Intangible Assets: A New Source of Security and Securitization

IP Values for Lenders and Borrowers

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Lenders, suppliers, CFOs and chief executives can improve the quality of their financial relationships and the quality of the security for those relationships by using a company's intellectual property and intangible assets. These assets can provide added value, security and liquidity. They can come from a diverse range of intangibles, including:

- Trademarks
- Brand names
- Corporate name and logo
- Databases
- Mailing lists
- Software
- Product designs
- Manufacturing technology
- Patents
- Licenses / permits

Whether the company is Polaroid, Amherst Brand Optics, Warnaco, Gloria Vanderbilt, ANC Corporation, Mossimo, LA Gear or Barneys, the fact pattern is often the same: In the absence of sufficient value from traditional tangible assets such as PPE, real estate, and inventory, each company was limited in its ability to extend its horizons, build new business or refinance out of a troubled situation. The solution was similar in all cases—identification and bundling of a company's intangible assets, packaging those with greatest market value and then using those assets as a basis for securitization or refinancing.

Chart 1: Examples of IP/Intangibles Securitization

	Warnaco	**Barneys**	**Mossimo**	**LA Gear**
Issues & Problems	Chapter 11	Heavy secured debt	Cash poor	Chapter 7 looming
Action Needed	Operating capital	Pay down real estate debt	WIP and financing materials	Cash flow for debt service
Solution	Sell brands, securitize other IP	Value and sell trademarks in Japan & China	Securitize trademarks	Assign trademark rights to senior lenders
Benefits	Cash and streamlined operations	Successful re-organization	Simplified debt and operations	Successful re-launch

While each of the cases was different, all come from consumer goods manufacturing and/or retailing. The underlying fact pattern and issues remain the same throughout:

- Each company was in need of additional working capital, for a variety of reasons
- Each company had been extended a maximum amount of traditional financing
- Inventories were insufficient to carry additional burden
- Real estate was encumbered
- Relatively high interest rates were being quoted and lenders were extremely cautious

What do secured lenders and a company's top management need to do to effectively use these assets? They need an audited inventory of all intangibles, a baseline valuation in today's market, and a realistic assessment of future market value and salability, should that be necessary. This will help them understand how far to leverage these assets. In today's knowledge based economy, a company's IP and intangible assets may well exceed the tangible assets by five or ten times. The portfolio of assets can be grouped, ranked and accurately valued; and the valuation process should focus on obtainable market values. Same key groupings of intangibles are found in the marketing, technical and knowledge bundles:

Chart 2: Bundles

Marketing Bundle	Technical Bundle	Knowledge Bundle
Trademark registrations	Key patents	Sales knowledge
Umbrella brand name	Packaging technology	Mailing lists
Sub-brand names	Manufacturing technology	Databases
Product names	Product shapes	Processing methods
Copyrights	Process technology	Regulatory agency filings and approvals
Corporate name	Technical designs	Customer relations
Corporate logo	Drawings, manuals	Proprietary MIS

In all of the cases cited above and for a broad range of our other clients (from Polaroid to Budget Rent A Car and from Macy's to Owens Corning), these assets performed a key function: They were able to reposition the financial risk for the company's CEO/CFO and their lenders. By shifting from unsecured intangibles to an asset based lending pattern, the risk was reduced, cash flow was increased and operations improved. For lender, borrower or supplier all can benefit:

- For the lender, intangible assets provide added security, stability and lendability; and they offer alternatives to more standard courses of action such as liquidating inventory, receivables or other quick assets (or chapter 7 or 11).

- For the borrower, the use of the company's intellectual property and intangibles can build more elasticity into its lending formula, and/or help it obtain a better price point from lending institutions.

- Finally, for key suppliers, securitization of a client company's intangibles provides an opportunity to ensure payment of its receivables for goods shipped, using valuable customer assets other than the goods themselves.

Intangible assets and intellectual property are indeed a primary value source for a broad range of sophisticated national and multi-national companies. These assets are a new source of financial strength as well as security and securitization.

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Wes Anson, author of the above article, is in the process of writing a new handbook for the ABI entitled, "The Intangible Asset Handbook." He is looking for volunteers who are willing to contribute 5-10 pages on various aspects of intellectual property and intangible asset sales – some of the specific topics would include FCC licenses, broadband licenses, embedded intangible assets such as a book force, etc. Anyone interested in working on the book, please contact Wes Anson at wanson@consor.com.