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# Alchemy and IPR – Monetizing Intellectual Property Rights

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Business houses (intellectual property owners) invest towards R&D activities in order to generate intellectual property (IP) assets. They try to capitalize on the first-mover advantage provided by such assets to recoup their R&D investments, which sometimes may not be sufficient incentive. This insufficient incentive might affect the overall corporate strategy of the IP owners, and de-motivate them from making further investments thereof. In light of this, society coupled with the financial industry empowered with the evolving legal regime and the IPR regime, has come up with various IP monetizing mechanisms, which would help IP owners to augment their revenues and thereby recover their R&D investments. This paper examines: (a) how corporate strategy affects the IP strategy and the synchronization thereof; and (b) the various IP monetizing mechanisms that are becoming popular in recent years.

**Keywords**: Corporate strategy, IP strategy, IP monetization, IP licensing, IP sale, patent sale &lease back, IP collateralization, IP securitization

In recent years, the companies in India have started investing heavily towards R&D activities. This has led to an increased number of patents being filed with the Indian Patent Office as is evident from Fig. 1. The companies are also investing heavily on marketing exercises and branding efforts to increase their brand value resulting in increased sales. This effort has made the companies realize the value of distinctive marks/identity, and there has been an increased number of trademark registrations as shown in Fig. 2. This clearly shows that there is better awareness about the intellectual property (IP) regime among the companies in India, and a corresponding increase in the creation of intangible assets.

These intangible assets are being presented on the financial statements of companies, either as an asset or as an expense (or investment) towards R&D. Despite such investments and presentations, very few companies have been leveraging their intangible assets to the full extent. The Indian companies need to understand the modes of leveraging their IP and the intangible assets and generate revenue therefrom to complement the income streams from their regular operating business. This paper explores the various methods of monetizing IP and intangible assets available to the Indian corporate houses/IP owners.

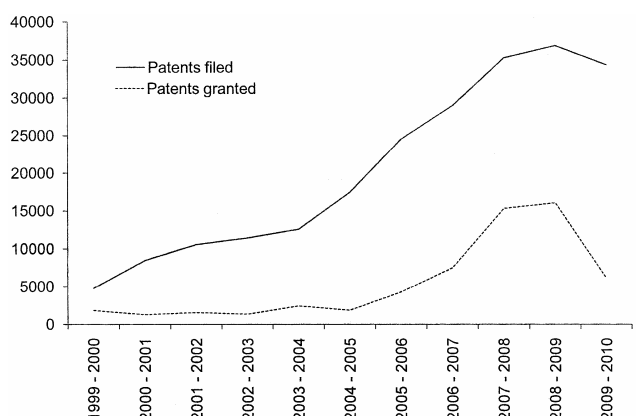


Fig. 1 — Patents applied *vs* patents granted at the Indian Patent Office
Source: Annual Reports of the Office of CGPDTM from 2005-06 to 2009-10

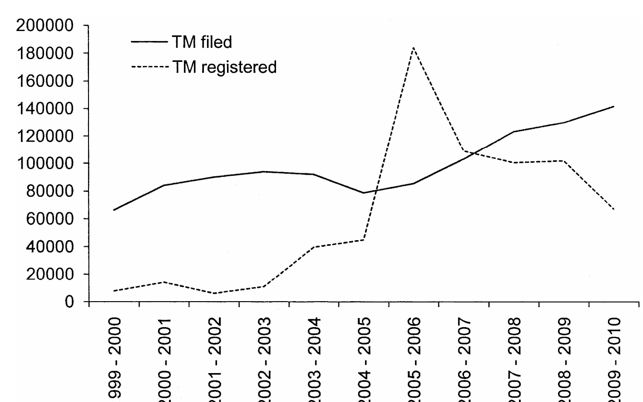


Fig. 2 — Trademark applied *vs* trademark granted at the Indian Patent Office
Source: Annual Reports of the Office of CGPDTM from 2005-06 to 2009-10

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The article first deals with business strategy and IP, where the author tries to establish a link between the corporate strategy and the relevance of intellectual property. It also establishes various kinds of IP strategy to be aligned with different kinds of corporate strategy. The article then explores the concept of monetization of IP rights, followed by the various alternate methods available to monetize IP rights, supported with case examples.

## Business Strategy and Intellectual Property

Companies invest resources towards generating intellectual properties and intangible assets in order to be able to enjoy first-mover advantage over their competitors in launching the novel product/services. This first-mover advantage is an internal resource /capability, using which the firms can generate additional revenue as against the competitors. But for reaping such first-mover advantage, the IP owner has to carry out the normal business activity of manufacturing the product or providing the service so covered under the IP rights. But once he is able to establish the first-mover advantage, it would help him recoup the investments made towards R&D activities.

But in some circumstances, he may not be in a position to establish the first-mover advantage, where recouping the R&D investments becomes burdensome, thus likely dissuading him from making further investments towards R&D. In such situations, there need to be an external stimulus to help the IP owner to augment his revenues, based purely on his IP rights. Such external stimulus could be in the form of governmental support or private support. The private support extended by private entities, especially from the financial system of the country, would go a long way in maintaining the social equilibrium without costing excess burden to the exchequer. This action of augmenting the revenue based purely on the intellectual property rights, with the help of financial system, is generally referred to as monetization of intellectual properties.

