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Patent firm's CEO charts unlikely path to profitability

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As Nortel falls apart, who are the emerging stars of the Canadian technology sector? One dark horse is MOSAID Technologies Inc., (TSX:MSD) a 34-year-old firm with a turbulent history that recently reported strong revenue gains and its fifth-straight profitable year. MOSAID's rebirth is led by CEO John Lindgren, an American engineer-lawyer, who has forged an unlikely transformation at MOSAID—from a chip designer to an "intellectual property development company." MOSAID recently launched a patent infringement suit against giant IBM. Mr. Lindgren explains what makes his business model tick.



What's an intellectual property development company?

We monetize intellectual property. We have over 1,700 patents and applications now which has doubled from a couple of years ago. The majority were filed for inventions by MOSAID employees, primarily related to memory innovation. But we also have a significant number that we purchased from others—from corporations, universities and even individuals—and we monetize those by licensing the patents to the companies that infringe them.

Patent-holding companies have a mixed reputation, with so many operating companies being hit with nuisance patent suits. Is that your business?

There are companies that hold specious patents—that are really invalid and, on the face of it, not infringed. Those kinds of companies have really ruined the reputation of legitimate intellectual property holders. It's a shame because they are mainly looking for nuisance fees or go-away kind of money. They accuse you of infringement and expect you to pay less than you would to defend yourself in court. We, on the other hand, have very high-quality intellectual property that was invented in-house by many MOSAID innovators over the years—but also from fundamental engineering by companies like AT&T or LSI Corp. These inventions are very important within their field of technology, particularly memory and wireless, power-over-ethernet and micro-computing.

Some critics say if your kind of company had existed in Henry Ford's time, we would still be driving only black Fords. Aren't you an impediment to innovation?

The misinformation out there is that there should be two types of intellectual property enforcement: A certain set of patent laws that apply only to people who continue to make products; and a separate set, less enforceable and less important, for those who purchase the patents after the fact and don't make the products.

If that were true, logic would fall apart. A patent is a patent is a patent. Whether you create your own factory to produce Fords, for example, or you are an idea man and you have the concept but not the resources or desire to become a factory owner, you have every right to monetize that invention.

You can sell that patent to someone to go licence it; you can licence it yourself to another automobile manufacturer. The fact you do not produce should not denigrate your underlying legal rights.

How does a Georgia guy who spent 20 years in Texas end up in Ottawa?

I became familiar with MOSAID in the late 1980s. Texas Instruments, where I worked, had a very famous patent licensing program. and we had many fundamental patents on integrated circuits and in particular—dynamic random access memory [DRAM] chips.

In the later 1980s MOSAID had a segment of its business that focused on reverse engineering of DRAM chips. They did it for patent holders to help deal with infringement, but also to critique the designs. I visited the company way back when and knew the founder Dick Foss. I really enjoyed my visit there and stayed in touch.

So you left Texas Instruments, a large company, to join a minor player like MOSAID?

I saw the opportunity for MOSAID to become something different. At the time I joined as legal counsel, it had undergone a proxy contest. A hedge fund from New York had come in and said the business is being run in an inefficient manner. MOSAID had three segments—one was selling memory tester hardware; another was selling design services and licensing chip portions to go on a larger chip. Neither of those businesses was consistently profitable. But the third part, the patent licensing segment, was consistently profitable. That was the segment I focused on and saw a lot can be done in this company.

In a management shuffle, you were appointed CEO. Were you the natural choice?

As general counsel when I first joined in November, 2006, I had all the patent licensing activities reporting to me. When we decided that would be the sole driver of the business, it made sense to elevate me to the top management position.

As a former legal counsel, was it hard to switch to running an operating company?

Not so much. We're not in the traditional large inventory buildup manufacturing business. We are in a design business that is highly techie and I am very comfortable in that arena. When this becomes something different, we may end up doing some different things with our management structure.

I don't ever anticipate becoming again another chip company where we brand chips with MOSAID's logo.

But we would really appreciate having a sophisticated manufacturing partner where we would provide our technology and combine it with their core technology to make the rest of the chip.

Since becoming CEO, you've helped take this company from being an entity that made things and created technology to a company that holds paper patents.

That is not quite accurate. We have never abandoned the innovation story at MOSAID and we never will.

We have a significant R&D effort focused on innovative flash memory technology.

This technology will produce dramatic improvement in products such as solid-state disc drives, which will represent a large portion of the storage market going forward.

But with this new emphasis on patent licensing, you have dramatically downsized?

We have. We're down to 40 employees now from a peak back in early 2000 of nearly 300 people.

What does it say about Ottawa when its once great research company, Nortel, is being split up and the most promising player is a patent-holding firm?

I certainly wouldn't count Ottawa out of the future technology scene. We've got our own innovation going on and there will be something that comes out of the current Nortel that still has a big piece of innovation.

If you look at any innovation, there are two primary parts—the revenues derived from making a product and a service; and the other portion which needs to be unlocked to maximize value—the underlying intellectual property.

So you see yourself as a necessary part of the process?

Absolutely. If you take away the value from intellectual property, you take away the incentive to do any R&D activity at all.

Is litigation a central part of your business model?

You certainly have to assume there will be reluctant companies that, even when shown direct proof of current infringement and cannot come up with a defence, they still do not want to pay for their use of that underlying intellectual property. Then litigation is absolutely required.

You have to assume in most years of our existence, we will have one or two lawsuits.

When you meet people and explain what you do, they must look a bit dubious.

Surprisingly, not as much as you think. They look at the business model and say, 'Wow, that is a fantastic story. Look at the growth you've projected in this kind of an economy. You've still been able to produce record revenues and profits and you pay a dividend at 7 per cent.'

The fact is that intellectual property law is necessary to any knowledge economy like we have in Canada and U.S. You can't divide it into two camps where certain people are allowed to enforce patents, and other people are not.

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