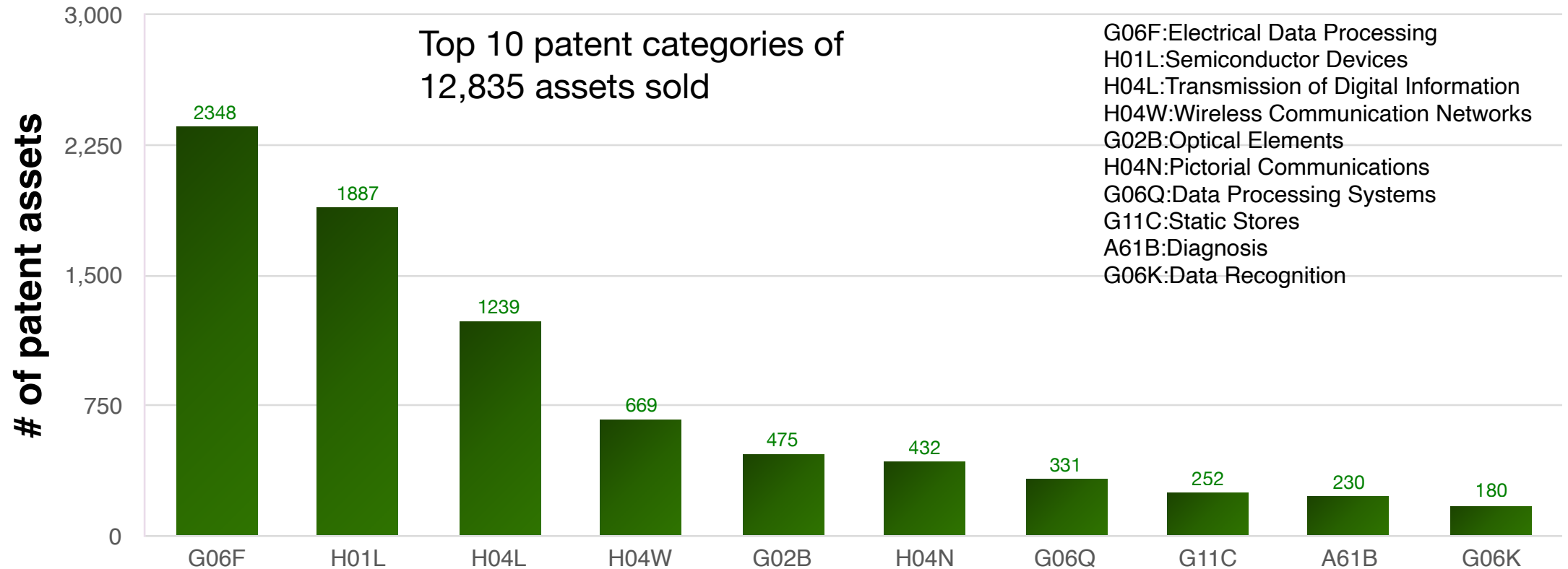
LOT has 1.7 million patents like the patents that PAEs assert worldwide



