

# **Advanced Housing Technologies, LLC**

**(A California Corporation)**

Statement of Core Competencies

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Confidential Document



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## **AHT Statement of Core Competencies**

### **Overview**

Core competency is defined as something that a firm can do well and that meets the following three conditions specified by Hamel and Prahalad<sup>1</sup>:

1. It provides customer benefits
2. It is hard for competitors to imitate
3. It can be leveraged widely to many products and markets.

Core competency can take many forms, including technical/subject matter know how, a reliable process, and/or close relationships with customers and suppliers<sup>2</sup>. It may also include product development or culture such as employee dedication. Modern business theories suggest that most activities that are not part of a company's core competency should be outsourced.

If a core competency yields a long-term advantage to the company, it is said to be a sustainable competitive advantage. A capability can deliver competitive advantage without meeting all of the required criteria, but this will only be for a limited time.

Hanson uses an updated model with four criteria of sustainable competitive advantage:

1. Valuable: the capability allows the firm to exploit opportunities or neutralize threats in its external environment
2. Rare: capabilities that few, if any, of its competitors possess
3. Costly to imitate: capabilities that other firms cannot easily develop. Take note however, this does not simply mean it is expensive to imitate, it means it is difficult to imitate (i.e. the capability developed through unique historical conditions, the capability itself is ambiguous or the relationships that underpin the capability are complex to understand and imitate).
4. Non-substitutable: the capability does not have a strategic equivalent. One example is R&D, the objective of which is obtaining new technology. To obtain new technology you could develop it internally, or you could monitor the external

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1 Hamel, Gary and C. K. Prahalad, (1990) "The Core Competence of the Corporation", Harvard Business Review, vol. 68, no. 3, May-June 1990, pp. 79-91.

2 Mascarenhas, B., Baveja, A., and Jamil, M. (1998) "Dynamics of Core Competencies in Leading Multinational Companies", California Management Review, vol 40, no. 4, pp. 117-132.

environment for developments then acquire them (a strategy Nucor has followed)  
- these are strategic equivalents.<sup>3</sup>

The intersection of market opportunities with core competencies forms the basis for launching new businesses. By combining a set of core competencies in different ways and matching them to market opportunities, a corporation can launch a vast array of businesses.

Without core competencies, a large corporation is just a collection of discrete businesses. Core competencies serve as the glue that bonds the business units together into a coherent portfolio.<sup>4</sup>

## ***At the Core***

### **Intellectual Property**

AHT management says, “AHT is a software company masquerading as a housing company”. That statement goes to the heart of the case for AHT possessing a sustainable competitive advantage. Intellectual property (IP) is at the core of AHT, which can be properly called a “knowledge age” enterprise.

In the knowledge age, a company's value is largely determined by its ability to convert individual and organization knowledge into net worth in time to seize a new market opportunity. As product cycles shorten, and competitors reduce time to market, a competitive corporation must continuously validate and improve its processes to develop and commercialize new ideas. Intellectual property management is the heart of this transformation process. It is a process that addresses the explosive growth of tangible assets and their impact on the company's strategic market position and stakeholder value.

AHT will pursue business practices and technological innovation focused on developing IP based corporate capabilities that are fundamental to improved competitiveness and economic performance. The figure below illustrates a functional node view of AHT core competencies. The green circles represent IP-centered activities (manufacturing activities, and related competencies are not shown).

What makes AHT unique, as a “housing” manufacturer is the synergistic relationship between R&D, manufacturing, licensing, and the IP components integral to the overall corporate structure. Ours is an overall system approach to advancing the technologies of housing development for the future. So, AHT is not simply concerned about meeting present regulations and codes for housing construction, but in radically improving the way human beings design, build, power, and live in communities with their homes.

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<sup>3</sup> Hanson, Dallas; et al (2008). Strategic Management. Thomson Learning,, 83-88.

