



# The Hidden Value of Intellectual Property

*A Presentation to*

***The Midwest Chapter of the  
The Alliance of Merger & Acquisition Advisors***

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*by*

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# ***DISCLAIMER***

- **The following is a generalized discussion of US intellectual property law.**
- **The "Law" consists of state and federal laws, and will change over time through the enactment of new statutes and by court decisions**
- **THIS PRESENTATION IS NOT INTENDED AS LEGAL, ACCOUNTING OR OTHER PROFESSIONAL ADVICE. YOU SHOULD CONSULT WITH AN ATTORNEY OR OTHER PROFESSIONAL ADVISOR FOR ADVICE CONCERNING SPECIFIC MATTERS BEFORE MAKING ANY DECISIONS.**



# *What Questions Do You Have About Intellectual Property?*

# *What Is Property?*

Legal definition:

A set of legal rules defining the rights of *ownership* of something having value (“property”), including the *exclusive* rights of the owner to *use and dispose* of the property.

# *Two types of property*

**Tangible property** relates to a physical object.

**Intangible property** refers to a set of rights defined by the law that are not related to a physical object.



# *What is Intellectual Property?*

- Intellectual Property is the product of our minds
- Does not physically exist (intangible)
- Intellectual Property can differentiate our products and services from those of other companies.



# *Why Should You Care about IP?*

**IP HAS VALUE !!!**



# *Why Should You Care about IP? (cont'd)*

Working Capital (Cash, Inventory, Accts. Receivable)

+

Fixed Assets (Equipment, Real Estate ....)

