

Patents and Corporate Value: Explorations of Public Policy, Business Strategy, and Financial Reporting Issues

GBUS 8440

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Instructors:

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With the collaboration of David Martin, Batten Fellow

Darden Graduate School of Business Administration

**Course Introduction and Syllabus for:
Patents and Corporate Value: An Exploration of Public Policy, Business Strategy, and
Financial Reporting Issues
(GBUS 8440, March 2007)**

Course Mission and Goals

The aim of this course is to prepare you to anticipate and frame responses to challenges to your firm's intellectual property. Changes in U.S. Government policy toward granting patents have triggered massive changes in managerial and investor behavior. Corporations now manage their patent portfolios as an extension of competitive strategy, often displaying litigious, aggressive, and inexplicable actions. Investors, striving to estimate the intrinsic value of firms, struggle with assessing the health of a firm's intellectual capital and sometimes produce valuations that vary widely from reality. In consequence, corporate and investor decisions must take into account the uncertainties associated with government policy, and with strategic behavior by firms.

This course affords an introduction to intellectual property (IP) due diligence and its implications for corporate financial reporting and valuation. Specifically, the course will:

- Explore the current state of government and corporate policies regarding patenting innovations.
- Consider the range of corporate strategies these policies trigger and the possible competitive responses.
- Assess the challenges—and possible remedies—for corporate reporting and valuation that arise from the corporate approaches.

The course is limited to 25 students drawn from the second year of the full-time MBA program and the MBA for Executives Program. Select alumni of the school may also participate in the course. Class meetings will be held on Darden grounds and with a day trip to Washington D.C. (transportation will be provided).

This course will be especially relevant to students anticipating careers in technology management, business strategy, consulting, and in valuation (such as securities analysis and investment banking).

Elements of the Course Grade

Contribution to discussions and field visits:	40%
Individual Paper/Project	20
Group Project	<u>40</u>
Total	100%

The Group Project

Objectives: This group assignment exercises the framework of the course and the skills in assessment of a portfolio of intellectual property. You are assigned to serve a “client” in the assessment of a firm’s IP portfolio as a foundation for a possible strategic move by the client.

Required Readings for the project:

1. Briefing materials on the firm. These materials have been provided by the client. Please review the materials to form a view of the firm’s strategic situation and its intellectual property. These materials will be distributed separately.
2. M*CAM report on the firm’s intellectual property.

You are not limited to studying only these materials. We encourage you to survey information in the public domain, particularly the Internet, government databases, and security analyst reports. The search and review of these sources is an important learning process for the course.

Assignment: The faculty will form teams of approximately four or five persons each for the purpose of preparing analysis and recommendations to the client. On Sunday, we will brief you on the firm. The audience for your project is an executive of the client. You should:

1. Assess the intellectual property held by the firm.
2. Prepare an analysis of reported financial results and valuation of the firm reflecting your assessment.
3. Present your analysis to a representative of the client. The presentation will be scheduled for Friday morning. A briefing book to consist of no more than 20 pages, including exhibits, should accompany the presentation. The briefing book may be black-and-white, and be stapled rather than bound. The presentation time each team has available is approximately 1 hour, including questions. Each team should anticipate active questioning from the visiting client and faculty, and may present information or appendices not contained in the original briefing book.
4. On Friday we will meet over lunch to debrief the presentations and consider lessons for best practice.

Questions and topics for your analysis and presentation will include, but not be limited to:

- 1) What are the financial reporting policies of the client firm? What is today’s value of the equity of the firm as measured by a variety of techniques? What are the trends in equity value over the firm’s recent history?
- 2) How has the firm’s portfolio of intellectual property affected its reported financial results and its equity valuation?
- 3) Assess the robustness of the firm’s patent claims. What are the implications of your assessment for the firm’s reported financial results and valuation?
- 4) What strategic actions and recommendations would you offer to your client?

The Individual Paper Project

Objectives: This assignment allows you to demonstrate your individual mastery of tools and concepts in the course.

Assignment: An intellectual property due diligence sheet lists key issues to consider when assessing a patent portfolio. Using the concepts introduced during this course, you will be asked to create your own annotated intellectual property due diligence sheet which you could later use in assessing a firm's patent portfolio. By "annotated" we request that you describe the rationale for why you have listed the issues that you include in your due diligence sheet.

Requirement of independence. The assignment and materials will be distributed during class. There must be *absolutely no* discussion of this assignment among other members of this course, discussion with persons outside the course, or consultation of materials outside the assignment. You will be required to sign the standard honor pledge as part of submission of your paper.

Due: On Monday, March 28, 2007, a paper of no more than 1000 words (inclusive of titles, footnotes—*every text item*) though three graphic or tabular exhibits are exempt from the word limit.

