Introduction
A brief perspective on IP valuation

Tremendous headway has been made in IP valuation in the past 10 years. This is due partly to changes in the accounting regulations, but more importantly to the recognition of the importance of intellectual property to individual businesses and the overall economy.

In 2001 the Financial Accounting Standards Board eliminated the 'pooling of interests' method for business combinations (ie, acquisitions). From that date forwards, companies were required to segregate the value paid for separately identifiable intangible assets. For accountants and, more importantly, business development professionals, this accounting change has had the practical effect of highlighting what intellectual asset managers already knew – intangible assets and intellectual property are critical assets in business and the economy as a whole.

For example, in 2000 Pfizer acquired Warner Lambert under the pooling of interests method and booked no value for the intangible assets that were acquired. Only three years later, Pfizer acquired Pharmacia and booked approximately $31 billion in developed technology rights.

In addition to overall business acquisitions, IP transactions are moving the needle on stock prices and company valuations. For example, when the now famous NTP-Research in Motion (RIM) deal was announced, everyone understood that the amount paid to NTP was in excess of $600 million. At the same time, the stock price of RIM rose more than $1 billion. Such stock price shockwaves sent analysts clamouring for new and improved valuation techniques.

Today, accounting regulations and significant 'real world' IP-centric transactions are driving better IP valuations. For example, many companies publicly report the terms and royalties associated with their intangible asset licenses in regulatory filings, such as Securities and Exchange Commission 10-K disclosures. Such intangible asset licences are collected, categorised by technology class or industry sector, and conveniently re-sold by royalty aggregators such as Royalty Source and ktMINE.

Next, enhanced liquidity in the once-nascent secondary market for intangible assets will continue to provide intangible assets price discovery while narrowing bidask spreads.

Finally, the accounting profession has issued authoritative statements on valuation standards for intangible assets, such as the Statement on Standards for Valuation Services No 1, issued in June 2007 by the American Institute of Certified Public Accountants (applicable in the United States).

Despite such progress, intangible asset managers and valuation professionals would be wise to stay alert and attentive. New and innovative financial products for intangible assets (eg, options and derivatives) have emerged in the marketplace and will continue to strain and challenge the conventional valuation methodologies.

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