

Opportunities in IPR for Finance Professionals

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1 Important terms

1. Intangible Assets
Long-lived assets without physical properties
2. Intellectual Capital
Collection of long-lived Intangible Assets comprising "know-how" and "know-why".
Subset of Intangible Assets
3. Intellectual Property
Intangible Assets that enjoy Protection of Law.
Subset of Intellectual Capital.
 - Patents
 - any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof can be patented
 - Need 3 conditions to be satisfied
 - Should be novel
(i.e., there should not be any 'prior art' that describes the same invention)
 - Must serve a useful purpose
(i.e., not mere aesthetics. Should be capable of commercial use)
 - Should not be obvious to one ordinarily skilled in the area related to invention
 - Monopoly granted by State for specific period
 - in return for openly sharing details of invention publicly
 - it is a negative right – right to exclude others from 'working' the invention
 - Once granted, the patent has to be 'enforced' without help from Patent Office
 - 70% of all 'new' inventions are first published on patent databases
 - Copyrights
 - Economic Rights
 - Reproduction Rights
 - Rights to distribute
 - Rights of Public Performance
 - Rights of Broadcasting/ Communication to Public
 - Rights of Translation and Adaptations
 - Moral Rights
 - Right to be recognised as Author/ Creator
 - Rights to Integrity of Work
 - Major Concepts
 - Life of Copyright
 - Concept of Fair Use
 - Trademarks
 - Can be words, letters, abbreviations, drawings, 3D signs, packaging shape and design, colors/ color combinations
 - TM must be distinctive
 - Must be protected.
 - Must not be deceptive
 - Not be contrary to Public Order or Morality
 - Not identical to or confusingly similar to existing trademark
 - Sign to identify goods
 - Includes Brands

- Also, Collective Marks and Certification Marks
 - Trade Secrets
 - Protected by NDAs and systems to restrict access to trade secrets
 - Others
 - Related Rights, for Protection of
 - Performers
 - Producers of Sound Recordings
 - Broadcasting Organisations
 - Fair use Doctrine applies
 - Service Marks
 - Industrial Designs
 - New Plant Varieties
 - Breeders' Rights protected
 - Protection against unfair competition
 - Protection against false allegations
 - Protection against acts that create confusion
 - Protection against acts that might mislead the public
 - Disclosure or use by others of secret/ confidential information
 - Acts that damage the goodwill or business reputation
 - Protection to genetically engineered bacteria etc.
 - Protection to Products of Traditional Knowledge
- 4. Freedom to Operate
 - Ability to enter/ compete in a business/ segment.
 - Others' IP tends to reduce it; own IP tends to expand it.

2 Why bother?

1. Intangibles are an increasing proportion of enterprise value (in some cases, as high as 80%)
2. Often, the only value left in a once successful business reside in the IPRs
3. Thus, intimately related to issues like share price, wealth creation & value realization
4. Increasing role being played by fair value accounting and the increased role of 'registered valuers' under the new Companies Act
5. Increasingly, IC/IP/IA are forming primary justification of even big-ticket acquisitions/ mergers
6. It is important for companies to know & inventorize IC owned by it as a First Step to realizing value
7. Costs of maintaining IP portfolios are becoming significant, hence there is need to focus on value

3 Opportunities for Finance Professionals

1. Be a friend to the inventor-entrepreneur

- Help entrepreneurs understand the patenting game
 - What is this game?
 - Expensive game, but huge payoffs. Examples
- Help identify patentable ideas
 - Describe the invention
 - Identify the 'Delta' – the new portion of an invention – is patentable.
What is this 'delta'?
- Explain to inventors the role and value of each service provider.
 - Who are the different kinds of service providers?
 - Patentability search
(CA can play active role here)
 - Patent 'landscaping'

(to identify areas where one can 'direct' research to invent something easily patentable)

- **Patent drafting**
(CA can play active role here)
- **Patent filing**
(CA can play "supporting" role here)
- **Help inventors manage patent portfolio**
(need to have clients with lots of patents – that will happen over a period of time)
- **Help value patents for various purposes**
(almost tailor-made for CAs)
- **Help negotiate Licensing contracts/ deals**
(almost tailor-made for CAs)
- **Help structure IPR portfolio in tax-friendly manner**
(almost tailor-made for CAs)

2. Valuation of IP

- **Why conduct IP valuation?**
 - **Objectives of Valuation**
 - To estimate a value (as specifically defined) for particular IP
 - To measure lost profits or other measure of economic damages to IP
 - To estimate a fair license agreement royalty rate between independent arms' length parties
 - To conclude ALP for inter-company or cross-border transfer of IP
 - To estimate Remaining Useful Life of IP
 - To estimate 'fair value' of IP Assets for reporting to shareholders
 - To opine on fairness of IP sale, transfer or financing transaction from a financial perspective
 - **Reasons to Conduct Valuation Exercise**
 - **Transaction Pricing & Structuring**
 - Arm's Length Sale of individual IP or of portfolio of IP Assets
 - Pricing Arm's Length License of individual IP or of portfolio of IP Assets
 - Calculating Exchange Ratio between 2 Owners for respective IP portfolios
 - Valuing Equity Allocations in JV/ Partnership when ≥ 1 party contributes IP
 - Valuing Asset Distributions in Liquidation of Firm/JV when ≥ 1 party receives IP Assets
 - **Financing Collateralization & Securitization**
 - Using IP as Collateral in CF-based or asset-based debt financing
 - Sale/ License-back Financing of Commercial IP
 - **Tax Planning/ Compliance**
 - Forming IP Holding Co; Inter-co. IP Licenses to assessee-operating companies
 - ALP for cross-border transactions (Transfer Pricing)
 - Tax basis purchase price allocation among acquired tangible & intangible assets in acquisition
 - Amortizing IP - tax deductions for
 - Donated IP - charitable contribution deduction allowances
 - **Regulatory Compliance & Corporate Governance**
 - Estimating FMV of IP sale, license or other transfer between for-profit and not-for-profit entity
 - Custodial inventory of owned and licensed IP
 - Assessing adequacy of Insurance coverage for owned and licensed IP

- **Bankruptcy & Reorganization**
 - Using IP as collateral for secured creditor financing
 - Using IP as collateral for debtor-in-possession secured financing
 - Using IP in assessing debtor-co's solvency, or insolvency w.r.t. fraudulent transfers and preference actions
 - Estimating impact of IP on the bankrupt entity's re-organization plan
 - Evaluating opportunity to spin off Sale or Licensing of IP to generate cash
- **Financial Accounting and Fair Value Reporting**
 - Acquisition Purchase Accounting - allocation between acquired tangible & intangible assets
 - Goodwill and IPR impairment testing
 - Post-bankruptcy "fresh start" accounting for intangible assets
- **Forensic Analysis and Dispute Resolution**
 - Infringement claims - valuing lost IP profits, royalty rate or other economic damage analysis
 - Breach of contract/ license/ non-compete/ non-disclosure agreement damage claims - valuing lost IP profits, royalty rate or other economic damage analysis
- **Strategic Planning and Management Information**
 - Forming IP Joint Ventures, Joint Development, Joint Commercialization Agreements
 - Negotiating outward/ inward IP use, development, commercialization or exploitation agreements
 - Identifying & negotiating IP license, spin-off, JV or other commercialization opportunity
- **Caveats**
 - Objective determines valuation & drives approach - Never lose sight of it
 - Value in eyes of buyer may be completely different from value for seller
- **IP Valuation must follow doctrines of**
 - Conservatism
 - Materiality
 - Consistency