Alumni Enrollment

At the discretion of the instructors some Darden alumni may participate in the course. Given that there is no course credit to be granted to alumni participants, these participants are exempt from the group project and individual paper requirements.

About the instructors

Bob Bruner is Dean of the Darden School and has been a Darden faculty member for 24 years. His writing and research are in corporate finance, particularly M&A. His recent book, *Deals from Hell*, addresses failures in M&A. He likes to explore Virginia waterways by canoe and kayak. Find more about him at <http://faculty.darden.edu/brunerb/>.

Mary Margaret Frank is Assistant Professor of Business Administration in the Accounting area at Darden. Her current research focuses on the effects of taxes and regulation on the strategy of corporate management, investors, and entrepreneurs. Prior to joining the Darden faculty in 2002, Frank taught at the University of Chicago's Graduate School of Business and at the Kenan-Flagler Business School at the University of North Carolina. She practiced as a CPA and worked for Arthur Andersen in Washington, D.C. as a senior tax consultant.

Paul Simko is Associate Professor of Business Administration in the Accounting area at Darden. His research centers on issues surrounding financial accounting recognition and disclosure. He is particularly interested in topics related to how alternative accounting treatments affect the decisions of both investors and analysts, and how investors assess firms' earnings quality. Prior to joining the Darden School faculty in 2002, Simko taught at Emory University, Indiana University, and INSEAD. He has also worked as a Senior Analyst with Citicorp and is a Certified Public Accountant.

David E. Martin is an expert in domestic and international technology transfer and in patent enforcement and issuance. He is the founding CEO of M-CAM, a Charlottesville, Virginia, corporation that developed and commercialized the world's first intellectual property characterization and monetization technology. In the 1990s, he created the first collateral enhancement products that allow regulated financial institutions to use intangible assets as collateral in commercial credit. Martin has been an assistant professor at the University of Virginia's School of Medicine, where he founded and was executive director of the school's first for-profit R&D corporation. Engaged in domestic and international technology transfer, clinical research, and financing, this company pioneered techniques for innovation management that have become industry standards. Martin has also founded numerous businesses domestically and internationally in for-profit and nonprofit settings. He was the founder and CEO of Mosaic Technologies, Inc., an international technology transfer company. He founded and served on the board of the Charlottesville Venture Group, and he serves nationally on the board of the Research Institute for Small and Emerging Business (RISE Business) and interacts frequently with policymakers on matters regarding the financial and legislative treatment of intellectual property. In 1999, Martin was appointed by the governor of Virginia to serve on the Joint Commission on Technology and Science. He also serves on numerous corporate and civic boards in the United States, Asia, and Africa. Martin earned his B.A. from Goshen College, his M.Sc. from Ball State University, and his Ph.D. from the University of Virginia

SCHEDULE*

Sunday March 11	Monday March 12	Tuesday March 13	Wednesday March 14	Thursday March 15	Friday March 16
TOPIC:	The U.S. Patent System: Operating, Legal and Regulatory Issues	Public Policy Implications: Washington DC	Financial Reporting and Equity Valuation Issues	Implications for Corporate Strategy Part I	Implications for Corporate Strategy Part II Final Exercise.
	Discussion: Jaffee/Lerner 1-3 (8:00-9:15)	Travel to Capital Hill (6:30-9:30)	Case Discussion: Genmor Pharmaceuticals, Jaffee/Lerner 4-5 (8:00-9:30)	Case Discussion: GE/Amersham Jaffee/Lerner 6-7 (8:00-9:30)	Project Presentations (8:00-1:00)
	Understanding Patent Content: (Jim Myers, Ropes and Gray) (9:30-10:30)	Visit House/Senate Judiciary IP Subcommittees (9:30-12:30)	Due diligence and Equity Analysis (10:00-11:30)	International Issues and Patent Quality (Joe O'Shea, GE) (10:00-11:15)	Project Presentations (8:00-1:00)
	Overview of Patent Quality Assessments (10:45-12:00)				
		Lunch and Group Travel to U.S. Patent and Trademark Office (USPTO) (12:30-1:30)	Project time (remainder of day)	Patent Law and Corporate Strategy (Maggie Kantor, Genzyme) (11:30-1:00)	Debrief and Closing Lunch (1:00-2:00)
	Case Discussion: DuPont-Pioneer (1:30-3:00)	USPTO and Understanding Patent Examiner Dynamics (Stephen Kunin) (1:30-4:30)		Project time (remainder of day)	
Opening Dinner: Introduction to Course Briefing on project	Project time (remainder of the day)	Return (4:30-7:30)			
Assignments	Read articles and project time	Case preparation and project time	Case preparation and project time	Project time	

*Schedule and times subject to change.