

# Open Book

A recurring feature  
by John T. Ramsay, Q.C.

*A review of current publications relating to the field of Intellectual Property licensing, transfer and tools therein.*



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## From Ideas To Assets Investing Wisely In Intellectual Property

Bruce Berman, Editor

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**T**his is an excellent practical book, a timely addition to our literature on intellectual asset management. For me it filled a void with in-depth, well reasoned and useful resources. It is one of the best collections of articles I have read and I appreciate the artistry of its organization. I tend to underline in yellow what I like – don't do that unless you like reading yellow pages. Thanks, Bruce Berman, for the two years you spent encouraging these experts to write, and then organizing the material in such a thoughtful manner.

The second part of the title describes this book best – information to assist the executive to invest in intellectual property in his business, or the investor to determine if that investment was well made and thus should attract her funds. Reading this collection of 25 articles is a good investment of your time if you are a business executive or investor; if you are an IP specialist, you will read it to learn how investors look at the tactics you are using to protect, manage and exploit intellectual property. You will enjoy this book more if you have read at least a good primer on knowledge management, such as Thomas Stewart's *Intellectual Property The New Wealth of Nations*. If you liked Rembrandt's *In the Attic* or *Unlocking the Hidden Value of Patents*, which is written for the more casual reader, you will like this text even more for its depth.

We have had a number of books that tease our interest, such as Sullivan's *Value-Driven Intellectual Capital*, but they tend to leave us asking: "You raised the questions, now where are the answers?" Berman's collection provides some of these answers.

This is a collection of 25 chapters by different authors with an IP glossary, databank, further reading list, and annotated links to websites. The authors are leading practitioners and have not been afraid to share some of their knowledge.

The main part of this book (558 pages) is divided into four parts: Part One – Identifying and Understanding Intellectual Property, Part Two – Exploiting Intellectual Property, Part Three – Measuring Intellectual Property Performance, and Part Four – Intellectual Property Transactions and Finance. Berman suggests that you may read the chapters sequentially or pick which ones you want to read separately. I recommend that you first read it sequentially unless you are familiar with the topics and are only looking for refinement of your existing knowledge.

One of the concerns about a collection like this is that the articles do not build on each other, but that each needs to develop the requisite background to make the author's point even though this background may be in a previous article. Also, collections of this type are often not well coordinated, the topics do not flow one to another. This book handles the latter concern well. For the most part, the articles are well organized in a logical sequence.

Since Berman proposed that these articles can be read individually rather than sequentially, there is more repetition than I would have preferred. I read it first sequentially and then chapter by chapter, picking out topics I wished to pursue further. For example, once I got to Chapter 5 ("Managing IP Financial Assets") at page 111 (Alex Arrow's contribution), I found I was getting what I had been told earlier and wasted valuable pages before I got to his material on call option values. Similarly I felt that Malackowski et al. had more to tell me than Chapter 7 gave me, but they repeated ground covered earlier. Then I got to Parr's article, in Chapter 13 at page 271, who I really do like as an author, and found once again material covered earlier. At this point in the book, reading Parr's article, I did not need the first half of the twenty page article to build a case that had already been done, particularly when the last ten pages were so good. How much more I would have learned if he had assumed we understood the business case.

Having said all of this, I might sound greedy. This is a good book that I would recommend and share with my colleagues and clients. I just feel there is so much more I need to learn from these experts and any page wasted is a page too much.

Part One sets up the background for the other three

parts. Jackson Knight starts off with an excellent IP primer. It is one of the best primers for the business executive that I have read. He develops what a patent is and very succinctly tells us that the exclusivity provided by a patent is impacted in part by the scope of the granted claims. This leads us to Hanchuk's Chapter 2, "How to Read a Patent," which walks us through the construction of a patent. Knight reads very clearly, for example:

"The claims in a patent can be broad or narrow, and thus the exclusivity can be broad or narrow. For example, the patent could claim a method for making snowmen, which would be very specific. The claim might instead claim a method for making ice crystals, which would have a much broader scope. Both claims would be exclusive; the degree of exclusivity would be different."

Knight briefly develops, at page 11, the difficulty in choosing when to apply for a patent, whether it be early in the innovative stage, or later in the commercial stage. This is a topic picked up again, without much repetition, by Brandt in Chapter 3, "Capturing Innovation," at page 78-9 where he writes:

"Examining the relationship between the business development process and the related patent process, one can begin to see the value of timely action to protect entrepreneurial innovation. If an early business concept is filed prematurely it may be incomplete or even so far off track as to significantly reduce the value of an issued patent to the actual business. If an early business concept is filed too late in the business development process, it is of less value at the launch of the business."