Analysis of assets bought



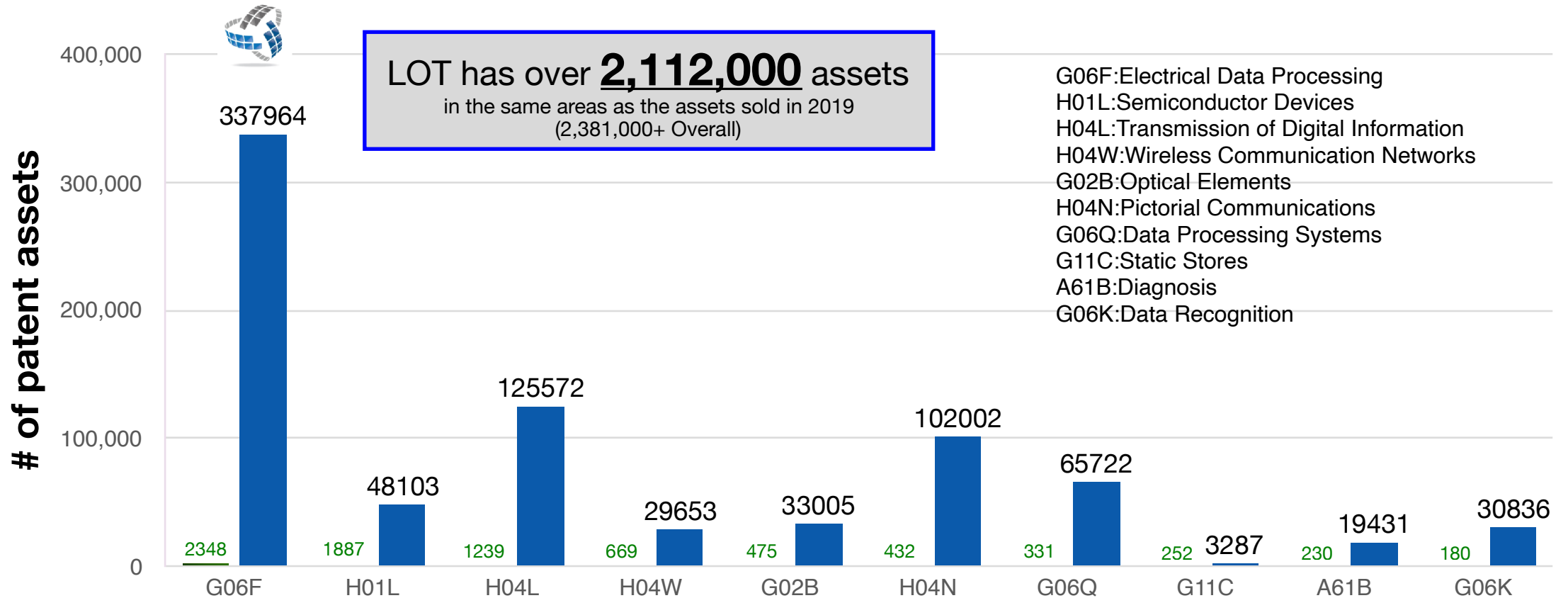
Patent sales: Forecast of future litigation



Source: AST Patent Deals Report, Feb 2020



Patent sales: Forecast of future litigation



Source: AST Patent Deals Report, Feb 2020



Yeah, but does LOT REALLY work?

LOT Members have divested assets, but...

- Over 26,000 have left LOT Network
- 35 of those assets have landed in the hands of 8 different PAEs
- One of those PAEs is Intellectual Ventures



Backup

References

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9. Mark Lemely & Douglas Melamed, Missing the forest for the Trolls, Cornell Law Rev. 2013.
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What about *small* companies?

- Startups and small companies are softest targets for trolls
 - 50% of all companies sued by trolls make less than \$10 million/year
 - Over 50% of all patent lawsuits concern software patents[†]



2/3rds of LOT Members are start-ups



Technology

Tech Giants Are Offering Startups Free Patents in a Bid to Foil Lawsuits

By [Susan Decker](#)

May 10, 2018, 8:30 AM MST

- ▶ [Non-profit group seeks to keep members out of litigation](#)
- ▶ [Idea comes from lessons learned after dot-coms crashed](#)

LISTEN TO ARTICLE

▶ 4:57

[Red Hat Inc.](#) and [Lenovo Group Ltd.](#) are giving away free patents to any startup that joins a group of more than 200 companies devoted to keeping its members and their patents out of court.

It's a carrot to entice startup companies to join the LOT Network, a non-profit created by [Alphabet Inc.](#)'s Google and [Canon Inc.](#) four years ago to combat litigation by patent assertion companies, known derisively as "trolls," that don't make any products but seek royalties by challenging patents. By joining LOT, a company agrees that if they sell patents to such firms, all group members will have a free license to them.