Such monetization of intellectual properties requires a strategic approach from the top management of the organization. As Richard Lynch puts it, at the business level, corporate strategy is concerned with the match between the internal capabilities of the organization and its external relationship with customers, competitors and others outside the organization.[1] Thus the senior management should be able to comprehend the resources that they are sitting on and also have the knowledge of how to capitalize on them, based on the internal as well as external conditions of the organization.

Traditionally, the concept of monetizing intellectual property rights (IP rights) has been associated with licensing them or selling them. But the modern business environment coupled with the evolving legal regime and the financial industry has provided innovative business organizations with a multitude of opportunities for monetizing IP rights. In addition to this, the changing IP law regime, has allowed business organizations to take certain strategic decisions, which not only allows them to create and monetize IP rights, but also manage them holistically. The Table 1 provides a strategic framework for the holistic management of IP rights.

Table 1— IP strategies *vis-à-vis* corporate strategies

| Management strategy | Decisions to be considered |
|---|---|
| Corporate R&D strategy | • Impact of R&D investment on shareholder wealth creation<br>• Utility of R&D investment to the business |
| Corporate IP strategy | • How does IP influence the competitive strategy of the firm?<br>• Cost *vs* benefit of IP protection<br>• How, when and where does one have to seek IP protection and enforce it? |
| IP development strategy | • How to maximize the benefits from R&D investments?<br>• Exploring in-licensing opportunities |
| IP litigation strategy | • Cost *vs* benefit of IP litigation<br>• When, where and how should the firm resort to litigation using IP against the competitors/ infringers? |
| IP monetization strategy | • Evaluation of monetization opportunities<br>• Execution of monetization strategies like out-licensing, spin-offs, donations, etc. |
| IP measurement & management strategy | • IP valuation metrics<br>• Capital sourcing for future investments<br>• Tax planning |

Source: Modified from the model described by O'Haver[2]

At the macro level, while evaluating the corporate R&D strategy, firms have to consider the impact of R&D investment on the shareholders as well as other stakeholders. A good guiding point while deciding the R&D strategy is the present and prospective competitive advantage to be gained by the business as against the competitors. Having defined the corporate R&D strategy for the firm, the management should then look at the IP strategy at the corporate level in order to determine the influence IP would have on the overall business strategy. They must also consider the decisions as to the type, location and timing for seeking IP protection and enforcement. These decisions must be finalized based on the objective evaluation of the economic costs *vs* the economic benefits accruing from such strategy.

If the corporate IP strategy enables the achievement of the overall business strategy of the company, then it must focus more on IP development strategy, wherein the managers must explore the possibility of in-licensing opportunities of IP rights within the company. Companies like DuPont, Google, Microsoft and IBM have been successfully implementing the in-licensing strategy to generate revenue, not only from outside partners and licensees, but also from internal clients.

Having deployed the commercialization strategy, managers are expected to carefully monitor the competitive landscape for infringement of the firm's IP rights. If the competitors infringe on its IP rights, then the managers must have a strategic framework to decide upon the course of action to be taken to either prevent the damage or to capitalize on such infringement actions. Such a framework must consider the economic costs *vs* economic benefits of such infringement litigation strategy.

While monetizing the IP rights, the managers might have to consider the various opportunities available at their disposal, after conducting a critical evaluation of each of these opportunities in the light of the given corporate strategic intent. The modern financial infrastructure has given rise to various IP measurement and IP management tools for the use of IP managers. Some of them could be simple valuation tools required for activities ranging from licensing of IP rights to sale of IP rights. Others could be complex tools like securitization of IP, collateralization of IP rights or IP insurance created to compensate IP infringement litigation as well as IP creation, securing and exploitation.

Thus, strategic management of intellectual property is acquiring greater importance, given the popularity of protecting IP rights by the modern business firms. This is also facilitated by the regulatory system, the financial system, the banking system as well as the legal system of the country.

**Monetization of IP Rights**

Beyond the traditional IP strategies that were practiced a couple of decades ago, today, thanks to the advent of the modern finance, the managers have access to various tools to monetize their IP rights. With the corporate need to stimulate and reward innovation for launching differentiated products and services in the market, the finance industry has been providing various tools and techniques to convert IP assets (which otherwise would have been stored in the vaults of the companies) into monetizable assets, which can generate revenue streams for the companies. These tools and techniques vary from being a simple novel IP licensing technique to a complex securitization of IP rights, to even more complicated IP derivative instruments used for trading in various locations on various platforms.

