

CopyTele Inc.

(OTCQB: COPY, Target Price: \$1.12)

We initiate coverage on CopyTele Inc. ("CTI") with a price target of \$1.12 per share. CTI specializes in patent monetization and patent assertion, which involves acquiring, licensing and enforcing patented technologies. CTI's monetization and patent acquisition efforts have rapidly expanded since their new management team was installed in late 2012, and we expect them to attain profitability in the FY2014E timeframe. CTI currently has 34 active lawsuits across five patented technologies and has very diversified patent portfolios covering widely used technologies such as ePaper® Displays, Key Based Web Conferencing Encryption, Encrypted Cellular communications and Loyalty Conversion Systems. CTI management is rapidly expanding the patent pipeline for future monetization and assertion efforts and the elements for substantial long term revenue growth are firmly in place.

INVESTMENT HIGHLIGHTS

New management and business model offers growth potential

CTI brought in a new management team in October 2012, consisting of CEO, Robert Berman and SVP of Engineering, John Roop. Employing strategies they used to start and build a tremendously successful business at Acacia Research Corporation (NASDAQ: ACTG), this team quickly transformed the CTI model from a technology and patent development business to a patent monetization and assertion entity. The new management team has significant expertise in evaluating patents and an established network of vetted legal counsel, which they can deploy strategically as new cases arise. CTI management's reputation and previous success in the space has created a robust pipeline of patent opportunities. CTI has already proven to be quite active, with four patent portfolio acquisitions over the last year. 2013 was a major transitional year for CTI, and the new management has quickly laid the groundwork for their vision of the new company.

Diverse patent portfolio across attractive end markets

CTI's patent portfolios are wide ranging, and well positioned in very attractive end markets. Their ePaper® Electrophoretic Display ("ePaper") and Micro Electro Mechanical Systems Display ("MEMS") portfolios consist of a number of patents in the current and next generation eReader spaces. Devices such as the Nook and Kindle utilize this technology. Their Key Based Web Conferencing Encryption and Encrypted cellular portfolios cover areas of secure communication across audio/video, e-mail, text messaging, data, voice and fax applications. They have patents in the Nano Field Emission Display ("FED") area, an emerging technology which could play prominently in the next generation of flat panel displays. Their recent patent portfolio acquisitions are in the areas of Loyalty Conversion Systems, and Window Frame Construction, and Unified Communications. In all, each of CTI's patent portfolios has the potential to generate significant revenue for the company.

Debt offering shores up balance sheet

On November 12, 2013, CTI announced the completion of a \$3.5mn convertible debt placement with a single institutional investor. This placement gives COPY additional working capital to launch new patent assertion campaigns and significantly strengthens their balance sheet.

Initiate coverage with a price target of \$1.12

Our analysis indicates a fair value estimate of \$1.12 per share (detailed on pages 6 and 7), implying an upside of 315% from the recent price of \$0.27. We view CTI as a highly speculative play in the rapidly growing area of patent monetization and patent assertion.

Stock Details (4/04/2014)

OTCQB:	COPY
Sector / Industry	Technology / Patent Assertion
Price target	\$1.12
Recent share price	\$0.27
Shares o/s (mn)	210.4
Market cap (in \$mn)	\$56.7
52-week high/low	\$0.48 / 0.16

Source: Bloomberg, SeeThruEquity Research

Key Financials (\$mn unless specified)

	FY13A	FY14E	FY15E
Revenues	0.4	20.0	45.0
EBITDA	(7.9)	4.8	20.8
EBIT	(7.9)	4.8	20.8
Net income	(10.1)	4.3	20.8
EPS (\$)	(0.05)	0.02	0.09

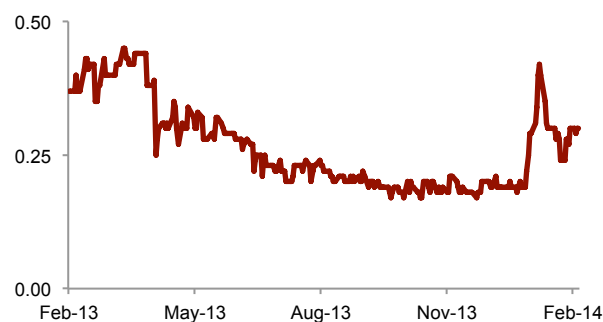
Source: SeeThruEquity Research

Key Ratios

	FY13A	FY14E	FY15E
Gross margin (%)	18.6	65.0	65.0
Operating margin (%)	NM	24.0	46.3
EBITDA margin (%)	NM	24.0	46.3
Net margin (%)	NM	21.5	46.3
P/Revenue (x)	145.8	2.8	1.3
EV/EBITDA (x)	NM	11.7	2.7
EV/Revenue (x)	144.7	2.8	1.3

Source: SeeThruEquity Research

Share Price Performance (\$, LTM)



Source: Bloomberg

SUMMARY TABLE

Figure 1. Summary Table (As of April 4, 2014)

Share data		B/S data (As on 4Q13)		Key personnel:	
Recent price:	\$0.27	Total assets:	5.4mn	CEO:	Robert Berman
Price target:	\$1.12	Total debt:	0.5mn	CFO:	Henry Herms
52-week range:	0.48 / 0.16	Equity:	(3.3mn)	SVP Engineering:	John Roop
Average volume:*	317,667	W/C:	(2.0mn)	Chairman of Board:	Lewis Titterton, Jr.
Market cap:	\$56.7mn	ROE '13:	-36%		
Book value/share:	(\$0.01)	ROA '13:	-22%		
Cash/share	\$0.00	Current ratio:	0.4		
Dividend yield:	0.00%	Asset turnover:	0.3		
Risk profile:	High / Speculative	Debt/Cap:	(0.2)		

