BOOK REVIEW
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MAKING INNOVATION PAY: PEOPLE WHO TURN IP INTO SHAREHOLDER VALUE Edited by Bruce Berman, John Wiley & Sons, Inc. Hoboken, New Jersey ISBN – 13: 978-0-471-73337-9

Bruce Berman has produced another stimulating collection of essays on Intellectual Property Management following on his previous book, *From Ideas to Assets - Investing Wisely in Intellectual Property*. This time he offers contributions from ten individuals who are in many ways “pioneers in finding new and more effective ways of using patents to maximize shareholder value" [p. xxi]). These contributors have been successfully helping operating and other companies maximize value from IP portfolios and enforcing patents. (It is important for IP practitioners to recognize the difference between astute operating companies conducting proper competitive activities and, non-practising patent trolls who demand unreasonable terms for freedom to operate.)

Pleasant features of this book are the introductions, profiles really, which help each section come alive to us as we read each author’s material.

Overall, this is an excellent book with an unusually good layout. The work intersperses historic quotes from innovative thinkers such as James Madison, Thomas Jefferson, Mark Twain and Charles Darwin, with brief bios of the contributors that reflect their character and success. Management should read this book so it can be better informed about its fiduciary duties. LES members will use it as a vehicle to get the attention of management. IP lawyers will show it to their corporate brethren – the requirement for internal controls and risk management has extended another tentacle.

Berman’s stated intent for this book is to address the questions: Who is making money from IP rights? How are they doing it? What equips some individuals (with the ability) to generate higher IP related profits than others? [p. xx].

A very strong theme in *Making Innovation Pay* is that prudent IP management is no longer an option for senior executives. Berman states in his chapter that corporate officers and directors have a legal and moral obligation to manage all company assets for maximum shareholder value, and that these obligations include management of the IP assets (see p. 9). CEOs should be asking "How do we know we are getting a proper return on our IP? Have we reserved sufficiently for possible infringement assertions in our industry, legitimate or otherwise?

“Illegitimate" assertion is another strong theme of this book – the danger of the patent trolls. Companies should review their IP portfolios objectively. Berman suggests that some companies' patents are more questionable and short-lived than these companies are willing to admit. And smart investors are now in a better position than ever to prove it [p. 9]. Alexander Poltorak in his chapter "On Patent Trolls and Other Myths" takes this mandate even further. A corporate officer who is aware of an infringement of some patents owned by his or her company and who fails to enforce these patents may be held liable for breach of the duty of care with respect to the management of corporate assets [p. 59]. Intellectual Ventures co-founder Peter Detkin, in his chapter "Roadblocks, Toll Roads, and Bridges: Using a Patent Portfolio Wisely" states:

> It is has been argued that boards of publicly held companies have a fiduciary obligation, perhaps even under Sarbanes-Oxley legislation, to report on the commercial value of IP assets and on the attempts that have been made to obtain value from these assets.

Past LES USA/Canada president, Jim Malackowski, in his chapter "Risky Business: Overlooking Patents as Financial Assets", advises that officers and directors should protect themselves by raising corporate awareness of the value-at-risk inherent within their IP and establish the processes and controls necessary to protect these IP assets if they can have significant value [p. 88]. IP management and risk awareness should be done in the executive offices and the boardrooms, not left to the discretion of IP counsel [p. 89]. Malackowski agrees with Detkin as to the nature and control of IP assets:

> If the firm's IP assets have an effect on the company's financial condition and influences investors when they are evaluating a company, they need to be reported and controlled [p. 91].

The emergence of the patent troll has materially changed the nature of IP risk. Competitors' patent-attacks can often be settled by cross-licensing or some other business advantage the attacker wants. Not with the "troll"; he wants to cause maximum anxiety and generate dollars– lots of them. These patent vultures do not practise their patents, but merely wish to enforce them. Many LES practitioners have been long aware that patents are obtained only to cause someone else misery. But who says they should be enforced only by operating companies? Regarded by some as "terrorists," these aggressive patent owners may be teaching the more genteel traditionalists to play by the new rules, either as attackers themselves or with better preparation for the attack [p. 7]. Some of these bottom feeders built these portfolios from the ashes of the Dot.com flameout (see Joe Beyers, p. 170), and more lately by the acquisition of patents from small or near-dead companies that have strong IP portfolios [p. 170].