Fox et al. in Chapter 9, "Making Innovation Pay," picks up this theme again at page 195:

"Many innovative businesses find that much of their revenue is due to products or services that have been introduced into the market within the last two years. This means that much of their revenue two years from now will come from products that have not yet been put on sale. Innovative businesses competing with other innovative businesses may find that waiting until an invention has been fully developed into a commercial product does not provide an adequate patent portfolio. Indeed, there is no legal reason to wait so long to seek patent protection. Historically, there may have been financial reasons, which are no longer valid for an innovative business. In the past, companies wanted to save money and only file patent applications on the inventions determined to be in the final product.

We now know that simply because an invention does not make it into the final product does not mean that it has no value. In fact, in many cases, it means that the invention is merely ahead of its time. The invention will likely be in a future product. Waiting for such an invention to be developed into a future product may result in the invention losing its novelty. By the time the invention is disclosed and evaluated, other companies may have come up with similar if not identical inventions in the meantime. Waiting to protect

the invention until it has been implemented in a particular form may result in narrower protection because the general broader idea has already been either publicly disclosed or patented by someone else."

Each of these discussions of somewhat the same theme are proper in the context of the individual author's material and serve to reinforce the merit of the argument.

Chapter 2's primer on reading a patent is reminiscent of an IAM session that I attended at the 2001 LES Annual Meeting; well done and needed by those who approach patents from the business side rather than the traditional legal and science side. The section on how to evaluate strengths and weaknesses of patents is also very useful.

Chapter 4, "Clarifying Intellectual Property Rights for the New Economy," draws on the findings of a task force mission by the Brookings Institute: "despite a rapidly increasing relevance on intangible assets, United States companies have a decidedly poor handle on what they are and how to deploy them." I might have preferred more in-depth discussion of the Brookings findings. The rest of the book had built the basis for me. However I recognize the context of the authors – the task force had found a surprising lack of knowledge on the part of business executives.

Chapter 4 in Part One and Chapter 5 in Part Two cover in part much the same territory and both could have been improved by talking up to the audience. Chapter 5 covers the Black-Scholes call option theory as you would expect from a representative of PLEX, and could be better placed after Chapter 24 ("Patents on Wall Street"). The case was built in Chapter 24 for this discussion, but without a cross-reference, the reader is left on his own to find the correlation. This is not a book on valuation, but the development of the call option theory is appropriate if moved into this context. In its present place, we are left with a detailed development of only one valuation method and this gives unfair emphasis to the call option theory.

In Chapter 6, Jorasch develops the market for a business or market driven patent process and sets the stage for Malackowski et al. in Chapter 7, and Fox et al. in Chapter 9.

One of the best chapters for my money was Fox's Chapter 9, "Making Innovation Pay." The first part of this chapter picks up the theme about business driven patent process, then gets into the discussion of an Innovation Workshop and the InventShop – structured patent disclosure and evaluation processes.

Chapter 10, "Patent Brands," was the chapter that initially drew my attention to this book. Berman et al. show that old economy companies known for the trademark brands may be missing an opportunity to impress their stakeholders with their patent strengths, and should develop patent brands – i.e., "conveying the results of IP management to key audiences in a meaningful way." (page 213) They write at page 221:

"Firms whose patent assets, performance, and strategy

are not clearly articulated to investors and other key audiences may be inaccurately valued because investors must wait until the products that result from R&D come to market and prove profitable before including their value into firm value. Similarly, attributes of a firm's product may be effectively protected by a well-staked patent or series of patents. However, if these protections are not understood by market participants, then the observed valuation may never fully reflect the value of the product line because the observed value will include a discount for the possibility of competitors entering the market. In the best case, failure to communicate IP strengths and strategies results in an unnecessary delay between value generation and stock price appreciation. In the worst case, failure results in permanent stock market undervaluation."

In Chapter 11, "New Economy Innovations from an Old Economy Giant," Weedman shows how Procter & Gamble have applied the concepts developed more academically by others in this book. Experience lends credibility. I like his "Redefining competitive advantage at Procter & Gamble" at page 204:

### **Redefining Competitive Advantage at Procter & Gamble**

#### **Old Economy Definition:**

- I've got it . . . you don't.