* three month average volume (number of shares),

FY October	Estimates				Valuation	
	Rev (\$mn)	EBITDA (\$mn)	EPS (\$)	P/Rev (x)	EV/Rev (x)	P/E (x)
2011	1.0	(5.0)	(0.04)	43.9x	44.1x	NM
2012A	0.9	(4.1)	(0.02)	46.5x	46.7x	NM
1Q13A	0.0	(2.1)	(0.01)	5172.3x	5189.9x	NM
2Q13A	0.0	(1.9)	(0.01)	NM	NM	NM
3Q13A	0.0	(0.6)	NM	NM	NM	NM
4Q13A	0.4	(0.6)	NM	NM	NM	N/A
2013A	0.4	(7.9)	(0.05)	NM	NM	NM
2014E	20.0	4.8	0.02	2.8x	2.8x	13.3x
2015E	45.0	20.8	0.09	1.3x	1.3x	2.9x

Source: SeeThruEquity Research

INVESTMENT THESIS

CTI was founded by scientists 30 years ago and existed as a company focused primarily on the development of thin film display and encryption technologies. Although not particularly successful in bringing products to market, the company accumulated a stockpile of patents with significant monetization potential. In October of 2012, CTI switched courses and brought in Robert Berman as President and Chief Executive Officer and John Roop as Senior Vice President of Engineering, to unlock the hidden value of CTI's patents. This new management team saw significant value in CTI's existing patents and in using the company as a vehicle to create a larger patent monetization and patent assertion business, sometimes referred to as a Patent Assertion Entity ("PAE") or Non-practicing Entity ("NPE").

CTI has made great strides in implementing its new business model since we first looked at the company in October of 2013. CTI has rapidly expanded their patent holdings, completing four acquisitions since new management took over. In 2013, the company launched five, separate patent assertion campaigns consisting of 41 separate lawsuits. CTI has already begun to recognize revenue from those lawsuits, entering into five revenue generating license and settlement agreements.

This management team started and built a very successful patent monetization and assertion business at Acacia Research Corporation (NASDAQ: ACTG) based on expert analysis of patents and constructing a network of top shelf litigation teams. CTI has quickly assembled a patent portfolio of very attractive assets across end markets with material revenues. By diversifying their efforts across numerous patent portfolios, the company reduces its risk by not becoming overly dependent on one particular patent portfolio of lawsuit. CTI offers a balanced approach to building value for shareholders. CTI's model also provides investors with a non-cyclical technology play with an attractive growth rate. Between 2008 and 2011, NPE public company revenue grew at a 13.9% CAGR, notably higher than other segments of technology which grew 6-8% during the same timeframe.

Source: Company investor materials, SeeThruEquity Research

Patent monetization and assertion

Article 1, Section 8, Clause 8 of the United States Constitution provides that for limited time periods, authors and inventors shall have exclusive rights to their respective writings and discoveries. A patent is in effect a contract between the inventor and the government: in exchange for sharing a new or novel invention with the world, the government gives the inventor the right to exclude others from manufacturing, selling, or using the patented invention for a limited period of time.

Patent Monetization is the generation of revenue from patents and patented technologies. Patent Assertion is a specialized type of Patent Monetization where a patent owner, or a representative of the patent owner, seeks to prohibit or collect royalties from the unauthorized manufacture, sale, and use of a patented invention. CTI's new management team is composed of experts in Patent Monetization and Patent Assertion.

The U.S. economy has transitioned from a product based economy, to a service based economy, to now a knowledge based economy. Patents are a vital tool used to protect knowledge and can be considered a currency of our modern economy. Historically, companies (such as CTI) have stockpiled patents with no intention of engaging in monetization efforts. High profile litigation, large patent transactions, and the increased importance of patents to our economy have brought attention, capital and new entrants to the Patent Monetization space. There is a large, but fragmented, market for patent transactions, and there is opportunity to generate meaningful alpha in the space.

Source: Company investor materials, SeeThruEquity Research

New management and strategy

CTI was previously in the business of technology development and bringing new products to market. Although CTI's business saw only limited success, the science behind the technologies and products was cutting edge, resulting in patents with significant monetization potential. It is not usual for unsuccessful businesses to mask patents that can be extremely valuable. Previous management had stockpiled patents in the areas of electrophoretics (commonly known as ePaper) key based encryption and encryption devices and Nano Field Emission Displays, among others. However, CTI was unsuccessful in developing sustainable revenues from products incorporating these technologies and the Board of Directors decided to move in a very different direction.

Spearheading this new effort is President and Chief Executive Officer Robert Berman, who formerly served as Chief Operating Officer and General Counsel of Acacia Research Corporation ("Acacia") and Senior Vice President of Engineering John Roop, who served as Vice President of Engineering at Acacia from 2001-2008. Mr. Roop is a highly experienced Silicon Valley electrical engineer, with over 20 years of patent experience. Having previously developed widely used technologies and having served as an expert witness in numerous patent trials, Mr. Roop brings tremendous experience in patent evaluation to CTI, which is a critical element in building a successful PAE. Complementing his skills is CEO Robert Berman, an entrepreneur, attorney and patent monetization expert, who has successfully taken on some of the world's largest technology companies on behalf of patent owners. Mr. Berman brings a robust network of vetted, litigation experts and his reputation and successful business development history have provided CTI with an unsolicited pipeline of future patent assertion opportunities. These gentlemen started and built a successful patent monetization and assertion business at Acacia and joined CTI because they determined that there was significant untapped value in the CTI patent portfolio.

