

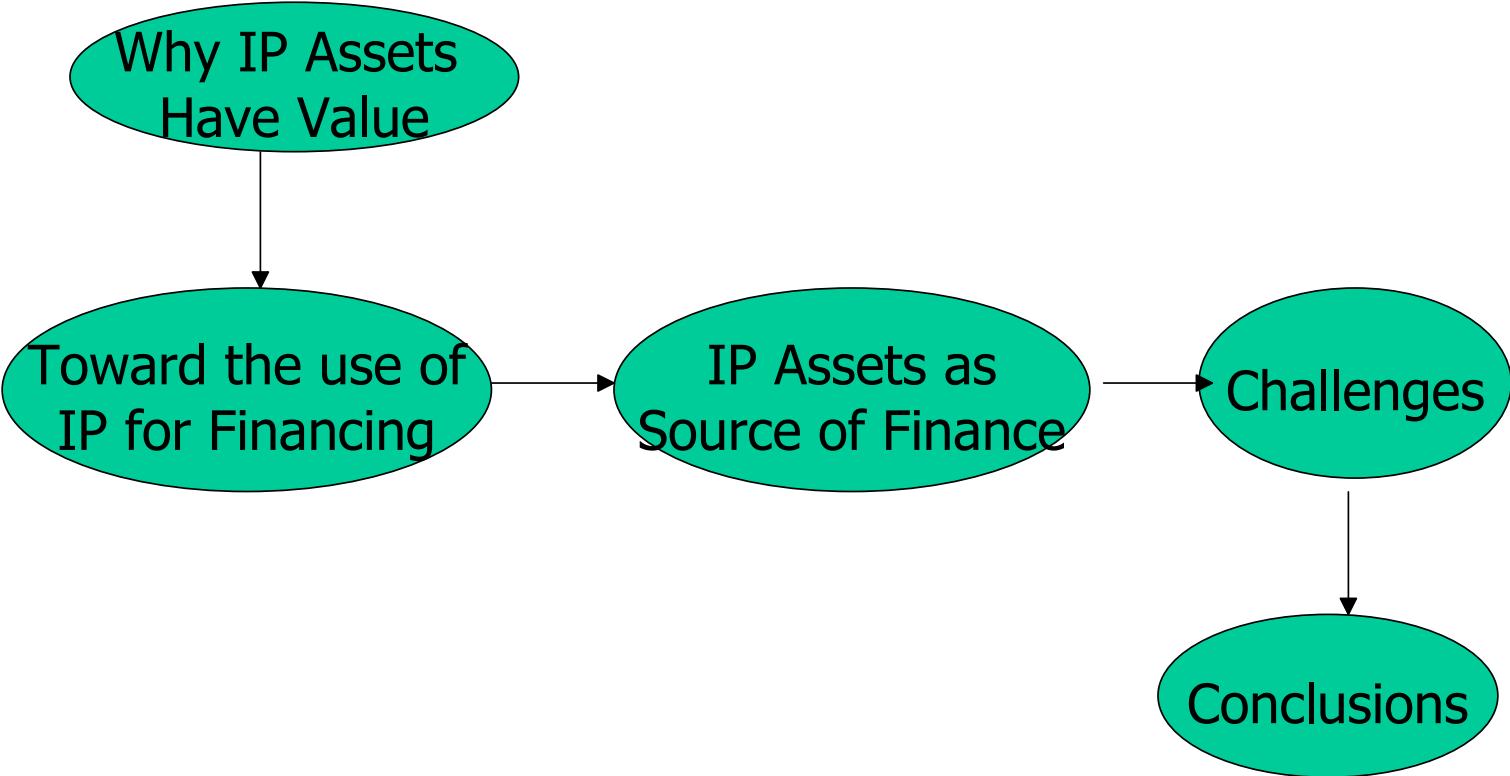
**WIPO-WASME Special Program
on
Practical Intellectual Property Issues**

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Role of IP in Raising Finance

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Overview



Why IP Assets Have Value

- Can be separately identified from other intangible assets
- Can be legally protected
- Able to create on-going benefits (income)
- Provide access to R & D
- Can be valued

Toward the use of IP for Financing

- Important to identify existing IP
- Check existing laws
- Identify institutions which could accept the use of IP assets

Toward the use of IP for Financing Contd.

- Undertake IP asset valuation
 - to have an estimate of the value of your IP assets and not price
 - to have an estimate of how much capital can the IP assets attract

Toward the use of IP for Financing Contd.

- Identify the best source of finance
- Identify IP assets would provide sufficient coverage

IP Assets as Source of Finance

- Potential of IP assets as source of finance is attracting a lot of interest
- Such potential is supported by introduction of innovative IP valuation methodologies

IP Assets as Source of Finance Contd.

- Parties involved should have clear understanding on,
 - Identity of IP assets involved
 - Whether the assets are legally protected
 - Ownership status (e.g. absence of litigation proceedings)

IP Assets as Source of Finance Contd.

- Estimate of the value of underlying IP assets
- Potential of the underlying IP asset to maintain its value e.g. absence of clear challenge to its competitive edge

IP Assets as Source of Finance Contd.

- Such understanding would enable parties to avoid potential future “conflicts/dispute”
- Some big names and companies have successfully used IP assets to raise finance

IP Assets as Source of Finance Contd.

- Very few SMEs have done so, not because it is impossible but because of lack of awareness (this is untapped opportunity)

IP Assets as Source of Finance

Contd.