Before delving into the discussion on monetization of IP rights, it is to be understood that though certain IP rights have been successfully monetized, not all IP rights can be monetized, even when they satisfy all the conditions fulfilled by the successful precedents. This is because, there are lot of external factors as well as internal factors within the organization of the IP rights holder, which underplay the transaction. The external factors could range from economic conditions to the regulatory framework to the nature of investment bank underwriting the transaction or the dealer negotiations with the client. Similarly, internal factors could be the kind of IP rights, the life of the IP right, the person negotiating the deal, the asking price during the deal or even the kind of structure that is proposed for the transaction. The method of valuation used during the transaction would fall under both external as well as internal factor, but has great implications on the monetization of the IP rights. If all these factors work in favour of the transaction, then the IP asset, which was never expected to realize any major revenue stream for the inventor except for providing first-mover advantage to the innovator, could actually generate great deal of revenue for its owners.

Monetization of IP rights is where the innovator makes money. The type of monetization method adopted would depend on the kind of business strategy adopted as well as the kind of control envisaged by the innovator over the IP rights. For instance, if the corporate strategy is defensive in nature and the innovator wants to have absolute control over the IP rights, then he can resort to a 'protect and store' strategy. In such a strategy, the primary objective from the business management perspective would be to maintain the existing market share with a differentiated product.

However, without compromising on the control, if the innovator wants to have an aggressive corporate strategy, then he can adopt a 'protect and litigate' strategy. In such a strategy, the innovator's concern is not just to protect and maintain his existing market share, but also prevent competitors from encroaching upon his territory. Thus, the kind of corporate strategy adopted and the kind of control expected by the innovator over the IP rights would be the key concern while deciding on the methods of monetizing IP rights, discussed below:

**Licensing of IP Rights**

Under this method, the owner of the IP rights would create an independent packet of rights from out of the bundle of rights and then transfer it to an outsider in exchange for a consideration. Such consideration could be either in the form of money, goods, or services. Sometimes, it could even be in exchange for another IP right or bundle of such IP rights owned by a competing organization. For instance, a copyrighted music album could be licensed to the movie industry, television industry, as well as marketing agencies, which could use the music for making advertisements.[3]

This is the most common strategy adopted by the owners of IP rights. This method not only generates immediate revenue for the IP owner, but also locks it for a certain number of years, depending on the tenure of the licensing agreement. Thus, it has become one of the most popular methods of monetizing IP rights.

Here, the IP rights could either be licensed outside the innovator's business or it could be licensed internally. The conditions for the latter are that the structure of the organization as well as the tax laws should allow such licensing. Pharmaceutical industry has been following the licensing model of IP monetization quite successfully. The patent for a particular drug could be licensed to an outside agency for manufacture of the patented drug, while being licensed to a subsidiary for generating additional revenue for the group as a whole. Fig. 3 represents the generic IP licensing framework.

Generally the company invests money towards R&D activities out of its general financial resources, which in turn would be used to create IP assets. These IP assets could be licensed internally within the organization to develop cutting-edge profits to generate higher profits and/or first-mover advantage. Alternatively, and quite frequently, it would be licensed outside the company (either exclusively or non-exclusively) to generate additional revenue to the company in the form of royalty payments, which in turn augments the general financial resources of the company.

IP licensing could be beneficial to the owner, because the capital requirements for exploiting the IP rights would be very less. The licensee would be making required investment, yet generating market share for the IP owner. It also allows the licensor to have some control over the operations of the licensee. Also this method allows the IP owner to reap maximum benefit from IP rights within its limited lifetime. But, if the licence agreement is poorly drafted, then it could lead to loss of control over IP rights or granting excessive rights than originally envisaged. This might also lead to the licensee understanding the technology and coming up with a competing technology subsequent to the expiry of the licence agreement.[5]

**Sale of IP Rights**

This is also one of the old strategies relating to IP management. This strategy is generally resorted to when the nnovator is unable to manufacture the product at the lowest possible cost in the product market. In its traditional form, the innovator would sell off the IP

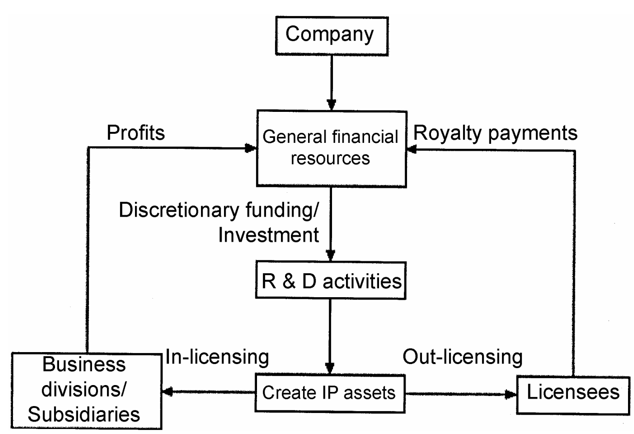


Fig. 3 — Generic IP licensing framework
Source: Adapted from Elliott[4]

rights to the lowest cost producer of the product with the intention of recovering the investments made on R&D activities as well as to earn some profits on the IP rights, if any. Sometimes, it also seems more like salvage auctions than a profit centre activity, where the primary intention is to offset expenses.[4]

But at times, the managers of innovative companies would like to sell the technology and related IP rights, even when the business is with the lowest cost manufacturer. This might seem to be against the economic logic because the managers should be concerned about continued streams of profits, as against one-time capital gains.[4] The managers might resort to this strategy when the profit centre is paying for the R&D and they want to ring-fence their revenues from cross-subsidizing other loss-making divisions. Two models are available for this strategy: (i) the technology sale model and (ii) the royalty trust model. The general framework for both these models is presented in Fig. 4.