Low cost business model

This shift in strategy, and the resulting elimination of R&D efforts and reduction in head count, has resulted in CTI being far more flexible financially, able to generate significantly higher gross margins, and being far less capital intensive in their day to day operations than under the previous model. The cost savings can be directed to a variable cost structure, both in the acquisition of new patent portfolios and in engaging outside counsel for patent infringement lawsuits. CTI's new business model is highly scalable and is only constrained by the amount of patents which their management team has the time to analyze. Furthermore, CTI pays their lawyers through contingency fee agreements, so they avoid large up front legal costs and are not held hostage to protracted legal proceedings by companies hoping to wait them out. The contingency fees average roughly 10% initially and can reach as high as 35% as a case gets closer to going to trial. We note that according to industry research, less than 5% of patent infringement cases that are filed ever make it to trial. CTI also structures their patent portfolio acquisitions with limited upfront costs, providing them with additional financial flexibility. Currently, CTI has relied exclusively on Mr. Berman's status in the PAE market to fill their deal pipeline, as 100% of their leads have been unsolicited. As CTI attains scale in the future,

management has discussed the desire to build out business development and licensing units to enhance their efforts.

Diverse patent portfolio and increased patent assertion litigation activities

CTI currently owns or controls nine patent portfolios with Patent Monetization potential, which encompass very attractive end market products and applications. CTI's strategy is to initiate numerous patent assertion programs across a diverse, wide range of technologies, to mitigate risk and provide more opportunities for successful results. Each one of CTI's five existing Patent Assertion campaigns has the potential to generate significant revenue for the company.

Figure 2. CTI patent portfolio overview

Segment	End Markets
Key Based Web Conferencing Encryption	Email, text, video conferencing, fax, audio/video
ePaper® Electrophoretic Display	eReaders
Nano Field Emission Display	Flat panel displays
Micro Electro Mechanical Systems Display	Low voltage display technologies
Loyalty Conversion Systems	Airlines, credit cards, hotels, retailers, casinos
J-Channel Window Frame Construction	Manufactured housing, "J-Channel/J-rail" windows
Encrypted Cellular Communications	Cellular communications
Telephonic Webcast Gateway	Online audio/video conferencing
VPN Multicast Communications	Secure, live webcasts

CTI's ePaper Electrophoretic Display patent portfolio and Nano Field Emission Display patent portfolio, both developed in-house by CTI, are involved in a lawsuit arising out of two licensing and joint product development agreements entered into in 2011 by CTI and AU Optronics Corp., a multi-billion dollar Taiwanese company that is one of the world's largest screen manufacturers. In the lawsuit, CTI alleges breach of contract, fraud, conspiracy to monopolize, unfair business practices, antitrust, and other anti-competitive acts. CTI is seeking in excess of \$300mm of damages in the lawsuit. The parties have agreed to resolve the lawsuit via arbitration. Discovery for the arbitration has begun, and the arbitration hearing is scheduled to begin on November 9, 2014.

The Key Based Web Conferencing Encryption patent portfolio, also developed in-house by CTI, covers the generation and management of encryption keys used for securing audio/video communications, emails, text messages, data, voice and faxes. This technology is commonly used in web based conferencing, and for encrypted cellular communications. On May 1, 2013, CTI filed a patent infringement lawsuit against Microsoft Corporation (NASDAQ: MSFT), in connection with its SKYPE and Lync web conferencing services. On July 9, 2013, CTI followed up with similar suits against Citrix Systems (NASDAQ: CTXS) in connection with their "Go To Meeting" suite of web conferencing services, and Logitech International (NASDAQ: LOGI), in connection with their LifeSize web conferencing services. Overall, CTI believes that more than 50 different web conferencing services are currently employing this infringing technology. Revenues from SKYPE and Lync are reported to exceed \$2bn annually, annual revenues from Citrix's "Go to Meeting" suite of services are estimated to be several hundred million dollars per year, and Logitech's LifeSize unit reported sales of over \$130mn in 2013. Although a trial date has not yet been set, briefing for claims construction is scheduled to begin in June of 2014. Based upon the sales of the three named defendants, and the additional companies that have yet to be sued, this portfolio represents a \$100mn+ opportunity for CTI.

In April 2013, CTI acquired the Loyalty Conversion Systems patent portfolio. This portfolio of 19 patents covers "coalition" type loyalty awards programs commonly offered by airlines, credit card companies, hotels, retailers, casinos and other organizations. The portfolio covers the electronic conversion of non-negotiable, loyalty awards and points from one program into points of partner programs or negotiable funds used to purchase goods and services from third parties. On August 21, 2013, CTI filed patent infringement lawsuits against ten US airlines in connection with their frequent flyer programs. On October 28, 2013, CTI announced a settlement with Alaska Air Group, Inc. (NYSE: ALK). The popularity of loyalty programs and the methods in which companies use the technology to convert points from one program into points or goods and services from another program has rapidly expanded in recent years. A claims construction hearing for the patent infringement lawsuits is scheduled for the end of August 2014, and a trial date has been set for March, 2015. While it is difficult to quantify the exact market opportunity, airlines generate billions of dollars a year from their frequent flyer programs, and CTI is seeking a percentage of the gross profits generated from the sale of miles to airline program partners to effectuate transfers. We view this as another material opportunity for CTI.

CTI also acquired a Window Frame patent portfolio in April 2013. This portfolio covers window frames that incorporate a feature known in the industry as a “J-Channel” or “J-rail.” This technology has become a standard in the industry and results in easier and faster window assembly and installation, among other advantages. There is a long and contentious history between the inventor, who owned a window fabrication plant in Tennessee, and large window manufacturers and retailers. On August 8, 2013, CTI filed eight patent infringement lawsuits against retailers, window manufacturers and home builders, including Lowe’s Companies, Inc. (NYSE: LOW), Clayton Homes, Inc. (NYSE: CMH) and Pella Corporation. In October of 2013, CTI files another 19 patent infringement lawsuits in connection with its J-Channel Window Frame Construction technology. CTI has since announced six settlements related to this patent portfolio, the latest coming in a March 31, 2014 settlement with MI Windows and Doors. In the years 2008 to 2012, the period for which CTI is seeking damages, estimates indicate that approximately 10 to 15 million windows were sold on an annual basis and CTI is seeking a royalty of approximately \$1.50 per window, making this a \$40-60mn opportunity.

