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Seminar
Creation, Recognition and Valuation
of
Intellectual Assets

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Financial information and corporate valuation

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Creation, Recognition and Valuation of Intellectual Assets

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Agenda

- Intangible assets, capital markets and the regulatory environment
 - Current disclosures of intangible assets and the standard setting environment
 - Effects of intangible assets on capital markets and shareholder value
 - Intangible assets and the regulatory environment

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Disclosures and the Standard Setting Environment

Public disclosures of intangible assets lack quality and depth

- Survey of public companies
- Competitive disadvantage
 - Vision
 - Strategy
- Legal/regulatory considerations
- Litigation in intellectual property arena

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Disclosures and the Standard Setting Environment

FASB project on intangible assets

- Removed from agenda
- Accounting for intangible assets in business combinations

SEC project on key performance indicators

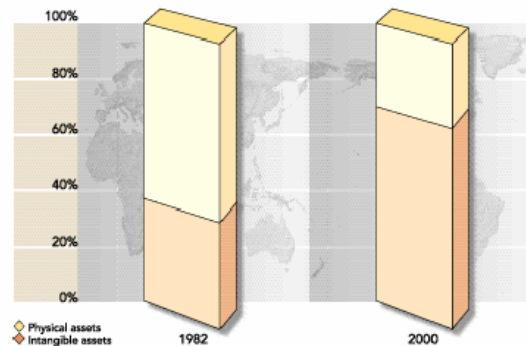
- Initial findings
- Inactive initiative

SEC Disclosure Requirements

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Intangible Assets and Shareholder Value

U.S. Companies' Intangible Assets as a percentage of total assets



Source: Taskforce Research

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Intangible Assets and Shareholder Value

Recent research results:

- On average, 40% of the value of companies in U.S. and Europe is not captured on balance sheets
- Recent survey of 284 U.S. and Japanese firms revealed that IP assets accounted for more than 45% of total assets in knowledge-based economy

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Intangible Assets and Shareholder Value

Intangible assets, IP and accounting:

- Patents sharpen competitive edge, increase sector influence and enhance reputation as innovators
- IP as “new” source of capital and ingredient for success
- Shareholders sensitive to value of IP assets, using them as indicator of earnings potential
- Positive valuation of IP is a driving force in M&A and B2B relationships

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Intangible Assets and Shareholder Value

Intangible and immeasurable?

- IP assets can significantly contribute to increase in return to investors
- According to Interbrand, trademarks for Coca-Cola, Disney and Ford were 60% or more of their capitalization
- Most corporate giants are inclined to guard their IP quite closely

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Intangible Assets and Shareholder Value

Intangible and immeasurable?

- British Technology Group estimates 3% of global IP realized, translating to \$110 billion of a \$3 trillion pie
- Of the \$110 billion, only \$500 million came from universities, where the bulk of R&D takes place
- IBM, setting the standard for licensing revenue, created an annual royalty stream of \$1.25 billion

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Intangible Assets and Shareholder Value

Monetization options:

- License
- Sale/Spin-off/Sale license-back
- Joint Venture/Alliance
- Capital Markets/Securitization
- Loan Collateral/Asset-backed securities
- Donation
- Status Quo
- Abandonment

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Intangible Assets and Shareholder Value

Barriers to value realization:

- Infringement
- Being a target of lawsuit by patent owner
- Valuing IP in the context of mergers & acquisitions
- Being the target of a patent troll's demand for royalties
- Struggling with the merits of open royalties

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Intangible Assets and Regulatory Environment

SOX compliance:

- involve IP counsel in the management of IP
- ensure CEOs and CFOs are familiar with IP portfolios so they can make their certifications
- update IP identification, valuation methods
- keep board members informed
- make accurate, comprehensive disclosures

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Intangible Assets and Regulatory Environment

CEOs and CFOs must know:

- how new IP is developed and identified
- what claims have been raised
- alleged infringements
- an IP portfolio's value
- enforcement actions brought by the company against third parties
- third-party claims brought against their companies

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Intangible Assets and Regulatory Environment

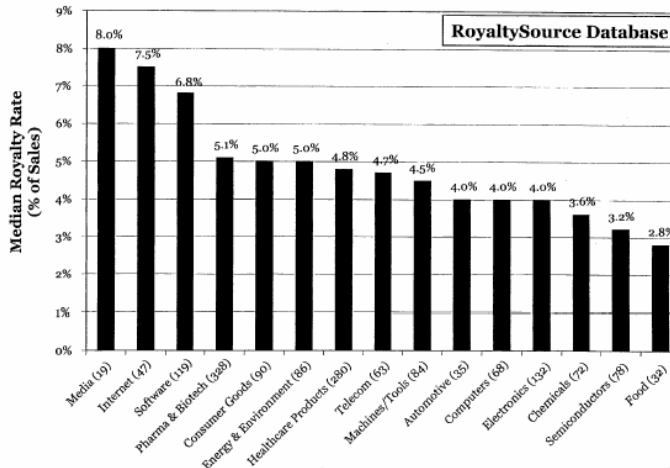
Disclosing Risks is Key

- IP transaction risks
- reliance on IP license that is about to expire
- existence of exclusive license that is about to expire
- existence of material litigation related to IP
- handling of, strategy for, and risk attached to infringement claims

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Where Do We Go From Here?

Industry Royalty Rates



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Where Do We Go From Here?

- IP Valuation increases with
 - Protection
 - Exclusivity
 - Utility
 - Commercial success
 - Licensee's anticipated profit

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Where Do We Go From Here?

Questions for your consideration:

- Micro- or macro-level data?
- How do we protect proprietary data?
- Disclosure or valuation?
- Templates by industry or global framework?