- Traditional areas which IP assets have been used successfully to raise finance include,
 - **Assigning** of IP assets e.g. in February 2002 Calico Commerce Inc.'s intellectual property and certain assets were sold to Pleasanton-based PeopleSoft Inc. for about \$5 million.
 - **Licensing** IP assets (royalties)

IP Assets as Source of Finance

Contd.

- New areas include
- **Collateral**
 - commercial lenders extend loan when satisfied on creditworthiness of the borrower (i.e the borrower has legal ownership rights on proposed property to be used as security)
 - ability of the borrower to use the underlying IP asset as security i.e not tied-up in other commitments like licensing, joint venture, merger and acquisition negotiations e.t.c.

IP Assets as Source of Finance Contd.

- Acceptance of IP assets as collateral need to be supported by respective national laws

IP Assets as Source of Finance Contd.

- Examples of use of IP assets as collateral
 - Michael Jackson was reported to have borrowed US \$ 200m from Sony using the Beatles' catalogue as collateral
 - GIK Worldwide a San Francisco based company used its patents as collateral thus raising US \$ 17m

IP Assets as Source of Finance Contd.

- **IP asset-backed security**
 - Asset-backed securities are marketable debt securities collateralized by financial assets like mortgages, leases, account receivables and installment loan contracts
 - Asset-backed securities are created by a process called securitization

IP Assets as Source of Finance Contd.

- Repurchase agreements are said to be the oldest type of asset-backed security. They date back to the 1950s (repos are used by securities dealers to finance overnight payment of increased inventory of marketable securities)
- From 1970s there has been an increase in the type of asset-backed securities

IP Assets as Source of Finance Contd.

- Major “breakthrough” was made in the mid 1990 when for the first time IP asset was used as a form of asset-backed security
- IP securitization has taken a variety of forms which include,
 - music royalties
 - future films
 - trademark licensing receivables transaction (royalties)

IP Assets as Source of Finance Contd.

- IP backed transaction is a form of future cash flow transaction
- However, caution must be taken because unlike other type of future cash flow transactions IP transactions are highly dependent on popular tastes and technological change

IP Assets as Source of Finance Contd.

- IP securitization is a growing financial area
- Estimated that so far the value of business done is around US \$ 6 billion
- Analysts say this is just a fraction of the potential of IP securitization market

IP Assets as Source of Finance

Contd.

- 1997 David Bowie issued 10-year asset-backed bonds using future royalties on publishing rights and master recording from 25 albums recorded before 1990. He raised US \$ 55 million
- David Pullman was nominated as innovator of the year

IP Assets as Source of Finance Contd.

- Other Bowie like IP securitization include
 - Ashford & Simpson (songwriters and performers) raised US \$ 25 million. They used their copyright to 247 songs to back securities (bonds)
 - James Brown raised US \$ 30 million

IP Assets as Source of Finance Contd.

- Three main benefits arise from securitization of IP assets
 - It provides immediate liquidity in the form of tax-free cash infusion i.e. payment is treated as loan for tax purposes

IP Assets as Source of Finance Contd.

- The IP holder diversify his/her assets
- The IP holder maintains total control over his/her IP i.e. when the bonds are paid (mature) the underlying IP rights revert to the holder

IP Assets as Source of Finance

Contd.

- Challenges facing potential user of “Bowie Bond” securitization, especially SMEs
 - Importance of having a good documented track record
 - Necessity of having existing catalogue of work
 - Importance of ownership of underlying IP assets (copyright)

IP Assets as Source of Finance Contd.

- Other forms of IP assets have also been used as security
 - **Trademark:** In 1999 the Bill Blass trademark was used to issue investment grade bonds (fashion industry)
 - **Patent:** Yale University was able to raise US \$ 115 million. The university used its patent on d4T.

IP Assets as Source of Finance Contd.

- **Venture capital**

- Venture capital provides an alternative source of finance
- It is normally used to provide funding or to supplement other personal funds in business venture that conventional financial institutions are unable or unwilling to provide loans due to the high risk of loosing their investment

IP Assets as Source of Finance Contd.

- Well protected IP assets can influence decisions of venture capitalist
- New business with IP assets which promises high potential of future income through royalties, market control or strong market position, or competitive advantage stands a greater chance, other things being equal, of attracting venture capital fund.

IP Assets as Source of Finance Contd.

- Venture Xchange Network Ontario based company with a network of over 350 active venture capital
- Upon request Venture Xchange provide quantitative assessment report on how a company ranks against other venture capital seeking companies in specific business sector

IP Assets as Source of Finance Contd.

- Assessment is based on
 - Management structure
 - Competitive technology
 - Market growth
 - Potential alliances
 - Financial requirements
 - Forecast on the number of investors interested in the company

IP Assets as Source of Finance Contd.

- **Business Angels**

- Family, friends or close associates with money and in most cases have business background
- Expects returns on their investment
- IP knowledgeable business angles would favorably consider investing in enterprises with IP assets

Challenges

- Inadequate IP awareness (SMEs do not seek to extend the boundaries of IP potentials)
- SMEs support institutions have not been able to adapt to the new trend
- Legal systems need to accommodate the expanding use of IP tools
- IP system itself must be able to address the evolving nature of IP use³²

Conclusions

- Traditionally IP rights were mostly used for preventing others entering the market
- Some enterprises have realized the potential of IP assets
- Few SMEs have tried to consciously use IP assets to overcome financial constraints that they face

Conclusions

- Policy makers and SMEs support institutions should be made aware of new strategic ways of benefiting from IP assets

Finally

- **THANK YOU FOR YOUR KIND
ATTENTION**