In connection to their Key Based Encryption technology, CTI also has patents covering Encrypted Cellular Communications. Major telecommunications carriers currently offer encrypted cellular communications packages for a \$35-40 per month fee, as well as activation fees of approximately \$100. In light of the 2013 NSA wire-tapping scandal and the need for more secure communications, this represents a growing end market. Awarded in 2008, CTI announced this patent as part of the portfolio in November 2013.

The MEMS patent portfolio covers vanadium dioxide coated pixels which electrically modulate light at extremely high speeds to form images. They also use electrostatic force to move pixel sized membranes that create color images. These emerging technologies have a variety of potential future applications, but their tie in to the next generation of eReaders gives CTI potential synergies with their ePaper portfolio.

The Nano Field Emission Display patent portfolio covers a new type of flat panel display which consists of low voltage color phosphors, specially coated carbon nanotubes, nano materials to generate secondary electrons and ionized noble gas. This combination results in a sharp, high contrast color image. Computer, tablet, television, and cell phone manufacturers are currently looking to replace existing LCD technologies with flat panel displays that use less power, have a higher picture quality, and are cheaper to manufacture. Adoption of OLED display technology has taken longer and has been more problematic than anticipated. While flat panel TV shipments seem to have peaked in the US, according to IHS iSuppli, total shipments should still average 34mn a year through 2015. As people replace old flat panels with new ones, and with increasing sales of smart phones and tablets, the Nano Field Emission Display portfolio could have significant future monetization potential, if and when the development is completed.

The two most recent patent additions are the Telephonic Webcast Gateway and VPN Multicast Communications portfolios, which were both acquired in 2H14. These cover telephonic participation in online audio/video conferences and secure, live webcasts received simultaneously by multiple recipients, respectively.

Debt offering shores up balance sheet

On November 12, 2013, CTI announced the completion of a \$3.5mn convertible debt placement with a single institutional investor. The debt pays 6% interest annually and can be converted into COPY common stock at \$0.1892 per share. The financing also includes the issuance of a three year warrant to purchase 9,249,472 common shares, at an exercise price of \$0.3784 cents per share.

Purchase agreement with Aspire

On April 23, 2013, CTI entered into a common stock purchase agreement with Aspire Capital (“Aspire”). Under the terms of the agreement, Aspire is committed to purchase up to an aggregate of \$10mn of CTI common stock over the course of the next two years. Concurrently with the execution of the agreement, CTI issued Aspire 3.5mn shares of common stock with a fair value of \$700k as a commitment fee. Upon execution of the stock purchase agreement, Aspire purchased 2.5mn shares on April 23, 2013 for \$500k.

Some key elements of the agreement include CTI’s ability to initiate and control the timing of all sales to Aspire, that the sales prices will be based on the prevailing market prices immediately prior to each sale, that there are no limitations on the use of proceeds and that CTI may terminate the agreement at any time without any additional cost or penalty.

These financing agreements provide CTI with additional flexibility in its efforts to acquire new patent portfolios and initiate new patent infringement lawsuits on patents it currently owns. Since implementing its new patent assertion business model in January of 2013, CTI now has entered into seven revenue

producing licenses from two of its patent portfolios, and 34 active lawsuits across five of its patented technology areas. We would also like to note significant insider buying by CTI management and directors over the past few months, which emphasizes their belief in the future value of CTI shares.

Source: Company filings, SeeThruEquity Research

COMPETITIVE LANDSCAPE

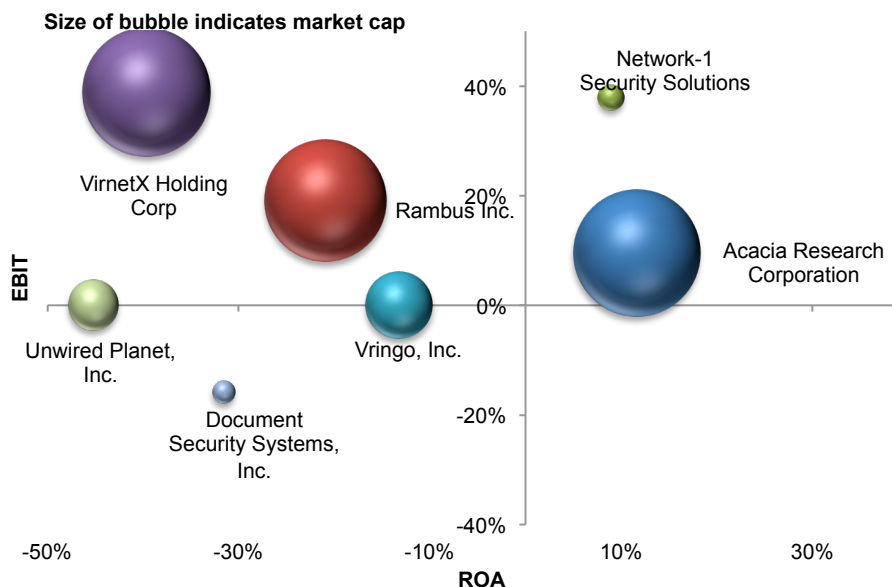
CTI has a variety of competitors, including numerous Patent Assertion Entities (“PAEs”). According to the U.S. Government Accountability Office (“GAO”), from 2000 to 2010, the number of patent infringement lawsuits in the federal courts fluctuated slightly, but from 2010 to 2011, the number of such lawsuits increased by about a third. GAO’s detailed analysis of a representative sample of 500 lawsuits from 2007 to 2011 shows that the number of overall defendants in patent infringement lawsuits increased by about 129% over this period. These data also show that companies that make products brought most of the lawsuits and that PAEs brought about a fifth of all lawsuits. There are more companies competing in the space than ever before, and the barriers to entry are extremely low. There are only a handful of publicly traded PAEs, but their numbers are growing. This can lead to increased competition to acquire patents and reduced terms for the PAE. As more competitors emerge, their strategies for patent assertion will also become more public, making replication of the business model that much easier. Publicly traded PAE’s include Acacia Research Corporation, Marathon Patent Group (OTCBB: MARA), VirnetX Holding Corp (NYSE: VHC), Vringo, Inc. (NASDAQ: VRNG) and InterDigital, Inc. (NASDAQ: IDCC), among others.