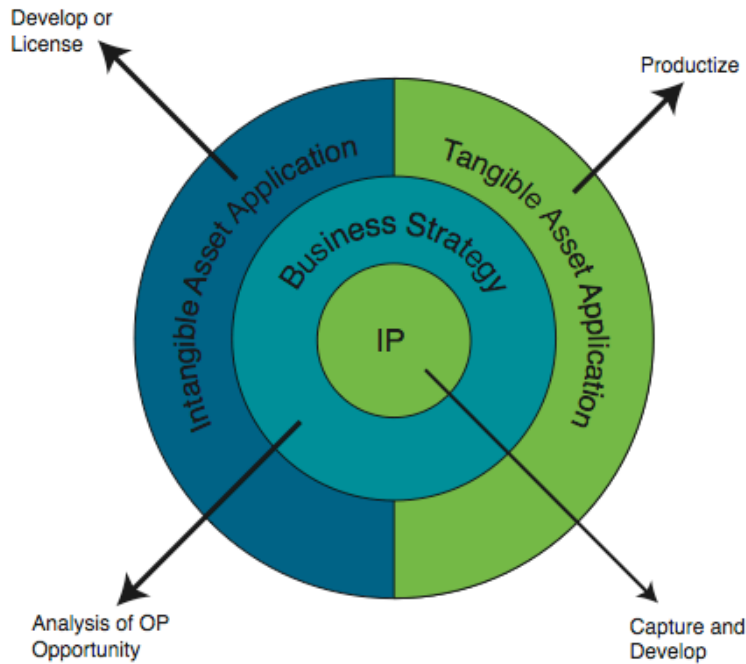
<sup>4</sup> <http://www.quickmba.com/strategy/core-competencies>

FIGURE REMOVED  
Functional Node View of AHT Core Competencies

AHT will treat each IP-centered activity in a manner illustrated in the figure below. Tangible IP assets will be productized, intangible IP assets will be further developed or licensed, IP that arises from business strategies will be examined by comparison to the broader goals of the company, and all IP will be captured, nurtured, and developed. The AHT “Patent Strategy and Planning” document states:

“Our strategy for acquiring patents is to continue development of those areas that are unique in the market. AHT recognizes that a well-crafted patent portfolio may be used for a variety of business objectives, such as bolstering market position, protecting research and development efforts, generating revenue, and encouraging favorable cross-licensing or settlement agreements. For companies like ours, that will develop original technology, patents provide a barrier against a competitor’s entry into valued technologies or markets. Therefore, in order to develop an effective patent portfolio, we have devised a strategy that is aligned with our business objectives.”

Please refer to Attachment A, the “Patent Strategy and Planning” document, for a complete explanation of how AHT plans to develop and deploy patentable IP.



IP-Centered Development Paths for the Knowledge Age

## ***Competency Areas: Emanating From The Core***

### **Strategy**

AHT recognizes that many companies unknowingly give away their core competencies through joint ventures, outsourcing of key components, and under-investment (or market exit) in technologies. The costs of a lost competency cannot be fully calculated in advance. Major industry shifts may be missed altogether. Also, since the development of core competencies is a long-term task, companies that fail to invest may have difficulty re-entering the market later.

The cost of losing a core competency can only be partly estimated. Since a competency is a learning process, gaps in the learning of the organization cause lost knowledge of old and new competencies. This also gives rise to the fact that those competencies are difficult or impossible to regain once lost.

Cultivating core competencies does not mean outspending rivals on research and development. Nor does it mean shared costs. AHT's strategic view of core competency is:

- Coordination of production skills
- Integrating technologies
- Organization of work
- Delivery of a value
- Communication
- Involvement
- Commitment to working across organizational boundaries

### **Core Components**

Companies with strong core competencies can increase their leadership by leading in the world's manufacturing share of core components. By manufacturing the majority of a certain type of component, such as microprocessors, refrigeration compressors or VCR heads, companies can rapidly increase their knowledge base, while at the same time hollowing out the customers of the key components. Core components are the tangible links of core competencies. Core components are the sub assemblies that actually contribute to the value of the end product.

With this strategic view of competency areas in mind, AHT views our core competencies as follows:

- Software Development
- Systems Integration
- Energy Management and Control Systems
- Disaster Relief Housing

- Alternative and Green Building Construction

## ***Software Development***

Software development is the process of manufacturing software systems. A software system consists of executable computer code and the supporting documents needed to manufacture, use, and maintain the code. Software development is ever more important as larger, more complex, and life-critical software systems proliferate. The rapid decline in the costs of computer hardware means that the software in a typical system often costs more than the hardware it runs on. Large software systems may be the most complex things ever built. This places great demands on the software engineering process, which must be disciplined and controlled.