"You're binding yourself to the mast and saying 'I'm not going to give in to

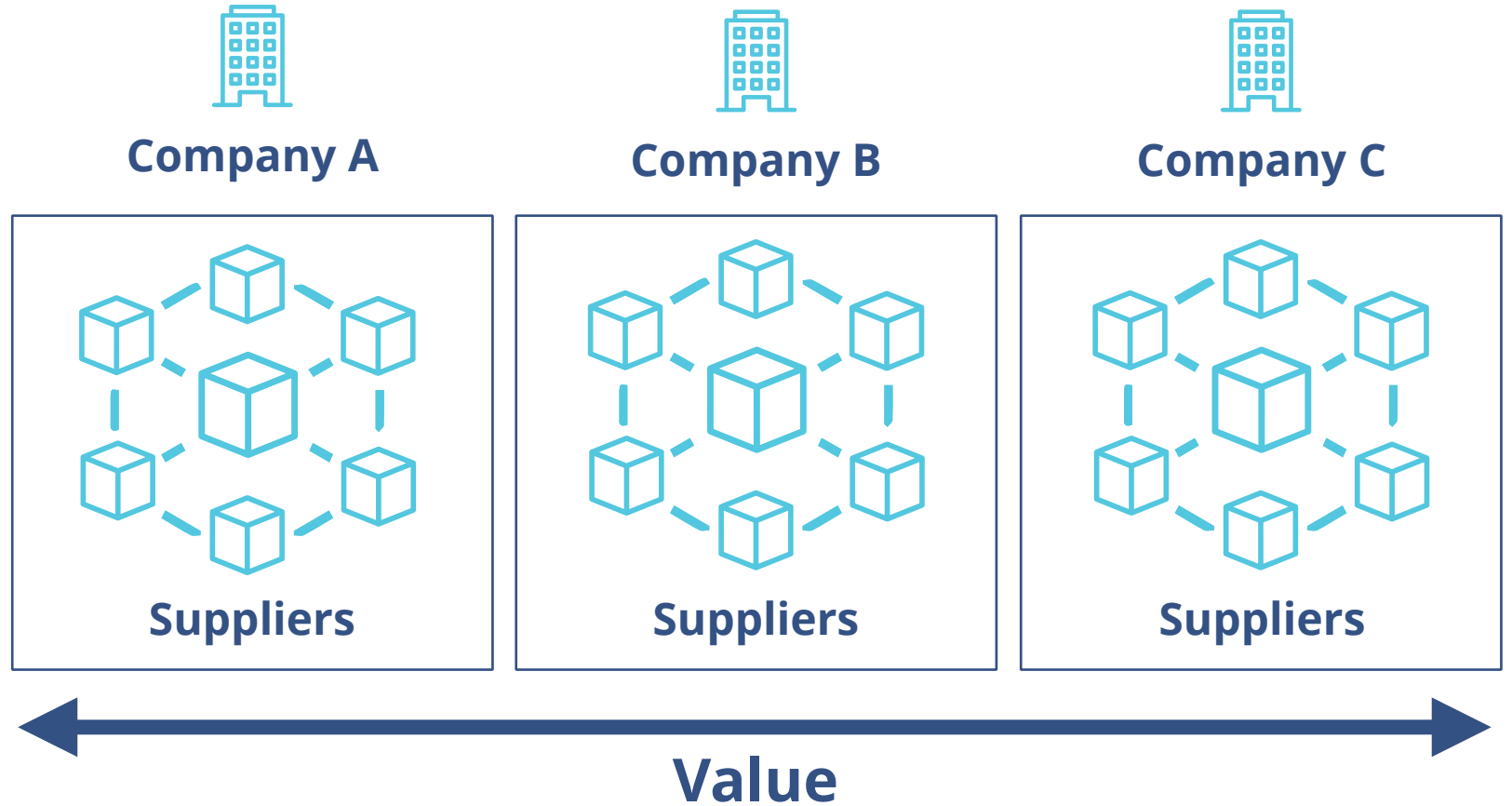


LOTNETWORK

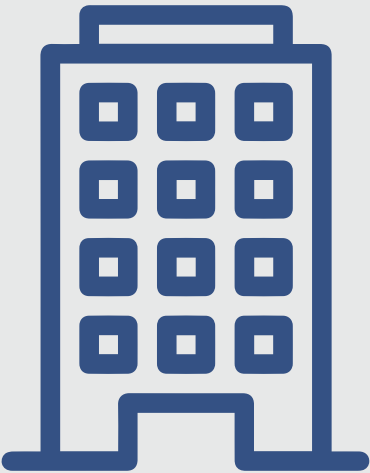
Significant Value in adding suppliers to Membership

Significant value in adding some Suppliers

Both Suppliers and Customers get protection from patents outside their bilateral ecosystems