The patent assertion space has become much more crowded, and companies have become emboldened in their fights against PAEs. Regardless, less than 5% of the patent lawsuits that are filed ever make it to trial and a large percentage of those cases settle. CTI’s management team have generated in excess of \$150mn in patent licensing revenues and are very skilled in resolving patent infringement lawsuits. Most agreements are settled with undisclosed terms, making it difficult to assess the value of the final of the transaction. CTI’s management team has an excellent track record of picking the right patent portfolios, aligning themselves with the best litigators, and extracting the maximum value from their portfolios. This is how they seek to differentiate themselves in a highly competitive space.

It could be argued that a limiting factor for all PAEs is the U.S. Federal courts and legal system itself. This system has proven to be quite difficult to operate in successfully. Patent law can be notoriously vague, rulings are arbitrary and enforcements are often very difficult to carry out. As PAEs have grown in number and their actions have received greater amounts of publicity, there has been a tremendous amount of backlash against PAEs from the business community, politicians and even President Obama himself. People are questioning the value that PAEs provide the economy versus the costs they extract. While this has no effect on the quality and validity of CTI’s current patent infringement suits, it may create a higher bar for PAEs to hurdle to prove their claims in the future.

CTI has a relatively small asset base and market capitalization relative to most industry peers. At the recent price of \$0.30, CTI’s market capitalization was approximately \$63mn. When compared to our range peers, CTI is an emerging company that is just getting started and has yet to demonstrate profitability. Results of the peer group can also be quite volatile, as the results of a PAE tend to fluctuate dramatically based on the outcome of specific litigation. However, peers have shown that double digit ROA and EBIT margins are possible over time.

Figure 3. ROA vs. EBIT– CTI Peers



Source: Company filings, SeeThruEquity Research

FINANCIALS AND FUTURE OUTLOOK

Revenue/Drivers

We view CTI’s fiscal year 2013 (ending October 31, 2013) as a major transitional year and not indicative of potential future operating results, although we are very encouraged by the speed of their settlements and growth of their patent portfolios. Revenues of \$389k were all generated in 4Q13 from settlements in the loyalty rewards and J-Channel portfolios.

Predicting the outcome and timing of any one patent infringement lawsuit is quite difficult and the amounts of settlements are rarely (if ever) disclosed. Given that CTI and the infringing parties generally prefer to do lump sum payments upon settlement, we acknowledge that a smooth trajectory of revenues and earnings growth is unlikely to occur. This is a given, based on the nature of the PAE business model.

We are modeling in \$20mn in FY2014E revenues, which is based off of a probability weighted settlement in the ePaper patent portfolio and a handful of smaller additional wins in the J-Channel and Loyalty Service portfolios. Going forward, we have modeled in \$45mn in FY2015E highlighted by the Key Based Web Encryption suit, and revenues growing from \$60mn to \$105mn from FY2016-2018E. We do not anticipate smooth earnings results, but as CTI gains scale and fills out their pipeline and litigation efforts, we would expect some significant litigation wins and the lumpiness of earnings to somewhat dissipate.

As a comparison, Acacia Research Corporation generated \$250mn in revenues in 2012 off of a portfolio of roughly 250 patents. Given Mr. Berman’s tenure and success at Acacia, we feel that our \$45mn annual revenue projection for 2016-2018E is not overly aggressive. Clearly, the 12-24 month success of CTI is heavily dependent on their eReader and Web Encryption patent litigation outcomes.

Margins/Expenses

CTI has a cash burn of approximately \$200-250k per month and reported total SG&A for FY2013 of \$7.9mn with an additional \$316k of litigation expenses. SG&A was slightly high due to head count and operational reduction costs in FY2013 and we have modeled in \$7.7mn in SG&A for FY2014E growing at roughly 2.5% per year through 2018E. The biggest swing factor from an SG&A perspective would be adding additional headcount, such as a business development team or additional patent evaluators. Litigation expenses run from 10-35%, depending on how close a case gets to trial, or eventually goes to trial. We have modeled in \$500k in FY2014E litigation expense, growing 5% annually through FY2018E. We think that EBIT margins in the 45-48% range are realistic over the long term.

There is significant operating scale in the CTI model, and gross margins are a function of the attorney engagement agreements and patent acquisition agreements. CTI has disclosed their profit sharing ranges from 50/50 to 100% (CTI getting 100%) depending on their assessment of the strength of the patent portfolio and odds of successful litigation. We have modeled in 65% gross margins for FY2014E moving to 70% by FY 2018E.

CTI reported a net loss of (\$10.1mn), or (\$0.05) per share in FY2013. We expect the company's net loss to move to net income of \$4.3mn, or \$0.02 per share (\$0.01 per fully diluted share), in FY2014E.