## ***System Integration***

System integration has traditionally been a crucial specialty in the defense contracting industry. Proprietary, closed systems need to be upgraded or, legacy hardware or software must be preserved within modern computing networks, graphical user interfaces (GUIs) or hardware connection standards.

A systems integrator builds computing systems by combining hardware and software products from multiple vendors. System integration allows for the development of cheaper, pre-configured components and off-the-shelf software to meet key business goals, as opposed to more expensive, customized implementations that may require original programming or manufacture of unique components. Creation of these information systems often includes designing or building a customized architecture or application, integrating it with new or existing hardware, packaged and custom software, and communications infrastructure.

## ***Energy Management and Control Systems***

Computer based control systems for buildings have experienced many changes. In the past, building automation or direct digital control products were called “energy management systems”. With projections of oil costs going ever higher, a focus on the energy and cost benefits of automation is essential.

The technology of automation for energy management is dramatically enhanced from 1980 and, with the advent of Web-hosted software, functionality eclipses even the most ambitious ideas of that time. The evolution of energy management and control systems has reached revolutionary status. The revolution has been caused by the standardization of communication protocols such as BACnet<sup>5</sup>, LonTalk, oBix<sup>6</sup>, Web Based control, and the wide use of the Internet and Intranets.

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<sup>5</sup> <http://www.bacnet.org/index.html>

<sup>6</sup> <http://www.obix.org>

The breadth of topics in the energy arena reinforces the new definition of energy management systems. Four or five years ago Web browser interface was the hot feature, but today that is a minimum requirement for any system on the market. Another major trend is that it is no longer a given that all system components will come from one manufacturer. This is partly because many of the systems that are installed are extensions to existing systems. According to Frost and Sullivan, the Building Automation (formerly Energy Management) system industry is a \$5 billion per year business. Therefore it is likely that many systems will be installed that must interface to equipment already installed in other parts of a building or campus.

It is readily apparent that control systems and protocols for energy management, security, and lighting for commercial buildings have been on the market since the mid-1990's. Standardization has started from the bottom up. Proprietary cabling systems in networks that link sensors and other devices to controllers on individual floors have given way in recent years to open protocols.<sup>7</sup>

The home automation industry has pushed many of the commercial capabilities (by means of X-10 and INSTEON) down to within the reach of most consumers.

Large utility companies have finally “seen the light”. A little late, they are now coming to the conclusion that the automation made possible by microprocessors will, and must, radically change the way power is distributed in the United States. The Department of Energy now understands the centralized “grid” network for producing and transmitting power can take advantage of new technology, but is also vulnerable to it.

“Energy control systems form the central nervous system of the North American energy infrastructure. They encompass vast networks of interconnected electronic devices that are essential in monitoring and controlling the production and distribution of energy in the electric grid and the oil and gas infrastructure. The ability of these cyber systems to provide automated control over a large, dispersed network of assets and components has helped to create the highly reliable and flexible energy infrastructure we have today. However, this span of control requires control systems to communicate with thousands of nodes and numerous information systems—thus exposing energy systems and other dependent infrastructures to potential harm from malevolent cyber attack or accidents.”<sup>8</sup>

#### PARAGRAPHS REMOVED

The Apple Computer Company is the best model of our philosophy towards the energy management and control systems AHT will bring to the market. For reasons varying from its philosophy of comprehensive aesthetic design to its distinctive advertising campaigns,

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<sup>7</sup><http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=100318&pageNumber=2>

<sup>8</sup> “Roadmap to Secure Control Systems in the Energy Sector” - <http://www.controlsystemsroadmap.net>

Apple established a unique reputation in the consumer electronics industry. Underneath all the brilliant design and marketing, however, was a philosophy of marrying innovative hardware to a superior operating system, and the software to run on it.

## ***Disaster Relief Housing***

The courts have defined "disaster, misfortune, or calamity" as some event out of the ordinary; an unforeseeable, sudden, or unusual occurrence, in contrast to gradual deterioration or worsening condition over time.<sup>9</sup> Disaster relief housing falls under the categories of "emergency shelters", "transitional housing", "homeless housing", and even "migrant housing" for many communities.