Under the technology sale model represented in Fig. 4, the owner of IP rights sells all the commercial rights in the technology to an interested buyer, in exchange for asset purchase or stake purchase in the buyer company. The buyer, in turn, would license the technology to many licensees in exchange for royalty revenue. The benefit to the owner of IP right is that it provides some control over the technology, though indirectly (any proceeds from the licensing activities would have to be finally shared with the original IP owner in the form of dividends), and also provides revenue on the asset purchased or dividend revenue on the stake purchase.

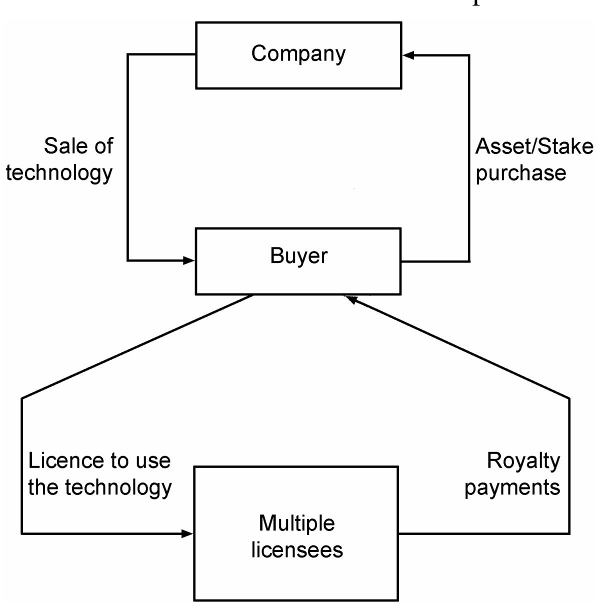


Fig. 4 — Generic technology sale framework
Source: Adapted from ref. 4, p. 476

However under the royalty trust model presented in Fig. 5, the IP owner transfers only the income rights of the IP asset to the licensee, who pays the royalties accruing thereon to a separate trust belonging to the IP owner. This trust would be so set up, that the beneficiary interests rests with the IP owner. The trust on receiving the royalty income from the licensee would transfer the same to the IP owner subsequently. This model is generally followed when the IP owner is legally prohibited from selling the IP rights, like for instance universities and research institutes which are funded by governmental support. But such universities can set up a royalty trust with it being a beneficiary and license the income stream of the IP asset to an outside licensee.

The primary difference between technology sale and a royalty trust is that the revenue earned from the technology sale would be treated as a true sale and would be taxed as capital gains, while under a royalty trust the revenue is treated as an income and taxed as normal business income.

**Patent Sale and Lease Back**

Under patent backed financial instruments used to monetize intellectual property rights, three kinds of products are generally covered: patent sale and lease back, collateralization of IP rights and securitization of IP rights.

A generic patent sale and lease back framework is presented in Fig. 6. Under this model, the IP owner sells the IP rights to a specialized agency (step 1), who would either purchase a single patent or a pool of patent rights for a consideration. This sale would be in the nature of a true sale denoting the complete transfer of ownership and cash proceeds for the same (step 2). After the sale is completed, the specialized agency, which now holds the

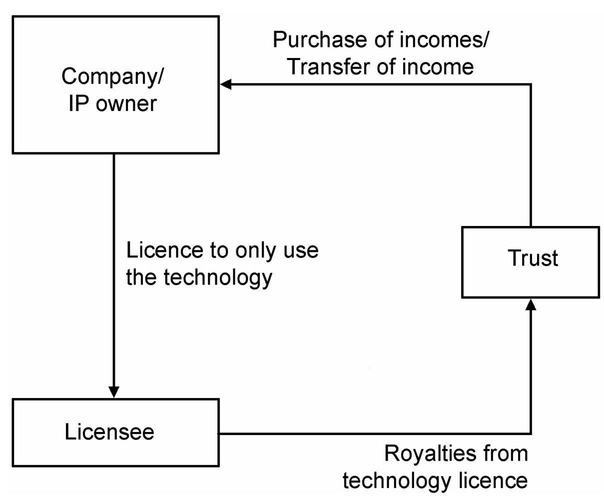


Fig. 5 — Generic IP-based royalty trust framework
Source: Adapted from ref. 4, p. 476

commercial rights of the patent, would license it back to the erstwhile IP owner (now an IP licensee) (step 3) in return for a licence fee (step 4). This arrangement would be valid till the end of the lease.

One of the prominent benefits accruing to the IP owner selling the IP right is that instead of the small revenue streams from IP royalty licence fees, he would be able to convert his IP asset into lump-sum cash, which could be further deployed into R&D activities or towards acquiring companies to build IP portfolio or expand operations. But one of the key concerns in the success of such transactions is the valuation of the IP asset for both the legs of the transaction. If the valuation is not appropriate, then the transaction could impose severe financial burden on the IP owner, who might not be able to meet the commitments on the transaction. The other concerns could be the choice of patent asset that is sought to be included in the transaction, the default risk that the IP owner brings to the table, as well as the probable infringement suits filed by competitors.