CTI has a substantial net operating loss on the books as of October 31, 2013. We are netting this against tax revenue in FY2014-2017E and then assuming a 28% tax rate going forward.

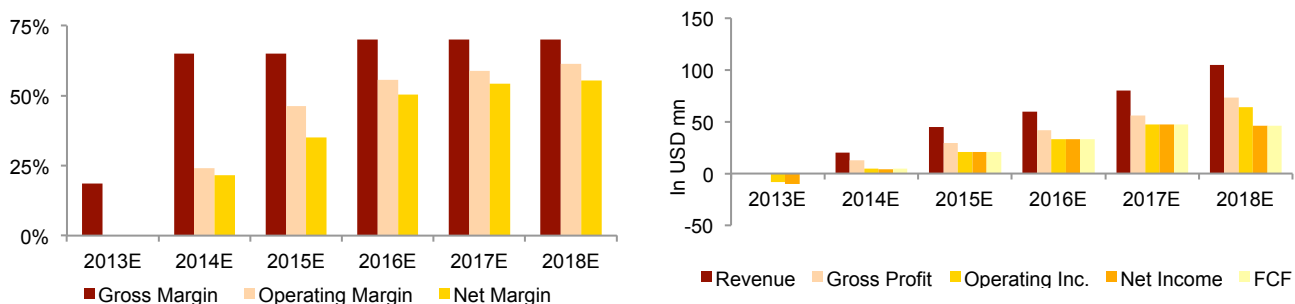
Balance Sheet & Financial Liquidity

COPY had cash on hand of \$898k at the end of FY2013, but we note that this was before their \$3.5mn convertible offering. During 1H13, CTI announced the issuance of an 8%, \$1.75mn convertible debenture due January 25, 2015. They also announced a stock purchase agreement with Aspire for \$10mn over the next two years. As of October 31, 2013, CTI had \$548k in net debt, to which the \$3.5mn was recently added. We feel CTI will have the cash flow over the course of FY2014E and FY2015E to retired all of their debt outstanding.

CTI also has \$5mn tied up in a previous deal with Videocon Industries Limited in the form of GDR receipts, classified as available for sale and marked to fair value on a quarterly basis. This is a legacy licensing agreement which will unlock in December 2014, either freeing up additional capital for CTI or resulting in the return of 20mn CTI common shares. Please refer to CTI's company filings for full discussion of the terms of the Videocon License Agreement.

As of their most recent presentation, CTI reported 210.4mn shares outstanding and fully diluted shares of 300mn. We are not modeling in any additional capital raises for CTI in FY2014E.

Figure 4. Key Performance Indicators of COPY, FY13E-18E



Source: Company filings, SeeThruEquity Research

VALUATION

We have valued CTI using a discounted cash flow (“DCF”) valuation. Our DCF yields a fair value of \$1.12 per share, representing an upside of 315% from the recent price of \$0.27 as of April 4, 2014.

DCF

We expect very robust, albeit potentially volatile revenue growth for CTI over the next few years. We project free cash flow to move from \$4.8mn in FY2014E to \$46.3mn in FY2018E. We discounted cash flows at a weighted average cost of capital of 15.3% and assumed a terminal growth rate of 3% at the end of 2018E to arrive at an enterprise value of \$233.9mn. Adjusting for the cash balance of \$982k and debt of \$548k as of October 31, 2013, we arrived at a fair value of \$1.12 per share. We think that the 3% terminal growth rate is conservative, as we anticipate CTI to having acquired 10-15 new portfolios by that time and having rapidly expanded its business development unit.

Figure 5. Discounted Cash Flow Analysis

\$' 000	FY14E	FY15E	FY16E	FY17E	FY18E
EBIT	4,800	20,833	33,359	47,129	64,393
Less: Tax	0	0	0	0	18,030
NOPLAT	4,800	20,833	33,359	47,129	46,363
Changes in working capital	0	0	0	0	0
Depreciation & Amortization	0	0	0	0	0
Capex	0	0	0	0	0
FCFF	4,800	20,833	33,359	47,129	46,363
Discount factor	0.91	0.79	0.67	0.58	0.50
PV of FCFE	4,378	16,474	22,322	27,340	23,317
Sum of PV of FCFE					93,832
Terminal cash flow					278,449
PV of terminal cash flow					140,039
Enterprise value					233,871
Less: Debt					549
Add: Cash					982
Equity value					235,402
Outstanding shares (mn)					210.0
Fair value per share (\$)					1.12
Summary conclusions		Key assumptions			
DCF FV (\$ per share)	1.12	Beta			1.5
Recent price (\$ per share)	0.27	Cost of equity			15.5%
Upside (downside)	315.2%	Cost of debt (post tax)			4.8%
WACC	15.3%	Terminal Growth Rate			3.0%

Figure 6. Sensitivity of Valuation – WACC vs. Terminal Growth Rate

		WACC (%)				
		12.5%	14.8%	15.3%	15.8%	16.3%
Terminal growth rate (%)	2.00%	1.37	1.11	1.07	1.02	0.99
	2.50%	1.42	1.14	1.09	1.05	1.01
	3.00%	1.47	1.17	1.12	1.08	1.03
	3.50%	1.53	1.21	1.15	1.10	1.06
	4.00%	1.60	1.24	1.19	1.14	1.09
	4.50%	1.67	1.28	1.22	1.17	1.12

Source: SeeThruEquity Research

Peer Group Valuation

We have included a peer group valuation chart for the sake of comparison, but we did not include any peer comparisons to determine the target stock price. Given CTI's business model transformation and FY2013 results, which we do not believe to be indicative of future performance, we feel that a peer group comparison is not meaningful. Furthermore, due to the case by case nature of the results of PAEs, the year to year volatility in revenue results makes any analysis of the comparison much less meaningful. In addition, without a robust analysis comparing patent portfolios and litigation strategies, merely comparing price to revenue, or P/E ratios may not be a useful exercise to determine the relative value of a company. PAEs do not all share one, singular business model, even though they are often lumped together. That being said, there are a growing number of publicly traded PAEs and any comparative analysis can offer some insight and value.