The need of migrant workers for housing was a model for the AHT Neighborhood-to-Go concept. Our research shows people needing disaster relief housing share many characteristics of migrant workers (long-term stays, need for security, requirement for work, etc.). In fact, the HUD-related Colonias program is incorporated into the AHT Private Sales Plan.

"Colonias are basically illegal subdivisions created by rural settlers and are found near the U.S. - Mexico border. The lack of clean water and proper plumbing infrastructure is due primarily to the fact that the settlements were established spontaneously without the approval or assistance of the proper government authorities. The population of a colonia will usually grow rapidly well before its infrastructure needs are realized by the closest established towns or government officials."<sup>10</sup>

In 2004, Laura Shipman, an advisory Board member of Design Corps, worked with farmworker advocate, Rob Williams, of Florida Legal Services, to design hurricane-resistant housing just after the storms ripped through Florida and devastated much of the already substandard farmworker housing there. The project dealt with specific concerns, like balancing shared housing and communal space (washrooms, TV rooms, recreational spaces, and other community plug-ins) with the need for private and family-friendly areas.

Housing located directly on the farms requires structural elevation and hurricane-resistant features like retractable window panels and back-up ground fastening functions, so "security" and "openness" can be equally central to the design. Most important perhaps, is that the end product can be a place which helps overturn the traditional perception that farmworkers only live in run-down shanties.

The primary goal has been for housing "that accommodates diverse cultures, counters the stigma associated with farmworker housing, and provides flexibility in configuration that allows for long-term use." Design Corps' website<sup>11</sup>, also boldly states, that "while the

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<sup>9</sup> <http://www.boe.ca.gov/proptaxes/faqs/disaster.htm>

<sup>10</sup> [http://en.wikipedia.org/wiki/Colonia\\_\(border\\_settlement\)](http://en.wikipedia.org/wiki/Colonia_(border_settlement))

<sup>11</sup> <http://www.designcorps.org/Projects/Housing.htm>

manufactured housing industry has gained ground in middle- and upper-income markets, it is important that the industry continue to develop its original client base, low-income households, with better products and improved image.”

AHT will change the paradigm for disaster relief housing from makeshift communities with ad hoc utilities and services, to sustainable communities constructed from Green materials with integrated (and automated) utilities. In so doing, a variety of similar-needs markets will be served: from drilling and mining concerns, to resorts, to migrant housing.

### ***Alternative and Green Building Construction***

Alternative and Green building is the practice of:

1. increasing the efficiency with which buildings and their sites use and harvest energy, water, and materials, and
2. reducing building impacts on human health and the environment, through better site planning, design, construction, operation, maintenance, and removal — the complete building life cycle.

The U.S. Green Building Council’s definition of Green is "a high performing home that's energy and water efficient, has good indoor air quality, uses environmentally sustainable materials and also uses the building lot or site in a sustainable manner."<sup>12</sup>

So, as AHT sees it, the definition of Green Building is the practice of designing, planning, and constructing buildings where the priority and emphasis is placed on the current and future environmental impact of the building, and the community where the building is placed.

### ***Core Competency Partners***

AHT presently has relationships with companies it can rely upon to assist it with its core competencies. AHT will outsource much of its initial manufacturing requirements to those companies. Other companies have been identified, but not yet contacted. They will be contacted once funding is secured and/or design of systems is started. The figure below illustrates core competency partners that have been identified.

FIGURE REMOVED

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### ***Conclusions***

AHT competencies are derived from a holistic and systematic view of how housing will be constructed and serviced in the future.