Aberlyn Capital Management carried one of the earliest recorded transactions of this nature in the year 1993 (ref. 7). Running a venture leasing business providing investment-banking services to biotechnology and biomedical industries, Aberlyn bought a single patent owned by RhoMed, a biotech company that specialized in radiopharmaceutical products. In 1992, the company decided to provide leases based on the firm's patent portfolio. RhoMed received a three-year loan of US$ 1 million with an interest rate of 15 per cent according to its risk profile. The transaction was secured by the sale and lease back agreement for the patent that was evaluated at US$ 5 million.[6] Despite all the efforts from both the parties, the RhoMed transaction failed. The reasons that were attributed for the failure was that RhoMed lost one of its key customers, because of which it was unable to manufacture the units required under the lease agreement. Due to this, RhoMed was unable to fulfill its obligations on the lease agreement and was unable to cover its debt service and defaulted on its financial commitment. Also Aberlyn was unsuccessful in selling the patent it has acquired from RhoMed, in the secondary market, due to its standalone nature.

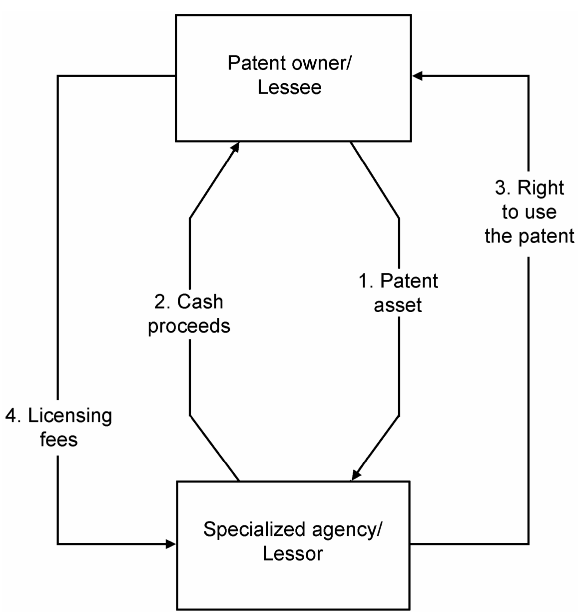


Fig. 6 — Generic patent sale and lease back framework
Source: Adapted from Munari *et al.*[6]

**Collateralization of IP Rights**

In earlier days, banks used to ask IP owners to top up their collaterals for loans with IP assets, just to provide insurance to the loan granted by the bank or financial institutions. But the more recent phenomenon is that IP owners are able to secure significant bank loans using nothing more than the IP assets. The IP assets are being pledged as the primary source of collateral in wide range of situations.[8]

Many financial institutions across the world have started accepting IP assets as collaterals for granting loans. Some of the financial institutions have also started accepting IP assets for second-lien loans, mezzanine debt and refinancing facilities. For instance, the pop star, Michael Jackson used the portfolio of songs created by him, based on the songs of Beatles and other songwriters as a collateral to raise a US$ 270 million bank loan, which was refinanced in 2006 (ref. 3). In such cases, the banks generally charge much higher interest rates than usual. The general IP collateralization framework is depicted in Fig. 7.

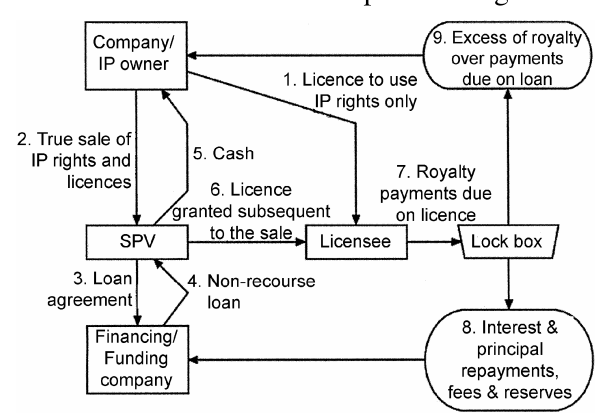


Fig. 7 — Generic IP collateralization framework
Source: Adapted from Eisbruck[9]

The IP owner can grant licences (step 1) to various interested parties from whom the royalty payments are received. But if the IP owner wants to raise funds, then the financing company would insist that IP asset is ring-fenced from default risk. For this, the commonly adopted route is to transfer the IP asset to a special purpose vehicle (SPV) that is bankruptcy remote. This sale must be a true sale (step 2) along with all the licence agreements thereof. This SPV will negotiate with the financing company for raising the loan (step 4). Once sanctioned, the proceeds of the loan are transferred to the IP owner as a consideration for the sale of IP assets (step 5).

After procuring the IP assets, the SPV could negotiate further licence agreements with other licensees (step 6), who would pay the royalty payments into a lock box (step 7). The first claim on the funds in the lock box would be the financing institution, which would seek payments towards interest and principal repayment, fees and other reserves (step 8). If any surplus is available in the lock box, the same could be transferred to the IP owner, either directly or through the SPV, depending on the arrangement (step 9).