Figure 7. Comparable Valuation (Data as of 4/04/14)

Company	Mkt cap (\$ mn)	EV/Revenue(x)		Price/Revenue(x)	
		FY14E	FY15E	FY14E	FY15E
Marathon Patent Group	437	NM	NM	N/A	N/A
Acacia Research Corporation	766	2.2x	2.0x	3.7x	3.3x
Network 1 Technologies	44	2.8x	NM	N/A	N/A
Rambus, Inc.	1,052	3.3x	3.0x	3.5x	3.2x
VirnetX Holding Corp	1,009	4.8x	6.8x	NM	7.2x
Vringo, Inc.	342	NM	NM	NM	N/A
InterDigital, Inc.	1,251	3.4x	2.3x	5.6x	3.7x
Pendrell Corporation - Class A	325	8.8x	NM	N/A	N/A
Unwired Planet, Inc.	164	NM	35.1x	N/A	NM
ParkerVision, Inc.	475	3.0x	1.8x	3.5x	2.2x
Universal Display Corporation	1,599	6.4x	4.7x	7.9x	5.8x
Average		4.3x	7.9x	4.8x	4.2x
Copytele, Inc.	57	2.8x	1.3x	2.7x	1.2x
Premium (discount)		(34.6%)	(84.2%)	(42.7%)	(70.9%)

Source: Bloomberg, SeeThruEquity Research

RISK CONSIDERATIONS

Litigation volatility

As previously discussed, the timing and outcome of litigation is extremely difficult to predict. Patent litigation is a very ambiguous area which can be very hard to prove damages and enforce rulings. CTI will be headline dependent for the foreseeable future and any negative ruling could have a material impact on the stock price. Furthermore, the terms of settlements are rarely, if ever, disclosed. Therefore even what appears to be a beneficial outcome may not have the desired results for CTI's business.

Regulatory

There is a significant chance that the "rules of engagement" may change for PAEs and their business model and ability to generate revenues and profits may be materially impacted. They have received significant, negative publicity as an industry and their existence and value has even been questioned by the President of the United States. Given the tepid job market and lackluster results in the US economy, a group seen as hindering job creation could be a potential target to be scapegoated. While you cannot paint all entities in an industry with one brush, investors rarely take the time to differentiate if and when the law changes

Business model shift

CTI has undergone a dramatic shift in their business model and there is no guarantee that they will be successful, although results thus far have been promising. Given the uncertainty of the timing of licensing revenues, CTI risks having to raise significant capital over the next few years to remain a going concern. While CTI believes its agreement with Aspire and recent \$3.5mn convertible debt placement should cover their capital needs for the next 12 months, any change in their capital requirements could materially impact the company.

Competition

The growth in the number of PAEs and the percentage of patent infringement lawsuits they are responsible for initiating has grown rapidly in the past few years. This could lead to greater competition to acquire attractive patent portfolios and reduce the terms and benefit to the acquirer. There is essentially no barrier to entry and successful strategies have to potential to be replicated.

Share liquidity

CTI currently trades on the OTCQB and is classified as a penny stock. CTI has seen a significant bump in recent trading volume, and the stock has averaged approximately 317k shares traded a day over the past three months. At the recent price of \$0.27, this comes out to roughly \$85.7k in daily traded volume. Getting into or out of a position in CTI may be difficult depending on the market environment.

Management Team

Robert Berman, *President and Chief Executive Officer, Director*

Mr. Berman has experience in a broad variety of areas including finance, acquisitions, marketing, and the development, licensing, and monetization of intellectual property. He was recently the CEO of IP Dispute Resolution Corporation, a consulting company focused on patent monetization. Prior to IPDR, Mr. Berman was the Chief Operating Officer and General Counsel of Acacia Research Corporation. Mr. Berman has been quoted in numerous articles on patent monetization and is a frequent speaker on patent licensing and enforcement including programs at Harvard Law School, and UCLA's Anderson School of Business. Mr. Berman received a B.S. from the University of Pennsylvania's Wharton School, and a J. D. from Northwestern Law School.

Henry Herms, *Chief Financial Officer, Vice President of Finance, Director*

Mr. Herms has served as CTI's Chief Financial Officer and Vice President – Finance since 2000 and as Chief Financial Officer from 1982 to 1987. Mr. Herms has over 35 years of experience as a financial manager in both public and private companies and over seven years of experience as a manager and CPA at a major public accounting firm. His background in public accounting and at public companies gives him extensive knowledge of Securities and Exchange Commission matters including quarterly and annual reports and registration statements. He holds a B.B.A. degree from Adelphi University.

John Roop, *Senior Vice President of Engineering*

Mr. Roop has 18 years of experience analyzing and evaluating patents for acquisition and licensing, and over 20 years of experience as a Silicon Valley design engineer and engineering executive. He was Sr. Vice President of Engineering at Acacia Research and was instrumental in developing Acacia's patent acquisition operations. Previously, Mr. Roop was a co-founder and Sr. Vice President of Engineering at StarSight Telecast, a pioneering developer of electronic program guides, and Vice President of Engineering at VSAT Systems, Inc., a satellite telecommunications systems developer. He received his BS in Electrical Engineering from the University of California at Berkeley.