So why are the patent trolls so dangerous and the risks so hard to assess? This is partly due to the use of juries in the U.S. and the general uncertainty of outcomes in patent litigation (see Joe Byers, p. 171). It also is due to the courts granting injunctions to the trolls even though they have no operations to be "irreparably harmed" [pp. 171-72]; this results partly from the USPTO issuing too many questionable patents and failing to make re-examinations more readily accessible. [p. 172]. Operating companies often settle rather than face protracted law suits, and subsequently have to pay licensing fees at much higher than normally perceived fair market value (see Berman's comments on p. 15). Berman suggests that perhaps half of all U.S. patents should not have been approved [p. 6] and as few as three percent of some portfolios have meaningful value. So now, we have increased fiduciary duties to extract value from IP, while, at the same time, new risks that are difficult to assess and manage are emerging.

Bruce Berman kicks off with Chapter 1 – “Roadblocks or Building Blocks?”. After pointing out the very high costs of patent suits (averaging $3.5 million and running as high at $100 million), he sets the stage for the recent risks arising from the opponents who use the weaknesses inherent in the patent system to their advantage. No longer can companies rely on the quantity of patents in large portfolios to defend themselves or to suggest prudent IP management.

Marshall Phelps, the former leader of IBM's licensing business – now heading IP strategy at Microsoft – writes Chapter 2, "Turning a Patent Portfolio into a Profit Centre". He knows that it is sometimes difficult to convince management that, "monetizing a patent portfolio … makes business sense":

> Most companies do not have broad-based out-licensing programs because they are counterintuitive. Management is blinded by two false assumptions: (1) that patents effectively deter infringement, and (2) that licensing patents somehow undermines a company's competitive edge by removing barriers to competition. For most companies, nothing could be further from the truth.

As to business sense, he writes on p. 26,

> Today aggregate company IP licensing revenues are in the hundreds of billions of dollars. Some companies also leverage their IP in other important ways. In addition to freedom of action or monetary gain, thoughtful companies consider tax advantages, use of IP to create standards to enhance future product or competitive positions (with or without royalty structures), and the use of the portfolio in conjunction with important business or political relationships. It's all about leverage and the ability to use the portfolio to enhance tactical and strategic choices for a business.

Should you "monetize" your trade secrets? To make this decision you need,

> … a solid assessment of where the company's strategic interests lie, the industry's competitive landscape, the barriers to entry in the industry, your sustainable advantage, the possibility of broader adoption, and the business case. Even when a decision is made to move ahead and license a particular technology, the licensing company may have to pony up resources to make the transfer workable for the transferee. This obligation may continue for an extended period for the program to be effective [p. 27].

He sets out the four keys to an effective licensing program:

> (1) As you begin any licensing endeavour, make sure you have the goods;

(2) A good way to get a quick start is to find a P&L in your company that need help;

(3) The more you are able to centralize the management of IP licensing within your company, the better off you will be;

(4) It is important to align motivations and incentives within a company for any licensing program to succeed [pp. 29-30].

Daniel P. McCurdy, former president of IP business at Lucent and now CEO of ThinkFire, is responsible for Chapter 3, "Seeing through the Illusion of Exclusion". Traditionally, patents were filed to protect the company's products from being pilfered or imitated by others or to deter others from patent attacks. The patent strategies were "driven by both competition and fear: fear of loss of market share, fear of technological obsolescence, and fear of being placed in a box by those with superior patent positions. Being careful was more important than being right." [p. 40].

Building up patent arsenals was not as effective as management might have expected due to "decentralized patent management and unwillingness to strike first as a defensive measure when it was perceived that a patent attack from specific entities was inevitable." [p 41].