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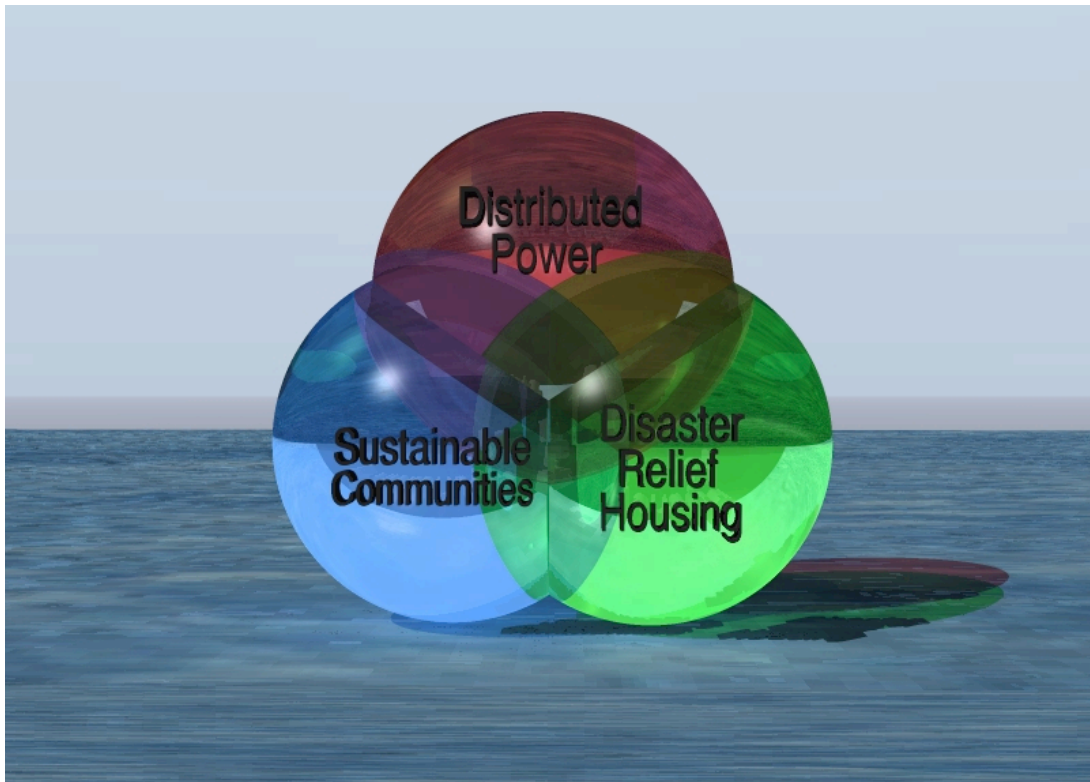
<sup>12</sup> <http://www.usgbc.org>

PARAGRAPHS REMOVED

FIGURE REMOVED

### AHT Core Competencies as Related to Company Growth Phases

These core competency relationships are consistent with descriptions of the growth sectors for AHT development described in the Business Plan and other documentation. Note that AHT will maintain a unique position at the intersection of Sustainable Communities, Disaster Relief, and Distributed Energy Generation.



Growth Sectors for AHT as Described in the AHT Master Business Plan

The table below shows how AHT meets the conditions for core competencies specified by Hamel and Prahalad.

<b>Customer Benefits</b>	<b>Hard to Imitate</b>	<b>Leveraged to Many Products/Markets</b>
Superior design of disaster relief housing	Integrated software and hardware design	Microprocessor control and interfaces
Energy efficiency	Interoperability with world-wide utility systems	GUI interoperability
Energy self-sufficiency	Proprietary community-level utility protocols	Proprietary community-level utility protocols
Integrated software and hardware design	LEED certification for housing units and CSMs	Retrofit kits for existing structures
Intuitive control over all systems	ISO manufacturing processes	Virtual Energy Bank
Cost savings over standard	Central Service Modules with	Modular housing designs for

housing	integrated control	sustainable communities
Superior safety features	Rapid deployment of systems	Compatible with future building codes
“Smart” homes with embedded abilities	Factory-to-Go concept	Technology is easily integrated into alternative/natural buildings

The table below shows how AHT meets conditions of core competencies as described by the Hanson model for sustainable competitive advantage.

<b>Valuable</b>	<b>Rare</b>	<b>Costly to Imitate</b>	<b>Non-Substitutable</b>
Relationships with FEMA and other government agencies	Internal software development	Capabilities derived from world-wide distribution	Intellectual property
Designs that exceed FEMA requirements	System integration	Portable electricity, water, and sewer infrastructure	Virtual Energy Bank
LEEDS certification	Hardware and software interoperability	Ability to build close-to-disaster factories	Energy protocols
ISO certification	Green manufacture	Large-scale alternative housing developments	R&D

AHT has planned a logical progression of expanding capabilities based upon a consistent adherence to its core competencies. We believe our initial partner companies will be instrumental in providing us with the expertise we need to ensure production of the best products and services for the markets we target. The synergistic combination of intellectual property, system integration capabilities, and product innovation will allow AHT to maintain leadership in the new industry segment we will give birth to.