Anthony Campisi, *Vice President of Engineering*

Mr. Campisi has been responsible for Research & Development and Intellectual Property at CTI Inc. for over 19 years. Prior to his employment with CTI, Mr. Campisi was President of Cardinal Microsystems Corp. a company that designed and manufactured the video system for AT&T's emergency 911 system. Earlier, Mr. Campisi worked as a Principal Design Engineer for Hauppauge Digital Inc. where he developed many PC and multiprocessor Motherboard products. Mr. Campisi was also employed as an ASIC Design Engineer for the New Product Development Group at Standard Microsystems Corp. where he had designed and developed Large Scale Integrated Circuits for both the Video and Local Area Network markets. He received his BS in Computer Science from the State University of New York at Stony Brook.

Ron Tenio, *Vice President of Investor Relations*

Mr. Tenio has over 30 years of experience in the communications industry; 16 of them with CTI. Career progression began in the USMC supporting air control systems; then as a field service technician and service manager at Panafax Corp. As the National Account Service Manager, Mr. Tenio helped to create an effective national sales, service and support program for Panasonic's office products and later as the Fax Marketing Manager of Panafax products at Panasonic Communications and Systems Company. Mr. Tenio managed the marketing and sales of CTI's display and encryption products interfacing with dealers, distributors and customers.

Bob DePirro, Vice President of Engineering

Mr. DePirro has 11 years of experience analyzing and evaluating patents for acquisition and licensing. Before joining CopyTele, he was Vice President of Engineering at Acacia Research and, as part of the original engineering team, helped develop Acacia's patent analysis program. Previously, Mr. DePirro was Senior Vice President of Media Technology at Intertainer, a pioneer in the video-on-demand industry and a Senior Systems Engineer with Vanstar, one of the nation's largest systems integrators.

Top Institutional and 13F Filer Ownership

Shareholder	Number of Shares	Percent of
Major Holders & Key Insiders	Owned	Shares Outstanding***
Mars Overseas Limited	20,000,000	9.5%
Lewis Titterton, Jr.	11,670,691	5.5%
Robert Berman	7,972,221	3.7%
Dr. Amit Kumar	8,548,313	3.9%
Bruce F. Johnson	7,936,428	3.8%
John A. Roop	3,727,660	1.7%
Total	59,855,313	28.1%

*** Percentages calculated from 210.5mn shares outstanding as of January 10, 2014

FINANCIAL SUMMARY

Figure 8. Income Statement

Figures in \$mn unless specified	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	1.0	0.9	0.4	20.0	45.0	60.0
YoY growth	37.3%	(5.6%)	(58.9%)	5043.4%	125.0%	33.3%
Cost of sales	0.0	0.0	0.0	7.0	15.8	18.0
Gross Profit	1.0	0.9	0.4	13.0	29.3	42.0
Margin	96.6%	99.6%	NM	65.0%	65.0%	70.0%
Operating expenses	6.0	5.1	8.3	8.2	8.4	8.6
EBIT	(5.0)	(4.1)	(7.9)	4.8	20.8	33.4
Margin	(502.0%)	(437.3%)	NM	24.0%	46.3%	55.6%
EBITDA	(5.0)	(4.1)	(7.9)	4.8	20.8	33.4
Margin	(501.2%)	(436.6%)	NM	24.0%	46.3%	55.6%
Other income/ (expense)	(1.7)	(0.1)	(2.2)	(0.5)	0.0	0.0
Profit before tax	(6.8)	(4.3)	(10.1)	4.3	20.8	33.4
Tax	0.6	0.0	0.0	0.0	0.0	0.0
Net income	(7.4)	(4.3)	(10.1)	4.3	20.8	33.4
Margin	(736.3%)	(449.8%)	NM	21.5%	46.3%	55.6%
EPS (per share)	(0.04)	(0.02)	(0.05)	0.02	0.09	0.14

Source: SeeThruEquity Research

Figure 9. Balance Sheet

Figures in \$mn, unless specified	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
Current assets	3.1	0.9	1.2	9.0	28.1	59.2
Intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	5.5	4.7	4.2	4.2	4.2	4.2
Total assets	8.6	5.7	5.4	13.2	32.3	63.4
Current liabilities	2.1	1.8	3.2	3.2	3.2	3.2
Other liabilities	5.5	5.0	5.5	9.0	2.3	0.0
Shareholders' equity	1.1	(1.2)	(3.3)	1.0	26.8	60.2
Total liab and shareholder equity	8.6	5.7	5.4	13.2	32.3	63.4

Source: SeeThruEquity Research

Figure 10. Cash Flow Statement

Figures in \$mn, unless specified	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
Cash from operating activities	(0.7)	(3.1)	(3.2)	4.3	20.8	33.4
Cash from investing activities	(2.1)	1.7	0.5	0.0	0.0	0.0
Cash from financing activities	2.5	1.0	3.2	3.5	(1.8)	(2.3)
Net inc/(dec) in cash	(0.3)	(0.4)	0.6	7.8	19.1	31.1
Cash at beginning of the year	1.1	0.8	0.3	0.9	8.7	27.8
Cash at the end of the year	0.8	0.3	0.9	8.7	27.8	58.8

Source: SeeThruEquity Research



About CTI Inc.

CTI develops and acquires patented technologies for the purposes of patent monetization and patent assertion. The company currently has 9 patent portfolios in the areas of Key Based Web Conferencing Encryption, Encrypted Cellular Communications, E-Paper® Electrophoretic Display, Nano Field Emission Display ("nFED"), Micro Electro Mechanical Systems Display ("MEMS"), Loyalty Conversion Systems, J-Channel Window Frame Construction, VPN Multicast Communications, and Internet Telephonic Gateway.

For more information please visit the company website: www.CTIPatents.com



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