IP assets are being used as collaterals for raising loans as early as 2007-08. Some of the prominent transactions, which are known in the public domain, are listed below:

- New Delhi based LT foods used its popular packaged rice brand ‘Daawat’ as collateral to raise Rs 200 crores (about US$ 50 million) for acquiring a US-based rice company Kusha Inc.[10]
- Kingfisher Airlines had by March 2011 raised Rs 2190.35 crores from a consortium of banks by pledging Kingfisher brand as collateral for the transaction.[10] SBI had an exposure of Rs 1436 crores to Kingfisher Airlines in this transaction. In May 2009, SBI extended a loan of Rs 500 crores to Kingfisher Airlines against Kingfisher brand as collateral. In case of Kingfisher Airlines, the move to value brand separately was started in early 2008 when the company initiated talks with private equity funds to raise US$ 400 million. As of 2011, Kingfisher Airlines had raised Rs 4100 crores from securitization of its intangible assets including brands.

**Securitization of IP Rights**

With the advent of modern finance specifically in the nature of the structured finance, securitization transactions have become more popular. Securitization is generally defined as ‘the process of using the cash flows generated by an asset or pool of assets to support the issuance of debt.’[9] Generally debt instruments are secured by some collateral assets, but in securitization, such instruments would be supported by a lien on a specific asset.

Securitization of IP rights is similar to collateralization of IP rights, in the sense that in both the transactions, the amount of funding provided depends on the quality and nature of the asset, the type of customer the client firm sells to, the terms of the sale and the past performance of the client firm’s accounts receivables.[11] However, it differs from the collateralized debt primarily on the matter of deployment of funds. While the royalty proceeds would be used to repay the interest and principal in the debt scheme; in securitization, it would be used to support one or more securities, whose credit rating could be of a quality higher than that of the company’s secured debt.

IP rights have been used to back securitization transaction for quite some time now. The asset backing which is required for the issuance of securities would be sufficiently fulfilled by the IP assets, provided it is protected from bankruptcy and it is structured to facilitate such issuance. Fig. 8 provides the generic IP securitization framework.

Here, the IP owner would transfer (a true sale) his IP rights to the SPV (step 1), which would license it to multiple licensees (step 8) in exchange for royalty payments (step 9). The SPV would issue IP backed debt instruments with the help of investment bankers / underwriters (steps 3). Such debt instrument would be rated by credit rating agencies (step 2), as well as insured by insurance companies against the default risk (step 2). Sometimes, credit enhancers also help reduce the payout of the SPV by guaranteeing the payments of the trustees (step 2 on the left side of the image), thereby assuring the investors of the safety of their investments.[12] The underwriters would place such instruments with multiple investors (step 4) who are paid by the trustees (step 10) from the royalty proceeds of the IP licence agreement. The proceeds so received from the sale of such debt instrument from the investors would be collected by the underwriter (step 5) and then passed on the SPV (step 6), which then passes it on to the original IP owner (step 7).

The securitization of IP rights has specific benefits to various parties involved in the transaction. The IP asset holder would benefit from having a very low/

