

Gordon V. Smith and Russell L. Parr
Valuation of Intellectual Property and Intangible Assets
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MONOPOLY CHARACTERISTICS

x = information; y = value; z = inertia

EVOLUTION versus REVOLUTION

a.k.a.: process versus product

forecasting the turning point

Business Enterprise Equation:

BEE = underlying assets = invested capital
underlying assets = monetary + tangible + intangible
invested capital = equity + long term debt

Asset Portfolio

x = required return; y = liquidity
cash; inventory; receivables; tangible; intangible

Investment Risk

purchasing power 4%: -2% through +7%
business risk time frame: cycle
interest rate ? =
market ? = psychology and liquidity

Required Rate of Return

risk free rate = long term Treasuries
expected inflation rate = PPI or CPI
risk premium = beta

Band of investment method

capital structure; cost of debt; cost of equity; tax rate

subjective elements: **uncertainty**

Accountants use objective numbers.

- forecast
- fuzzy definitions
- imprecise methods
- transfer pricing
- economic useful life

IAS 38 (Oct 1998) International Accounting Standards

recognize initially at cost only if:

- (1) distinguishable from goodwill;
- (2) benefits flow; and
- (3) reliable cost.

R&D as expense, not an asset

Amortize over best estimate of useful life.

rebuttably less than 20 years

Appraisal is context dependent.

highest and best use = NPV ?

fair market value = future economic benefits

net present value

Rule of 70

$$PV = FV / (1 + \text{rate} * \text{time})$$

probability adjusted

discount rate

$$V = CF [(1 + g) / (i - g)]$$

Depreciation

- physical deterioration
- functional obsolescence
- economic obsolescence
- economic life

product life cycle: S curve

Fair Market Value

1. property would exchange
2. willing buyer and seller
3. knowing

actual knowledge

receipt of notice

reason to know

4. voluntary

fraud

mistake

mutual

unilateral

duress

physical v. emotional v. economic

undue influence

5. equity to both

Three most common methods of valuation:

**COST
INCOME
MARKET**

COST METHOD

historical
original
book
tax basis
reproduction
replacement
less depreciation
Cost does not equal value.
asset versatility

INCOME METHOD

direct
premium price
cost savings
indirect
relief from royalty
complementary gains
disaggregation
reasonable royalty
gross profit analysis
analytic approach
industry's normal profits
comprehensive analytic approach
complementary assets

MARKET METHOD

most direct method
active market
public market
price information
arms' length
comparability
time
product