**Attachment A**  
**Patent Strategy and Planning**



## **Patent Strategy and Planning**

### ***Overview***

AHT has taken a disciplined, top-down approach to designing the houses and the infrastructure to support them. The entire design is conceived as a holistic system, so we've followed a consistent vision of integrating software and hardware into a complete package. We have identified areas in the design we believe are unique, and are pursuing a path towards patents. Other aspects of our design are commercially available and we have already secured software and hardware to integrate some of them into our systems.

Our strategy for acquiring patents is to continue development of those areas that are unique in the market. AHT recognizes that a well-crafted patent portfolio may be used for a variety of business objectives, such as bolstering market position, protecting research and development efforts, generating revenue, and encouraging favorable cross-licensing or settlement agreements. For companies like ours, that will develop original technology, patents provide a barrier against a competitor's entry into valued technologies or markets. Therefore, in order to develop an effective patent portfolio, we have devised a strategy that is aligned with our business objectives.

### ***Patent Strategy***

To minimize the cost of obtaining patents, AHT will focus on obtaining a few quality patents that cover key products and technologies. Our patent strategy involves a development phase and a deployment phase. The development phase includes evaluation of patentable technologies and procurement of patents. A deployment phase includes the competitive analysis, licensing, and litigation of patents. For AHT the initial focus is on the development phase.

### **Development Phase**

Starting in the development phase, our patent strategy will be synchronized with the key business goals of the company. These goals provide a long-term blueprint to guide the development of our patent portfolio.

Because these goals have been identified, the evaluation process has begun by mining and analyzing intellectual assets within the company. AHT is in the process of organizing and evaluating all of our intellectual assets, such as its products, services, technologies, processes, and business practices. This has involved gathering key company documented

materials, such as business plans, company procedures and policies, investor presentations, marketing presentations and publications, product specifications, technical schematics, and software programs. With the assistance of our in-house legal partner, it has also included contractual agreements such as employment agreements, license agreements, non-disclosure and confidentiality agreements, investor agreements, and consulting agreements. Such materials provide information used to determine ownership issues and the scope of patent or other intellectual property rights that are available for the company.

After organizing information about the intellectual assets, each asset will be evaluated to determine how best to protect it. This evaluation will include determining whether the intellectual asset is best suited for patent protection or trade secret protection, whether it should be made available to the public domain, or whether further development is necessary. It also involves determining whether a patent will be of value when it issues, which is typically approximately 18 to 36 months after it is filed, and whether infringement of that patent would be too difficult to detect.

## **Evaluation Phase**

The evaluation phase will also provide an opportunity to determine whether obtaining protection in jurisdictions outside of the United States is prudent. International patent treaties signed by the U.S. and other countries or regions allow for deferring actual filing of patent applications outside the U.S. for up to one year after the filing of a U.S. application. Thus, planning at this early stage will include identifying potential countries or regions to file in and then begin financially preparing for the large costs associated with such filings.

The evaluation phase also provides an opportunity to determine whether a patentability or patent clearance study is necessary. AHT will undertake such studies to determine the scope of potentially available protection or whether products or processes that include or use an intellectual asset potentially infringe third-party rights. This evaluation may also involve identifying AHT strengths with regard to our patent portfolio, as well as potential vulnerable areas where competitors and other industry players have already established patent protection.

While the evaluation phase is in progress, AHT can move into the procurement phase. In that phase of the patent strategy, AHT will build its patent portfolio to protect core technologies, processes, and business practices uncovered during the audit phase. As is typical, AHT's patent portfolio will be built with a combination of crown-jewel patents, fence patents, and design-around patents.

## **Procurement Phase**

AHT will work with a patent attorney (already identified) to review the key innovations of the company's product or services as identified during the evaluation phase. The patent attorney and AHT will consider the market for the innovation in relation to the time in

which the patent would typically issue. This analysis will help identify the subject matter for the crown-jewel patents.