#### **New Economy Definitions:**

- I've got it . . . you've got it . . . I've got it cheaper.
- I've got it . . . you've got it . . . I've got it with no (or less) capital.
- I've got it . . . you've got it . . . I've got it with 18 months' lead time.
- I've got it . . . you've got it . . . now you follow my technology.
- I've got it . . . you've got it . . . and I got to market two years faster than I could have alone.
- I've got it . . . you've got it . . . I make money when I sell it, and I make money when you sell it.

Chapter 12 ("Measuring Intellectual Property Portfolio Performance"), the first chapter of Part Three, develops IP strategies further and gets in the newer territory of patent landscape analysis, patent citation, etc. Good material! More focus on these topics rather than repeating other material earlier developed would have been welcome. Likewise, I like Parr's Chapter 13 but much of the material was covered elsewhere. This material would have been better placed in Part One with IP Strategies or have been narrowed to a more in-depth discussion on securitization and then integrated more with the other chapters on securitization.

Narin et al. in Chapter 14, "Using Patent Indicators to Predict Stock Portfolio Performance," do give us more in-depth indications of patent value. Like Chapter 5 (Arrow), this chapter develops tools used by the author's company, but neither Narin nor Arrow succumb to the temptation to make their article an infomercial; there are nuggets of knowledge to be gained

whether or not you retain their services. Supporting empirical material to patent indicators of value is given in Chapter 15 ("Patenting Activity as an Indicator of Revenue Growth").

Chapter 16 ("The Economics of Patent Litigation") gives an interesting cost/benefit analysis of the cost of obtaining patents. The costs are modest in relation to the cost of the R&D they protect. The bulk of the benefits may not be from licensing (woe the licensing executive!) but rather "from the market advantage they secure. The real value lies in all of the things your competitors could not do; they could not move into market X, they could not offer feature Y" (page 332). But then the best part comes - the analysis of patent litigation costs. First the author, Samson Vermont, points out that patent litigation is expensive due to the inherent complexity of the law, the stakes are so high that the large legal fees are small in relation to the risk or reward, and the patent litigation process often gets divorced from the client's business goals. He then develops a useful decision tree or decision analysis primer. This is recommended reading for any business executive embarking on patent litigation. One could complain that it is overly cited with its 209 footnotes, but I disagree - it is an illustration of the depth the author has tried to take us. It is always a difficult balance between being too academic (this is an academic work) and still practical (and this is a practical work).

Chapter 17 ("Avoiding Transaction Peril") gives good hints as to why and how to do IP due diligence, with charts and checklists. Chapter 18 finishes out Part Three with its review of branding, essentially that given by trademarks, perhaps a useful reminder that IP is not just patents.

Part Four is dedicated to securitization. For some, the preceding portions of this book will merely be a proper lead up to this excellent conclusion. Some of us LES members may be aware of some securitization projects such as the Bowie Bond that had a high profile at the LES Kananaskis 2001 Summer Meeting. But we may have thought the securitization was restricted to entertainment and particularly music. This Part takes us a step further.

In Chapter 19 ("The Basics of Financing Intellectual Property Royalties"), Agiato gets right down to business and tells us what is IP royalty financing:

"IP royalty financing is nonrecourse debt financing. A licensor of IP can take the future cash flow expected from a license agreement and receive a cash payment up front, representing the present value of the future cash flows. This allows the owner of the IP to leverage today what they expect to get in the future, and thus, add another tool for IP exploitation. Often faced with limited options and funds, financing a royalty stream can provide much-needed capital to research institutions, small and mid-cap companies, and individual inventors.

This type of financing is not particular to any specific

type of IP. It includes patents, copyrights, trademarks, and trade secrets. Unlike other types of financing, IP royalty financing allows the owner of the IP to retain all of the upside in asset value. IP royalty financing is a unique source of capital collateralized by IP royalty streams and a need for capital. Given the many advantages this type of debt financing offers, as discussed below, companies have a strong incentive to choose IP royalty financing over traditional financing means. Further, every responsible IP manager needs to investigate IP royalty financing as a way of lowering a portfolio's risk and leveraging the IP's return."

Agiato points out that a "major obstacle stunting the growth of IP financing is the lack of understanding by IP managers. Most IP managers do not understand the financial instruments enough to know that they can actually increase shareholder value by leveraging their royalty stream" (page 428). Hopefully, Part Four will raise this awareness and understanding. Then, Agiato develops a model transaction. Canadian licensors (where in Canada there is not a clear rule as to whether licenses will survive bankruptcy, as the Americans do with their post-Lubrizol remedial legislation) will find interesting the discussion of the Special Purpose Vehicle (an IP holding company) which is used in the royalty trust to avoid the effects of bankruptcy of the licensor/patentee.