Many companies suffered from the "illusion” that their patents provided more exclusivity and financial return than they actually did. McCurdy writes that they

> Failed to adopt and actively pursue the licensing of valuable patents and technologies. They believed that the market exclusivity afforded by their key patents and distinguishing technologies was more valuable (and sustainable) than the profit margins that might be realized from selectively licensing them. Instead, they searched for hidden treasures, rather than the masterpieces under their noses that were already the basis for their own product successes [p. 43].

In order to better manage their IP, companies need to know what they have *and* what they do not. Thus every company needs to maintain

> a current inventory of its most valuable technologies, generally identifiable as those that (1) are known by the industry to be leading technologies; (2) have been proven by use in the company's successful products or services; (3) are capable of being transferred to others, generally by engineers, technologists, and/or manufacturing staffs teaching their counterparts designated by the licensee; (4) are serving significant and growing markets; and (5) that are being continually invested in and refreshed by the company so that its leading technological position can be maintained [p. 45].

Alexander Poltorak, a physicist by training, writes Chapter 4, "On Patent Trolls and Other Myths". He is the one who, on p. 57, provides all the descriptive adjectives I used earlier to describe patent trolls. He discusses the five myths of patents on pp. 58 to 64.

(1) Myth 1:A patent is needed to practice the invention.

(2) Myth 2: It is not 'nice' to sue for patent infringement.

(3) Myth 3: The value of a patent is the same as the value of the patented technology.

(4) Myth 4: The patent system is fair.

(5) Myth 5: A patent is a tax on innovation.

Peter Detkin, former head of patent litigation for Intel, in Chapter 5, "Roadblocks, Toll Roads, and Bridges: Using a Patent Portfolio Wisely", initially develops the fiduciary obligations of management, as I reviewed above. Then he develops the theme that "not all patents are created equal". Some are used as

> a trading card in a negotiation with another patent holder" [p. 73], some are licensed in order for the patentee to set standards or to "go down technological avenues [the patentee] prefers" [p. 75]. Some are licensed to manufacturers who will supply the protected product to the manufacturer at a reduced cost while the manufacturer may sell to others at a higher price perhaps including a royalty [p. 75]. Unrelated or orphaned patents need to be managed as well. Some can be used to raise capital, some abandoned to save maintenance fees. The resulting proceeds/savings can be used by other patents or to file for new patents [pp. 77-78].

James Malackowski, CEO of Ocean Tomo, contributes Chapter 6, "Risky Business: Overlooking Patents as Financial Assets". He further develops the notion of fiduciary responsibility, discussed above. He offers four "key dashboard metrics" for successful patent management:

(1) the level of patent protection achieved for a given dollar volume of product sold in each market segment;

(2) the number and scope of claims protecting key product features that either drive demand or support premium pricing;

(3) the relative crowdedness of the patent space and the rate of patent activity growth/decay; and

(4) the level of risk or threat presented by other competitive portfolios in the space [p. 99].

Much maligned contingency lawyer Raymond P. Niro contributes Chapter 7, "Who Benefits from Patent Enforcement?" His theme is that a patent is worthless without a remedy. Inventors must consider patent enforcement. Failure to enforce a patent that is being infringed *squanders* the patent asset [p. 112]. Inventors who are not well funded can still seek to enforce their patents in the U.S. thanks to the contingency fee relationship which can:

- Allow an individual or a small company that owns the patent (each with limited resources) to have access to sound legal representation.

- Keep the judicial system open to everyone, not just those who can afford to spend millions in legal fees.

- Allow small- and medium-sized companies to participate in the process.

- Force patent owners and the lawyers representing them to evaluate the strengths and weaknesses of their cases carefully before filing suit. No one wins by litigating marginal cases on a contingent-fee basis.

