

ASCEND VENTURES, LLC.

WordLogic™

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Surpassing a Billion Dollars Through Organic  
Growth

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## INTRODUCTION

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WordLogic™ has the knowledge, technology, capability and expertise to build a multi-billion dollar revenue stream. The key to this revenue stream is commercializing WordLogic's patented technology into the Internet keyword search market to capture the Traffic Acquisition Costs (TAC) of the world wide Internet keyword search market. WordLogic™ can also double the overall size of the TACs captured by using its technology to capitalize on the explosive growth of the SmartPhone market by enabling users to readily carry out Internet keyword searches.

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## THE INTERNET SEARCH MARKETPLACE

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Keyword searches on the Internet will generate about \$40 billion dollars world wide in 2008.

Competitor	2008 Revenue
Google	\$20 Billion
Yahoo	\$7 Billion
MSN	\$4 Billion
Others	\$9 Billion

Of that \$40 Billion generated, approximately 25-30% is paid out for Traffic Acquisition Costs (TAC). TACs are partners who direct traffic to the search engine sites, usually through keyword ads placed on their sites. These staggering numbers distract the casual observer from two unpleasant truths:

- Revenue growth for search companies is slowing by as much as 75% per year. Even the powerhouse Google's 2007/2008 keyword (AdWords) revenue growth off by 50%
- $\frac{3}{4}$  of the potential search customers hooked into the network are being missed because searching from a cell phone is too user hostile

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## THE OPPORTUNITY

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A closer look at where customers generate keyword search revenue numbers reveals some interesting opportunities. At present this market is principally confined to PC users. The capabilities of PDA's and cell phones to perform such searches are currently limited. And the ergonomics for the PDA user and the cell phone user are too difficult and intimidating.

There are approximately 1.2 billion PC being used world wide. Over 85 million PDAs and 3.3 billion cell phones in use world wide. This means that there are 3 times as many access points for keyword searches on PDAs and cell phones then there are on PCs. And that ratio will continue to shift towards PDAs and cell phones. Wireless LAN is becoming standard on PDAs. As the 3G and 4G networks become increasingly common throughout the world the cell phone and the PDA are merging into one device, the SmartPhone, with the capability to more easily access the Internet.

Nokia owns 53% of the SmartPhone market. It shipped 60.5 Million SmartPhones in 2007, and it's set to break the 100M device barrier for 2008. While currently Nokia leads RIM, Windows, Apple and others - in a very short time we could see a huge shift in the SmartPhone platform market of the likes that were never imagined possible in the desktop PC market. Apple expects to ship over 15Million iPhone 2.0 devices in the first quarter after release. They sold 3 million in the first month alone. Over 250,000 developers have downloaded the iPhone SDK during the first 95 days.



Kleiner Perkins Caufield & Byers has stated that they will invest \$100,000,000 of venture capital in companies developing applications for iPhone & iPod touch. ([www.kpcb.com/initiatives/ifund/index.html](http://www.kpcb.com/initiatives/ifund/index.html))

Google's Android SDK downloads have topped 750,000. They will be awarding \$10 million to developers of applications for the Android operating system. The Android Developer Challenge contest is in progress and the Android Developer Challenge II contest will launch after the first handsets built on the platform become available. (<http://code.google.com/android/adc.html>)



The market is obviously and emphatically stating that the future platform for users connecting to the Internet is the SmartPhone. And WordLogic™ is perfectly positioned to capitalize on those market forces.



## INTUITIVE SEARCH

WordLogic™ has the opportunity to become a \$5 Billion dollar company over the next 5 years by commercializing its patented predictive text and predictive branching logic technology into the Internet keyword search market to capture a modest share of the TAC (Traffic Acquisition Costs) revenue streams.

WordLogic™ predictive technology can be deployed onto the PC platforms to make a keyword search intuitive; thus staving off the precipitous drop in growth rates in that market. WordLogic™ predictive technology can be adapted to the SmartPhone platforms to overcome the ergonomic and bandwidth issues associated with Internet searching from these platforms; thus making itself a lucrative partner for the Internet search companies. Plus, intuitive search on SmartPhones will create a new “space” for the advertising community.

How does WordLogic™ redeploy its technology to become a \$5 Billion dollar company? By instituting intuitive search. WordLogic™ can use its predictive technology to serve up keyword ads to users when they are most receptive to those ads: when they have just thought of, i.e. typed the word.

WordLogic™ has a competitive advantage in the TAC market for PCs and *especially* for SmartPhones because:

- WordLogic™ is ubiquitous and application independent – it works with any application
- WordLogic™ predictive branching is patented and its Intuitive Search is readily patentable
- WordLogic™ Intuitive Search capability provides a new and much sought after ad space for advertisers
- WordLogic™ Intuitive Search has a better connection to the users’ “Top of Mind” – the keyword ad is served up when that specific keyword is most on the users’ mind – when they think of (type) the word
- WordLogic™ Intuitive Search’s initial serving up a single keyword ad to the customer creates a premium serving of the ad for the advertiser and thereby commanding a premium bid price for the ad
- WordLogic™ Intuitive Search is supportive of more sophisticated words, abbreviations, and acronyms, (technical, legal, medical, military, governmental, etc.) the types of words that command a premium price in the keyword search market

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## EXAMPLE

A simple example illustrates the ubiquity, ease of use, and utility of the WordLogic™ Intuitive Search.