One of the many topics in Chapter 20 ("Credit Analysis of Intellectual Property Securitization") is the royalty trust (what was used for the Bowie Bond). This topic is further developed in Chapter 21 ("Asset-Backed IP Financing") and its discussion of the first pharmaceutical royalty securitization rated by Standard & Poor's. Royalty trusts are familiar to those of us who practice in Alberta where they have been used in the oil and gas sector for some time. However, their use for IP is relatively new. This chapter is a must read for all IP managers – but only after they read Agiato's "Basics of Financing Intellectual Property Royalties." Part Four is superb the way it builds on the earlier chapters for a well crafted development of the topic.

Then we get the IP Glossary – 16 pages of useful definitions. This is an excellent resource for anyone drafting a technology transfer agreement, but may be even more valuable to anyone drafting a prospectus or securitization agreement.

The databank that follows will be a good resource for any technology transfer officer.

*From Ideas to Assets* sets a benchmark of quality for other intellectual asset management books, both for its solid content and for its organization. If Berman had dropped the idea of making each chapter a stand alone chapter, the book would have raised the benchmark even that much higher.

# Legal Rules of Technology Transfer in Asia

edited by Christopher Heath & Kung-Chung Liu

NEW PUBLICATION

Despite the harmonizing effect of TRIPS and intellectual property law in general, technology transfer remains firmly rooted in domestic contract law and public policy. However, similarities in legal culture across many national borders keep this problem to a minimum - until we approach the technologically advanced countries of East Asia. For practitioners worldwide working with technology transfer in this culturally heterogeneous part of the world, *Legal Rules of Technology Transfer in Asia* is a godsend.

For each of nine significant technology market jurisdictions - the PRC, Taiwan, Japan, Korea, Vietnam, Thailand, Malaysia, Singapore and Indonesia - this nuts-and-bolts approach to the applicable national rules provides all necessary legal information and guidance. Country chapters by local authorities are structured to cover the following essential factors:

- government policy on technological research and transfer;
- intellectual property system;
- licensing agreements;
- registration and notification;
- dispute resolution;
- tax considerations;
- transfer of patents;
- choice of law questions;
- franchising;
- publicity and merchandising;
- anti-trust rules.

...and many other invaluable details to help lawyers and business persons avoid pitfalls and make the most of the technology transfer opportunities available in these countries. Two introductory chapters provide a much-needed perspective on technology transfer in the context of the world trade regime as it especially affects East Asia, with an emphasis on the trend to clarify and strengthen anti-trust rules. A concluding chapter surveys the market anthropology of the region and offers an expert assessment of the probable future development of technology transfer trade in the region. With its first-hand, in-depth, country-by-country analysis, and its firm grasp on a diversity of relevant legal and cultural issues, *Legal Rules of Technology Transfer in Asia* is unexcelled for desktop use in offices handling East Asian trade in technology products.

#### Contents:

Acknowledgement. About the Authors and Editors. Introductory Overview. **Part 1: International and Comparative Aspects.** 1. Rules of Technology Transfer and Anti-trust in Current International Agreements and the Proposed International Anti-trust Code; *W. Fikentscher*. 2. Technology Transfer in Context: Competition Policy Issues of Access to New Technologies; *H. Ullrich*. **Part 2: The "Mandarin" Jurisdictions.** 3. Technology Transfer in the PRC - An Academic's Perspective; *Zhi Wei*. 4. Technology Transfer in the PRC - A Foreign Investor's Perspective; *S. Tetz*. 5. Technology Transfer in Taiwan; *Kung-Chung Liu*. 6. Technology Transfer in Japan; *C. Heath*. 7. Technology Transfer in Korea; *Byung-il Kim*. **Part 3: The ASEAN Countries.** 8. Technology Transfer in Vietnam; *Pham Duy Nghia*. 9. Technology Transfer in Thailand; *J. Kuanpoth*. 10. Technology Transfer in Malaysia; *J. Chong*. 11. Technology Transfer in Singapore; *Ng-Loy Wee Loon*. 12. Technology Transfer in Indonesia; *C. Antons*. **Part 4: Outlook.** 13. Market Anthropology and Global Trade; *W. Fikentscher*. Index.

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