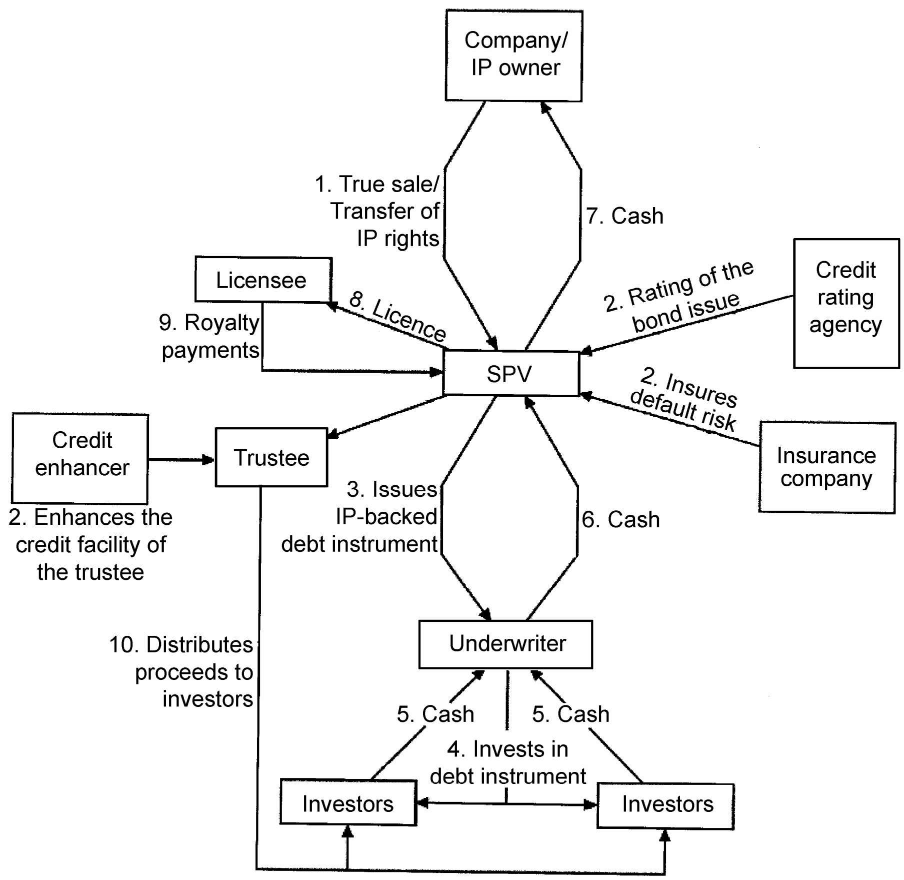


Fig. 8 — Generic IP securitization framework
Source: Adapted from Alekseev[12]

limited credit exposure, as the asset is not taken on to his balance sheet. The asset would be transferred to an SPV, which assumes the loan facility/the debt instrument. This also reduces the cost of raising funds because the credit rating agency would rate the specific bond issue offered by the SPV rather than all the business activities of the business. It also increases leverage of the firm, which would raise the fund base available for the business to invest further into R&D or expand the business. IP securitization transactions could also be used as a source of fund for acquiring another company, which is referred to as an IP leveraged buyout.[13]

For the investors in the IP backed securities, the benefit is that it separates the technology risk from the management and other operational risks. It also helps them invest in the IP rather than the business, thereby generating greater liquidity than through stock market.[13] Similarly, the originators, underwriters, lenders and insurers also enjoy a first-mover advantage in a burgeoning financial innovations market, on successful implementation of the transaction.

One of the primary requirements of IP securitization is that the SPV should be bankruptcy remote. This is because, if the borrower goes into bankruptcy proceedings, then it would create a moral hazard problem in the system. Prospective investors, underwriters, insurers, credit enhancers, etc., would shy away from structuring such deals.

Various IP securitization transactions have been carried out in recent years. Some of the prominent ones in various industries are listed below:

- Audio copyright securitization: One of the earliest and the most popular IP securitization transaction was the securitization of 25 albums comprising of 285 songs of British rock star, David Bowie, recorded before 1990. Pullman Associates structured the deal. The deal became so successful that IP securitizations in general, were sometimes referred as Bowie bonds or Pullman bonds. The deal was structured with an issue of asset-backed bonds, from which US$ 55 million was raised. On successful completion of the copyright securitization of music albums of David Bowie, other artists like Ashford & Simpson, James Brown, The Isley Brothers, Marvin Gaye and others also got their audio copyright securitized.[14]

- Movie rights securitization: After music rights, the other important asset to be securitized is the movie business. The DreamWorks SKG movie studio[15] securitized some of their popular movies like Saving Private Ryan, American Beauty and other prospective movies, for a sum of US$ 1 billion during the years 1997 - 2000. With the success of this transaction, Marvel Entertainment securitized its movie rights along with rights to commercialize and merchandise the cartoon characters, for US$ 525 million in 2006. Village Roadshow Films, the studio that made movies like Matrix Trilogy, etc., also securitized the copyrights in motion pictures for US$ 1.9 billion during 1998 – 2003. Beyond this, there are lots of other transactions where movie rights have been successfully securitized.[16]
- Biotechnology and pharmaceutical patent securitization: Yale University obtained a patent for a new technology to treat HIV virus in 1985. Bristol Myers Squibb obtained an exclusive licence of the patent from Yale to develop and market the same. This drug cleared the US Food and Drug Administration (FDA) in 1994, under the trade name Zerit. In 2000, Royalty Pharma seeking to purchase and securitize the royalty streams associated with Zerit approached Yale. Yale agreed to sell the licensing rights for US$ 100 million to BioPharma Royalty Trust, the SPV formed for this purpose, with joint ownership of Yale and Royalty Pharma. This SPV raised another US$ 115 million through a combination of debt and equity instruments. The deal was rated a single A on the senior tranche. But despite the early success of the transaction, it failed, due to a breach of a covenant and for three consecutive periods, the trust failed to meet the payment of cash flows on the deal.[17]
- Trademark/brand securitization: Securitizing trademarks has been one of the easiest of transactions. Almost all popular brands have gone through this route and have achieved some success thereof. Dunkin Donuts used its entire business coupled with its company's cash flows, franchise royalty payments from licensees, IP rights, leases and other licensing receivables to raise a whopping US$ 1.7 billion in 2006. This was considered to be one of the largest brand securitization transactions till that time.
- Franchising rights: In 2007, Domino's Pizza announced a securitization transaction with the backing of its franchise fees from its stores to raise US$ 1.85 billion.[18] Arby's also securitized its franchising rights to raise US$ 290 million in 2000, while Quizno's issued asset backed securities using royalties in 2005 (ref. 19). No financial details were disclosed in the public domain about the Quizno's deal.
- Other assets: Other assets have also not been far behind in the securitization game. For instance, an Italian soccer club raised US$ 29 million in 1997 using securitization backed by future revenues accruing to the club. In 1999, the Newcastle United Club used similar model to finance a new stadium. Four other British clubs have followed this model.[20] Apart from the football game, a Chinese circus show was funded through the money raised through securitizing its future revenues. Even intangible assets like 'naming rights' have been securitized. For instance, the Staples Center arena in Los Angeles has been built from the money raised by pledging its 'naming rights'.[20] Other assets that have been successfully securitized are the revenue streams emerging from the sale of books, photography catalogues, sports broadcasting rights, sponsorship and advertising rights, TV shows and video games.[21]