Once the subject matter is identified, in some instances a prior art search prior to filing provisional or utility patent applications may be conducted to determine what breadth of claim coverage potentially may be available. However, AHT will consult with the patent attorney to understand the risks associated with prior art so that appropriate business decisions can be made.

Next, a strategic business decision will be made as to whether to file a provisional patent application or a full utility, or non-provisional, patent application for the identified subject matter. A provisional patent application is ideally a robust description of the innovation, but lacks the formalities of a full utility patent application.

The provisional application is not examined by the U.S. Patent and Trademark Office (“USPTO”) and becomes abandoned 12 months after filing. Within the 12 months, AHT may choose to file one or more utility applications based on the subject matter disclosed in the provisional application, and therefore, obtain benefit of the provisional application filing date. However, the later filed utility application must be fully supported by the disclosure of the provisional application in order to claim the benefit of its earlier filing date. Under U.S. patent law, this means the provisional application must satisfy the requirements of written description, enablement, and best mode, as is required for the utility application.

By filing the provisional application with sufficient completeness to support the claims of subsequently filed utility applications, the provisional application provides a number of benefits:

One or more utility applications may claim the benefit of the provisional patent application filing date. The early filing date may not only protect the crown jewel subject matter, but may also protect some critical surrounding subject matter, hence increasing the overall value of our patent portfolio.

The provisional application provides an earlier effective prior art date against others who may be filing patent applications on similar inventions.

Provisional patent application filings costs are currently \$80 to \$160 versus \$370 to \$740 for a full utility application.

AHT will be able to draft the core of a provisional application with the guidance of our patent attorney and have him simply review the application to advise on the legal requirements and potential pitfalls. This means the attorney fees for a provisional patent application will be substantially less than fees associated with preparing a full utility application.

The provisional patent application precludes loss of patent rights resulting from activity and public disclosures related to AHT's target inventions. For example, almost every country except the U.S. has an absolute novelty requirement with regard to patent rights. That is, in these countries, any public disclosure of the target invention prior to filing a patent application results in a loss of patent rights. On the one hand, AHT will want to preserve the right to pursue patent protection outside of the U.S. On the other hand, immediate business opportunities and time demands often conflict with the timely preparation and filing of a utility patent application. However, through international treaties, most countries will recognize a filing date of a provisional application filed in the U.S. Thus, we believe AHT may be able to file for a provisional application and convert it to a utility application that can be filed in the U.S. and other treaty countries within 12 months.

Although the provisional application provides a cost-effective tool for creating a patent portfolio, filing a provisional application will not end AHT's portfolio development process. Once the provisional application is filed, and when finances and time permit, AHT will be diligent in filing utility applications that may claim the benefit of the provisional application filing date. This is true for a number of reasons:

The provisional application is not examined and will go abandoned 12 months after it is filed. Therefore, the filing of the provisional application provides no more than a filing date placeholder for the subject matter it discloses.

The utility application costs more than the provisional applications to prepare and file. Thus, AHT can adequately budget and plan for this expense.

As time passes the time available for patent matters may become more difficult in view of product cycles, marketing launches, and sales events. Hence, budgeting time for planning and reviewing filings of subsequent utility applications based on a provisional application becomes important.

Products and technologies continually evolve and change, often soon after the filing of a provisional application. Therefore, AHT will continually revisit our patent portfolio and strategy to reassess whether the provisional application can provide sufficient protection in view of further development.

## **Deployment Phase**

Over time, AHT will set aside time, money and resources to further enhance our patent portfolio. To do this AHT will move to the deployment phase, where we begin the competitive analysis process to study industry trends and technology directions, especially those of present and potential competitors. We will also evaluate patent portfolios of competitors and other industry players. Also in the deployment phase, we will incorporate the licensing process. This is when AHT will determine whether to license or acquire patents from others, particularly where our patent portfolio is lacking protection and is vulnerable to a third-party patent portfolio. Alternatively, in the

licensing process AHT will determine whether to license or cross-license our patent portfolio to third parties. The deployment phase may also include a litigation process. Here, AHT will determine whether to assert patents in a lawsuit against third party infringers.

## ***Summary***

AHT believes devising a forceful patent portfolio development strategy early on will be a wise investment to help the company develop and build a strong foundational asset on which to grow. We think this investment strategy will reward the company with positive returns for years to come.