Vanessa and Jackie are on their SmartPhones, IM'ing each other about Bob's upcoming birthday. Jackie is typing an IM to Vanessa saying, "I'm not sure what to get him. I'm thinking about a Wii Fit." As Jackie is typing Wii Fit, WordLogic™ Intuitive Search has predicted Wii Fit and retrieved the top keyword ad for Wii Fit. As Jackie finishes typing Wii Fit, she notices that a keyword ad is available. She clicks on Wii Fit and is immediately served (from the WordLogic™ Intuitive Search Dictionary) a keyword ad that says Game Station is having a sales on Nintendo Games. Jackie clicks through the ad to Game Station's SmartPhone web site. And WordLogic™ is paid a portion of the click through as a TAC. Jackie concludes her web surfing, backspaces over her previous typing and restarts with, "I just got him a Wii Fit. It was on sale at Game Station!"

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**PRO FORMA REVENUE**

- \$40 Billion in PC based search revenue growing on average 15%/year for the next 5 years
- \$10 Billion TAC revenue 25% of search revenue
- SmartPhones World Wide growing at 30%/year for the next 5 years
- Average search revenue/PC averages approximately \$30/year
- Average search revenue/SmartPhone estimated to grow to average approximately \$15/year
- WordLogic™ Intuitive Search will capture 5% market share of PC search and 15% market share of SmartPhone search
- WordLogic™ revenue is \$5 Billion by Year 6.

**"Back of the envelope" Revenue Model for WordLogic™ Intuitive Search**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
PC Based Search Engine Revenue (15% CAGR)	\$ 40.0	\$ 46.0	\$ 52.9	\$ 60.8	\$ 70.0	\$ 80.5
TAC Revenue (25% of Search)	\$ 10.0	\$ 11.5	\$ 13.2	\$ 15.2	\$ 17.5	\$ 20.1
SmartPhones (30% CAGR)	500,000,000	650,000,000	845,000,000	1,098,500,000	1,428,050,000	1,856,465,000
<b>WLGC TAC from PC Search<sup>1</sup></b>	\$ 0.12	\$ 0.26	\$ 0.46	\$ 0.70	\$ 1.01	\$ 1.01
<b>WLGC TAC from SmartPhone<sup>2,3</sup></b>	\$ 0.20	\$ 0.63	\$ 1.48	\$ 2.85	\$ 4.18	\$ 4.18
<b>WLGC Revenue from Intuitive Search</b>	\$ 0.31	\$ 0.90	\$ 1.94	\$ 3.55	\$ 5.18	\$ 5.18

Note: above revenue amounts are in \$ Billion

- 1) TAC from PC search growing to 5% market share in Year 6
- 2) TAC from SmartPhone search growing to 15% market share in Year 6
- 3) average search revenue/PC is ~\$33/year, ~\$15/year for SmartPhone search revenue

*Figure 1 Intuitive Search (in \$ Billion)*



## VALUATION

The last week of August 2008 the market priced WordLogic™ shares at about \$0.70/share. With about 30 million shares outstanding, WordLogic™ market capitalization is \$21 Million dollars. This reflects the markets' limited understanding of WordLogic's patented predictive text intellectual property and a misunderstanding of the litigation potential as a result of the WordLogic's ownership of that IP.

Stepping back to re-examine the realizable potential of WordLogic's IP portfolio leads to a very different valuation. Given the information that is available through press releases, market data (cars sold, navigation option prices, etc), and the information in this report about Intuitive Search's potential, it is possible to construct a new valuation for WordLogic™.

Current IP litigation seeks a modest royalty of about \$260 - \$430 per car from one manufacturer. This may not seem like much until one realizes that there are 200,000 – 300,000 cars in possible infringement, resulting in a possibility of \$80 - \$100 Million dollars in settlement. If one also includes the possibility of punitive damages being awarded, then another \$100 - \$200 Million dollars is possible. Even if one precludes any litigation beyond the current case at hand and only looks at the discounted expected value of the current case, one gets a value of \$140 Million<sup>1</sup>.

With a victory in this initial infringement case, it is not difficult to see the scenario where WordLogic™ has potential settlements summing to over \$2 Billion dollars over the next several years. A net present value calculation of that potential, even evaluated at a skeptical 75% discount rate, yields an estimated net present value of \$550 Million dollars<sup>2</sup>. Clearly the expected value for WordLogic™ from just the patent litigation alone is well above its current market valuation.

The hidden gem in WordLogic™, the one overlooked in its current valuation by the market, is its ability to enter the TAC market, especially its unique position in that market with respect to the emerging SmartPhone phenomenon. As the above WordLogic™ pro forma revenue for the TAC market shows, even if WordLogic™ Intuitive Search only captures modest market shares (5% PC, 15% SmartPhone) and even if one heavily discounts that revenue stream (75%), WordLogic™ holds in its IP portfolio a technology with an expected NPV of \$1.5 Billion<sup>3</sup>. At a market valuation of 1X Revenues, this hidden gem surely indicates that the market is improperly pricing WordLogic™ shares.

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<sup>1</sup> Settlement in 2 years, calculated with a 75% discount rate.

<sup>2</sup> Settlements starting in 2 years and continuing until Year 6, calculated with a 75% discounted rate.

<sup>3</sup> Intuitive Search TAC revenue streams through the end of Year 6, calculated with a 75% discount rate.