Why LOT is good for BUYERS



Can trust
suppliers

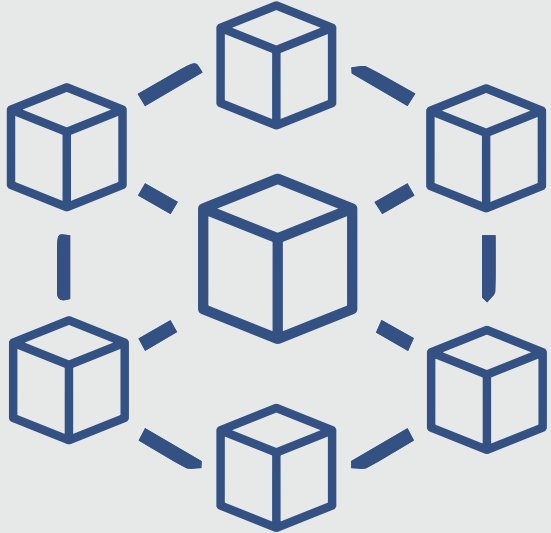


Help save
\$29 billion



Stabilize
supply chain

Why LOT is good for SUPPLIERS



Reduce indemnification costs



Gain access to IP



Become "preferred" supplier

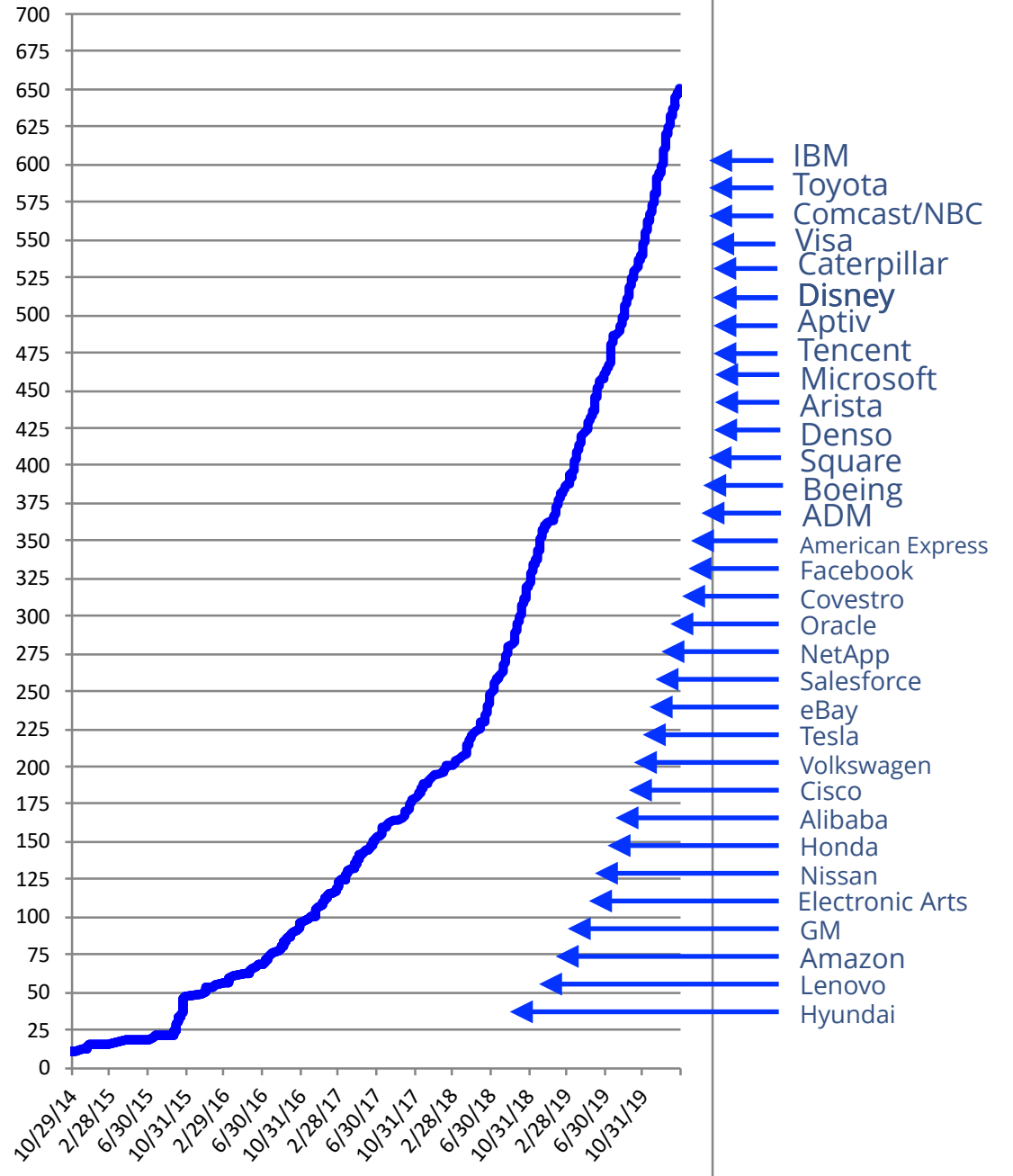


Program voluntary

Today: LOT Includes
the most sophisticated
Global IP holders
across all industries



LOT Membership over time





Who's next?