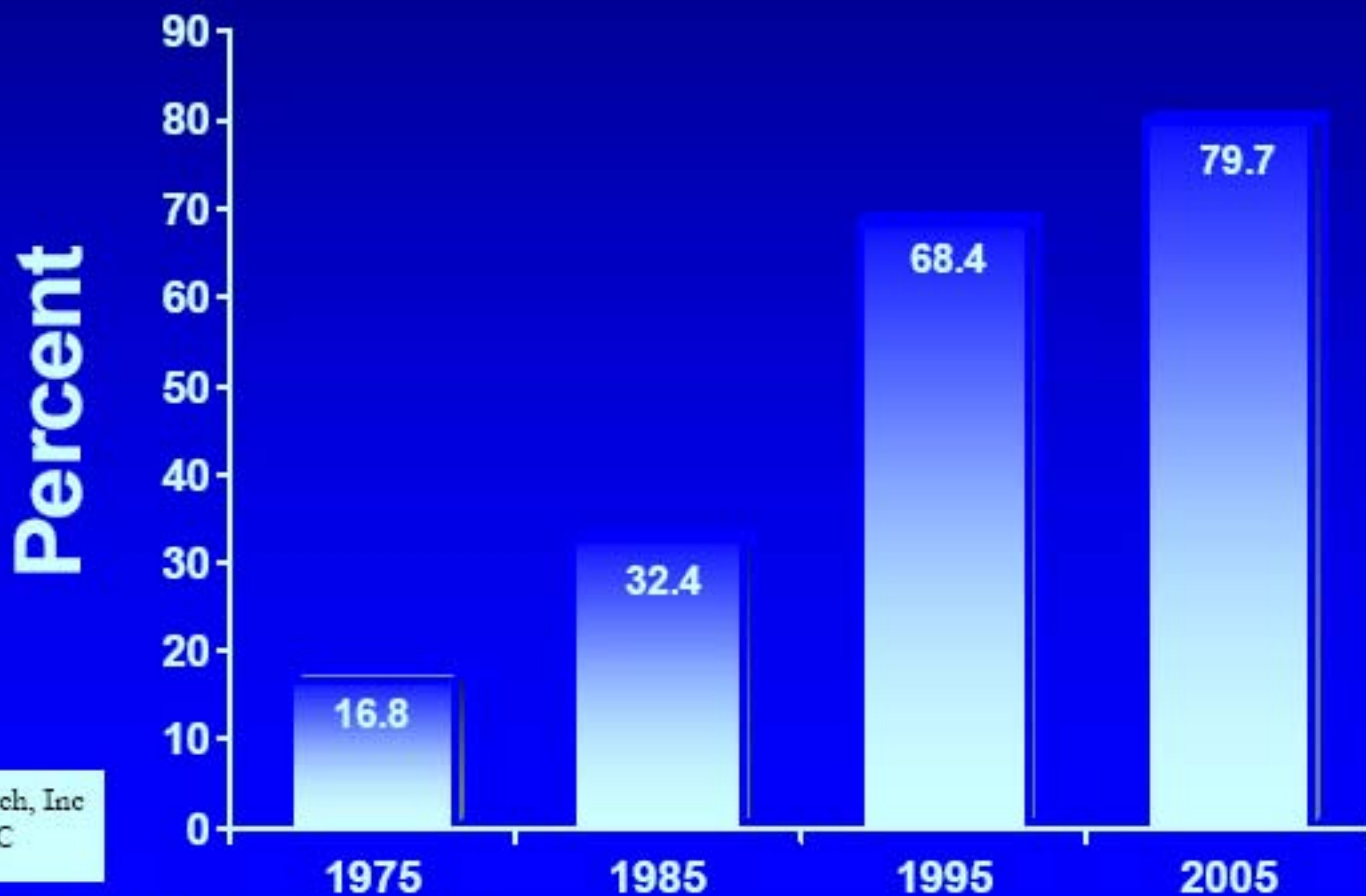
+

Intangibles Assets (networks, supply contracts, mfg.  
methods, trained workers...)

including

**Intellectual Property**

# Intangible Value Comprises a Growing Part of the S&P 500<sup>®</sup> Market Capitalization



Data: Ned Davis Research, Inc  
Chart: Ocean Tomo, LLC



# *Types of Intellectual Property*

Ideas

Inventions

Patents

Trade Secrets

Expressions/Copyrights

Trademarks

# *What Makes IP Valuable?*

- Solves an existing pain/problem – not just a solution looking for a problem
- Ultimate user needs to feel the pain
- Solution is economical
- IP exists in market countries
- A method exists to get the solution to the users' market

# *Who is/is not an Inventor ?*

- Contributed a unique intellectual contribution to invention (YES)
- Contributed an obvious element to the invention (NOT)
- Suggested an idea without a way to implement the idea (NOT)
- Contributed reagent, cell line or equipment used in the invention (NOT)
- Followed instructions in working on the invention or in reducing it to practice (NOT)
- Participated in consultations about the invention before or after conception of the invention (NOT)
- Is the department head or supervisor of an inventor but did not actually contribute to the conception of the invention (NOT)
- Provided the funds or laboratory space necessary to develop the invention but did not actually contribute to the conception of the invention (NOT)

# *Who is/is not an Inventor ?*

*(cont'd)*

One way to determine inventorship is to ask the question, "If the idea of this person had not been contributed, would the invention exist, as it is claimed?"

If an individual could not have been replaced by just any comparably qualified individual because the work on the invention required an original, non-obvious mental element, then the person is an inventor



# Patents

# *What is a Patent?*

- A patent is a grant from the *Federal government* given to ***inventors***
- U.S. awards rights to **first to invent**
- Foreign countries award to **first to apply**
- the **right to exclude** others from making, using, offering for sale, or selling the invention in the United States or “importing” the invention into the United States.
- Limitations on rights:
  - Regulatory restrictions and approvals
  - Dominating patents -- Freedom to operate



# *Protecting Inventions*

- Patent law does not protect abstract ideas
- Limited monopoly (20 years from date of filing)

# *What are the Requirements to get a Patent?*

The invention must fall into one of five "statutory classes":

- processes
- machines
- manufactures (that is, objects made by humans or machines)
- compositions of matter
- new uses of any of the above.

# *What are the Requirements to get a Patent? (cont'd)*

- The invention must be "**useful**". One aspect of the "utility" test is that the invention cannot be a mere theoretical phenomenon.
- The invention must be "**novel**", that is, it must be something that no one did before.
- The invention must be "**unobvious**" to a person having ordinary skill in the art to which said subject matter pertains. This requirement is the one on which many patentability disputes hinge.

# *What is Not Patentable? -- Examples*

- Laws of Nature
  - Gravity
  - Naturally occurring organisms
- Natural Things
  - Algorithms
- Printed Matter



# Copyright



# What does a Copyright Protect?

...Only the expression, not the ideas that are being expressed.

e.g., Idea: superhero with unusual powers and an interest to save mankind.

Idea: TV show about a family with children that encounter many problems.

What are some expressions of these ideas?