**Sale of Covenant not to Sue**

ICAP Patent Brokerage, is a recognized pioneer and leader in the live auctioning of intellectual property assets. Since 2006, ICAP Patent Brokerage, and its predecessor organization, Ocean Tomo Transactions, have been holding live auctions across the US and Europe resulting in the successful transaction of over US$ 170 million in IP, benefiting various IP owners.[22]

On the last day of the Spring Live IP Auctions carried out by ICAP on 31 March 2011, an anonymous buyer purchased lot #111 for the record sum of US$ 38.5 million. Unlike other lots that were auctioned that day, this lot did not contain patents as its components. But it contained a covenant not to sue the buyer of lot #111 for infringement of a set of patents as provided by such covenant.[23]

Lot #111 was set up with a number of patents owned by Round Rock Research, which holds a portfolio of 4,200 patents originally developed by Micron Technology, one of the biggest US manufacturers of memory chips. Earlier in October 2010, Round Rock had sued handset manufacturer HTC for infringement of certain patent in its portfolio. Given this background, there was a great speculation in the high-tech industry as to who would be the next company to be sued by Round Rock. After the auction of 31 March 2011, the company that purchased lot #111 would be happy that they would not be the one to be sued by Round Rock.[23]

Generally covenants not to sue would be part of the licence agreement. In addition to such licence agreements, companies might also enter into agreements seeking freedom to operate, agreements providing cross licensing, or agreements to call a truce in an IP litigation. But getting to sign such an agreement is never easy, as both the companies have to go to the court and then as a settlement mechanism, they would negotiate these kinds of agreements. Given this scenario, this method of selling covenants not to sue makes everybody's life easier, by achieving the same end result, without having to go to the courts. This way, the IP owner would get a lump sum payment on his IP right, while the competitor, who is scared of being sued, could breathe easy. One of the advantages of this method is that the flexibility of customization is available to the IP owner. He could structure it in such a way that the buyer would have to purchase multiple baskets to be safe, or he could structure it for annual payments or he could structure it depending on the size of the company or the revenue of the company or the technology in which the company operates. Such customization could lead to more benefits accruing to both the parties in the transaction.

This method is relatively a new entrant into the methods of monetizing IP rights. Beyond this transaction, there are hardly any other recorded transactions to this effect.

#### Other Methods

Beyond the methods discussed above, there are other methods that have been used successfully to monetize IP. But off late, these methods are not so popular and have quite limited application. Some of these methods are:

- Patent asset trust, that has a structure similar to securitization but the SPV issues equity shares instead of debt;
- Technology Unit Investment Trust (TUIT) that is a bundled group of technology and patent assets combining into one marketable security;
- Patent Venture Funds (PVF) that are special investment funds, structured as Special Purpose Bonds (SPB) and usually originated by a bank investing only in patents.[6]

### Conclusion

Businesses which have been investing in R&D need to have ample opportunities to recoup investments as well as to earn sufficient profit to keep them motivated to carry out such investments in future. Without such a compensatory mechanism, they would lose the incentive to carry on IP creation activities. It is the society's responsibility to provide mechanisms for the innovator to recoup R&D investments and capitalize on it. In response to this social need, the financial industry coupled with the evolving IP law regime and the legal regime has come up with various alternative mechanisms to monetize the IP rights.

The traditional monetization options like licensing and sale have focused primarily on patents, while modern monetization options like collateralization, securitization focus on other IP assets like copyrights, trademarks, brands, etc. This might be due to the fact that the rights in other IP assets are clearly identifiable as well as more certain than in patents. Also monetizing would be easier in case of other IP assets as compared to patents.

Despite this fact, the latest trend in terms of covenant not to sue and patent sale and lease back shows that the companies with promising technologies and strong patent portfolios will be provided with innovative monetizing options, if they work closely with the financial industry. The only thing that the IP owner needs to establish to the financial industry is the credibility of IP assets and further demonstrate the certainty of the cash flows. Once these are demonstrated, the financial industry would work closely with the IP owner to arrive at innovative financial solutions to monetize IP assets.

The market for innovative solutions is relatively new in India. Off late, there have been transactions like that of Daawat and Kingfisher in India. There might be other transactions being carried out in India, but such information is not available in the public domain. To understand the entire universe of transactions available for monetizing IP rights, the financial industry along with the IP owners must strive towards disclosing the successful transactions to the public domain, so as to popularize these methods.

Overall, there are multiple options available to the IP owners to monetize their IP assets and recoup the investment made towards R&D activities, of which some have already made inroads into the Indian financial system. Now it is up to the IP owners to capitalize on them and earn maximum possible revenue out of the not-so-liquid IP assets.

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