

Foreword

This thoughtfully organized and easy to understand book fills a conspicuous hole in the patent literature directed to engineers and scientists by providing a comprehensive overview of the patent value creation and extraction process. The process typically starts with the solution to a particular technical problem. The solution is then broadened, with the help of patent counsel, into a working definition of a potentially patentable *invention* that may also represent the solution to other problems. The boundaries of the invention definition are negotiated with the applicable national patent office and the result of this dialogue is expressed as a set of precisely delineated claims in one or more issued patents. Finally, the intangible asset value represented by those claims is extracted via an increasing array of patent monetization mechanisms.

It is universally acknowledged that intellectual capital plays a critical role in today's knowledge-based economy. Patents, in particular, represent a carefully crafted legal and societal balance between private and public benefits designed to promote the progress of the "useful arts." This balance involves providing a sufficient economic incentive to stimulate innovation on the one hand, and dissemination of the resulting inventions to the public, which then stimulates additional innovation by others, on the other.

Historically, a patent was viewed as conferring on its owner an exclusionary legal right. This right was exercised, i.e., commercially exploited, in one of two ways: (a) by excluding competitors from the market space represented by the patented product or process (via injunction); or (b) by taxing them for the privilege of participating in that market (via license fees). Of course, a competitor always could opt to

“design around” the protected subject matter by developing a non-infringing commercial substitute or improvement, but often at significant cost and with the attendant legal risk of being wrong on the question of infringement. The motivation to design around is another way that the patent laws drive follow-on innovation.

Over the past decade however, the perceived economic value of patents by technology companies, and more recently by financial markets, has undergone a dramatic transformation. Patents are now recognized not merely as a bundle of legal rights to be licensed or enforced, but as an independent commercial asset class, like real estate or corporate securities. This change in perception has spawned a variety of new value extraction models for patents based in part on the creative adaptation of existing models used with more traditional kinds of assets.

This new focus on patent value extraction requires a fresh look at the way that patents are created, acquired, managed and monetized. The market value of a patent asset depends on the quality of the patent as measured by the level of advance over the prior art represented by the underlying invention, by the scope of the patent claims, and ultimately by the current and future commercial markets that are impacted by those claims. In the past, many corporate patent development programs stressed the number of patents obtained each year. The result of this approach is that less than five percent of the patents owned by most technology companies have significant commercial value, with the rest being of little or no value. The recent emergence of a patent marketplace, however, has resulted in a marked shift from quantity to quality. The increased attention on patent quality has also resulted from the changing legal environment which has raised the eligibility bar as regards the level of innovation that is required to satisfy the requirement that an invention must not be obvious to a person of ordinary skill in the relevant art.

While patent quality is the key to patent value, the question is, how does one measure quality, either in a relative or an absolute sense? The current patent trading market is inefficient and immature, due to the lack of transparency and liquidity as compared with real estate or corporate securities. This results from the inherently unique nature of a patented invention, from the lack of publicly available transaction data regarding

sales of “comparable” patents, and from the inability to reliably measure patent-related risk.

Financial markets have become very adept at applying “risk discounts” to projected future revenue streams of technology start-ups in order to arrive at a risk-adjusted measure of company value. These risks include, among others, technology risk (the risk that the technology will not work), adoption risk (the risk that even if the technology works, customers will not embrace it) and execution risk (the risk that the management team will not be able to bring the technology to the market).

In the case of the patent market however, reliable methodologies for quantifying risk do not yet exist. These include invalidity risk (the risk that someone will discover prior art not considered during the prosecution of the patent that “anticipates” the claimed invention, or in combination with the references that were considered makes it obvious), claims construction risk (the risk that a court will construe the words in a patent claim so narrowly as to negate infringement), and design-around risk (the risk that competitors will be able to offer non-infringing commercial substitutes for the patented invention by eliminating one or more required claim elements).

Against the backdrop of this complex commercial landscape, it is essential that engineers and scientists who are engaged in the business of innovation have a working knowledge of the legal rules, market forces, monetization mechanisms and IP risks that affect the value of their creations. This book will provide that knowledge.

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November 15, 2008