Copyright term:

- Life of author + 70 years.
- 95 years for published works made for hire.
- 120 years for unpublished works (from date of creation).

# *Copyright - Expressions*

- IP may also consist of the manner in which an idea is presented or expressed.
- Federal copyright law protects all works of authorship: books, music, artistry, sculpture, movies, audiovisual works, drama, choreography, photography, sound recordings, architecture, and computer software.

# *What Is Not Protected by a Copyright?*

Any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in the original work of authorship.



# Trademarks

# *What is a Trademark ?*

A trademark is any word, name, symbol, or device, or any combination thereof, adopted and used by a manufacturer or merchant to identify his or her goods to *distinguish them from those manufactured or sold by others.*

# Trademarks (cont'd)

A trademark can include symbols, numbers, slogans, nicknames of products, the appearance of the product's container, and the configuration of the product itself. e.g., “Golden Arches” by McDonalds, “Swoop” used by Nike, Formula 409, “Don’t leave home without it”, Chevy, the shape of the CocaCola bottle.



# *Trademarks* (cont'd)

- Arbitrary (Exxon<sup>®</sup>, Gatorade<sup>®</sup>)
- Suggestive (Coppertone<sup>®</sup>)
- Descriptive (Raisin Bran<sup>®</sup>)
- Generic (Joe's Hamburgers)



Value

# *Rules of Trademark Use*

- TM if in use or registration has been filed
- ® if registration has been granted
- Make them distinctive (font, color)
- Use as adjective not noun (Xerox® copier, Tivo® digital video recorder)
- Requires vigilant policing of use – both yours and others
- Exceptions exist
  - Fair use, parody, 1<sup>st</sup> Amendment



# *What are Service Marks ?*

Same as a Trademark except used for services.

A word, name, symbol, or device, or any combination thereof...to identify and distinguish the services of one person...from the services of the others.

e.g., Golden arches symbol (restaurant services), UIC<sup>SM</sup> (educational services),



# Trade Secrets



# ***Trade Secrets (Uniform Trade Secrets Protection Act)***

Protects information that a company has tried to keep private such as:

Technical data

Formulas

Patterns

Methods

Processes

Non-technical data

Compilations

Devices

Drawings

Techniques



# *Trade Secrets* (cont'd)

- Recipes (Coca-Cola)
- Financial Information
- Client Lists



# Valuation



# *How Do I Value IP ?*

- Fair Market
- Use
- Investment
- Liquidation
- Intrinsic
- .....

# *What are Methods of Determining IP's Value?*

- **Market (comparables)**
  - Industry standards
  - Hard to find true comparables
  - We may not know all of the factors
- **Cost (cost to replace or reproduce)**
  - A Picasso vs. a car
  - Value of oil shale research
  - Useful for embryonic technology
- **Income (net present value)**
  - Future sales
  - Hurdle rate
  - Investment needed
  - Profit margin
  - How much to allocate to Intellectual Property



# IP Management



# *How IP is Managed in Most Companies ?*

IP is generally managed by legal department.

- Legal department is generally good at:
  - Docketing
  - Tracking patents
  - Managing infringement
- Legal department generally does not manage IP strategically to maximize its value to the company

# ***How is IP Managed in Most Companies? (cont'd)***

According to Gary Bender of Ernst & Young's IP department in a 2006 paper:

“ By understaffing or improperly controlling a company's intellectual asset portfolio, organizations can both cut into their profit margin and put the company in jeopardy of a shareholder dispute or regulatory inquiry”

# *How is IP Commercialized ?*

- Invention identification
- Patent application (US or foreign)
- Patent issued (must pay fees)
- Prototype
  - Breadboard
  - Brassboard
  - Manufacturability analysis
  - Manufacturing prototype
- Commercial product



# Are These IP?

- **patents and inventions**
- **pictures, artwork**
- **your company's tag line**
- **ideas for new products**
- **the design on packaging**
- **publications, software**
- **company logos**
- **non-patented manufacturing methods**
- **recipes**



# *How Can PIPS Help Your Companies?*

PIPS works with executives in small to medium size technology companies to maximize their inventions' and knowledge's contribution to their companies growth and value. We do this by identifying a company's intellectual property and creating and implementing an intellectual property strategy that is consistent with the company's business plans.



# ***How Can You Contact PIPS ?***

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