**IN THE LAST 15 YEARS,
52% OF FORTUNE 500 COMPANIES
HAVE DISAPPEARED**

1955

Average life expectancy

75 Years

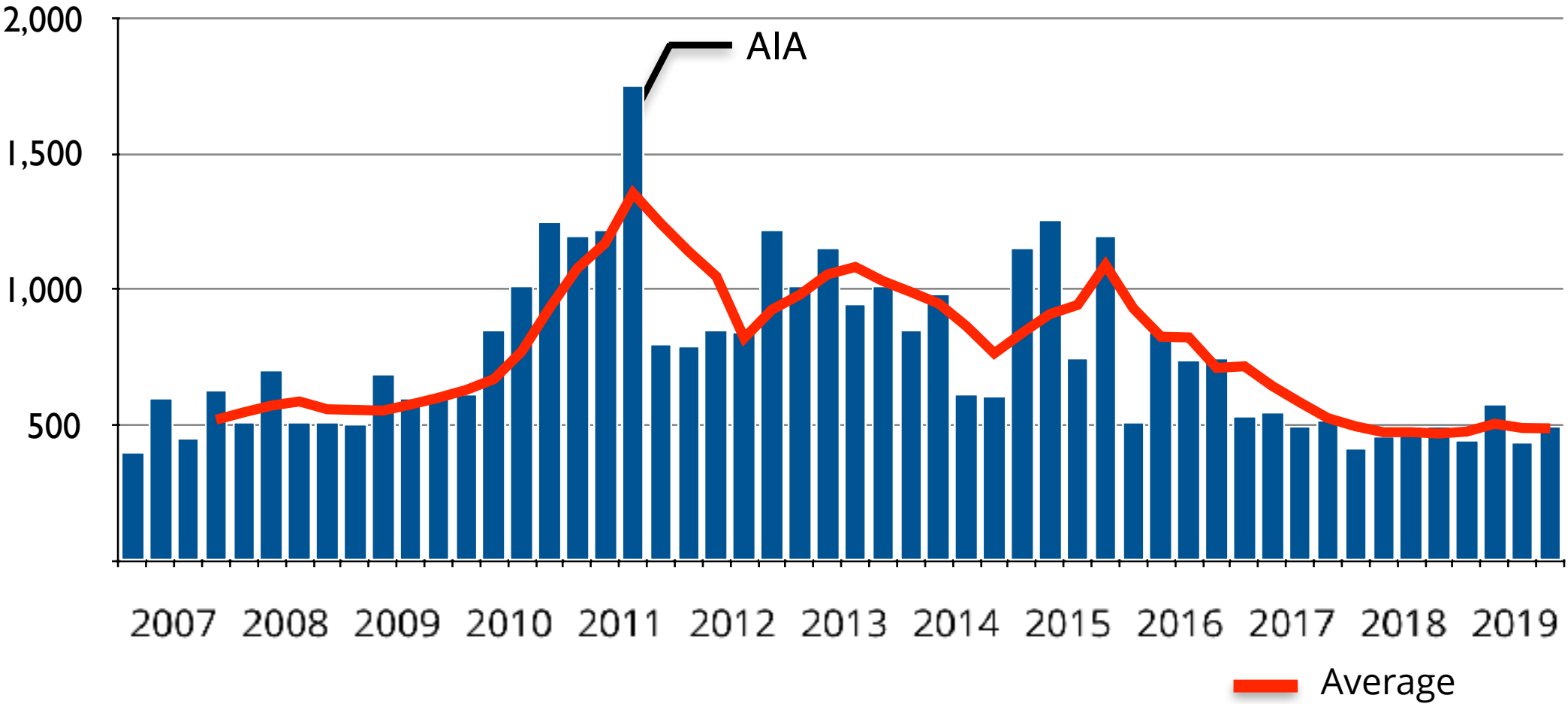
2015

Average life expectancy

15 Years

@BrennerMichael

New PAE suits per quarter



Some of LOT's 650+ members in Cybersecurity



ARISTA



NETSCOUT.



JUNIPER
NETWORKS

proofpoint.



RAPID7



KnowBe4
Human error. Conquered.

mimecast



Some of LOT's 650+ members