- Allow large corporations to enforce their portfolio of patents more aggressively by making patent enforcement more palatable to business managers by capping their litigation budget. It is extremely difficult, if not impossible, to estimate litigation expenses in a patent case (at the outset of the case) with any degree of precision. Business managers, who ultimately pay for the litigation, do not like to be surprised with cost overruns. After all, they are expected to meet their projections on a quarterly or annual basis.

- Finally, contingent-fee arrangements require lawyers to be accountable to their clients based on the result achieved. I feel that if more lawyers representing well-financed defendants had to evaluate their cases on what they would be paid based on the result achieved, there might be more early settlements and less of the "scorched earth" litigation tactics we see so often [pp. 117-18].

Bruce Lehman, Under Secretary of Commerce and United States Commissioner of Patents and Trademarks, 1993-1998, writes Chapter 8, "Global IP in Crisis: The Threat to Shareholder Value". He points out the dangers of uncertainty due to "lack of effective harmonization" [p. 132] and the "long pendency, unpredictable courts and questionable examination quality in USPTO and other developed country patent offices [pp. 133-34]. He recommends reducing some of the stress in the international system by "concentrating examination in a few regional patent offices along the model of the EPO" [p. 136]. He asks management to encourage meaningful reform [p. 139].

Ronald J. Schutz, one of the most successful patent litigators, says that to win you need more than a strong patent. In Chapter 9 he proves "It Takes More Than Being Right to Win a Patent

Dispute". You need to "know everything that can be known" [p. 146] and recognize that "juries love a good story" [p. 147]. A strong patent that is to be enforced has clarity, tells a good story, does not carry any baggage (as a result of the patent prosecution process), and may have spawned pending continuation applications that contain new patent claims drafted with the benefit of the infringing product or method and that are accompanied by "prior art that the alleged infringer claims would invalidate the patent" [pp. 149-50]. He develops the measurement of risks and rewards in patent disputes and ways of hedging the risk.

Joe Beyers, chief IP strategist at H-P, and the first reporting directly to the CEO, writes Chapter 10, "Managing Innovation Assets as Business Assets". He sets out these basic attributes of effective business-led IP licensing models:

- IP is viewed as a corporate asset.

- The IP licensing program has a high degree of scrutiny and visibility with the CEO and the Board of Directors.

- The financial model for the IP licensing function provides the right incentives for a high degree of collaboration with the business units.

- Clear roles and responsibilities are defined, and the IP licensing function has sufficient decision-making authority to enable rapid execution.

- The IP program is staffed with skilled and experienced specialists.

- Sufficient infrastructure exists to enable effective execution [pp. 165-68].

The most financially successful inventor, Ronald A. Katz, contributes the last chapter, "Secrets of the Trade: An Inventor Shares His Licensing Know-How". Through the "Katz interactive *call-processing* patent portfolio licensing revenue approach", one billion dollars has been thus far attained. In this chapter he goes through some of the ways he has been successful in earning that significant dollar amount. (I expect you would not want to receive a call from his assertion counsel.)

> We work with our assertion counsel, who help us assemble that information into a cohesive package that demonstrates the use of our technology. Our assertion counsel will then typically write to the prospective licensee to request a meeting.
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> Our attorneys prepare for such meetings by creating confidential PowerPoint presentations that take an exemplary claim, element-by-element, and compare it with an operation or method employed by the prospective licensee in its call-processing operations, showing why we believe the company is benefiting from the use of

> our inventions. Our negotiation professionals work with the prospect to finalize a license agreement. We have done this more than 100 times to date [pp. 188-89].

Although *Making Innovation Pay* does not quiet reach the depth that I sometimes hoped it would (this may be a systemic fault of a collection of essays), it proves to be collection of timely and insightful essays from ten leading practitioners – eleven, if you count Berman himself. It addresses serious topics, like fiduciary duties and risk management, with far more credibility than any one author/practitioner could. This book is a must for senior management and a great resource for the IP practitioner.

Thanks again, Bruce Berman, for putting IP management into a business perspective and making it more comprehensible to senior executives, professionals and managers alike.