BOOK REVIEW


Intellectual Property: Valuation, Exploitation and Infringement Damages is an essential reference text for doing business in the 21st century. It represents the fourth book in an evolution of technique development and experience by its well-reputed authors, the three earlier books having focused on individual topics of licensing and joint ventures, infringement damages and trademark valuation. The authors refer to it as “really four books within a single cover,” perhaps helping to justify its rather steep cost. Simply put, the book provides a comprehensive guide to attaching a dollar value to all legally-recognized forms of intellectual property for all types of purposes. The value of the book is enhanced by the authors’ offer to send along, to owners of the book, any material that is updated before the next edition is published. This unusual offer highlights the rapidly changing nature of the field.

Why is there likely to be so strong an interest in putting a quantitative value on intellectual property? The book provides a long menu of answers, including all of the following: calculations for sale transactions, bankruptcies, licensing, strategic alliances, estate and gift taxes, marital dissolution settlements, infringement damages, intercompany transactions, collateral-based financing, attorney malpractice actions when registration rights are not properly obtained, accounting requirements and regulatory requirements.

The book organizes this menu of applications into three main topics of valuation, exploitation and infringement damages. The authors coin the useful term “virtual transaction” to describe the underlying premise of intellectual property assessment: the pursuit of a calculation “as if” a transaction was to take place.

The first section, Valuation, answers the question “how much is my intellectual property worth?” As the authors explain, the answer depends on who is asking the question and for what purpose the valuation is being done. The explanation of Valuation is extremely thorough on the topic of trademarks, no doubt reflecting the substantive work Smith had done on his earlier book entitled, Trademark Valuation. Disappointingly, it does not tackle head-on the issues of copyright or patent valuation, fields where more guidance for business is badly needed. However, the general principles, which the authors illustrate for trademark matters, can
be readily adapted on a case-by-case basis to copyright and patent matters.

The second section, Licensing, deals with the price at which an owner of intellectual property should be prepared to allow others to use a limited proportion of his or her rights, on a pay-as-you-go basis. A broad perspective is first established regarding the opportunities to exploit intellectual property by licensing—whether through global alliances, joint venture partners or exclusive licensees. Business strategies, risks and deal-making issues are discussed. Within this context, the authors present advice on specific methods of royalty calculations and licensing fees. The authors also take note of emerging university “technology transfer” licensing programs, which frequently have very different business drivers from those of for-profit corporations. Specific examples are given of policies from two major American universities, Harvard and Johns Hopkins.

The third section, Infringement Damages, deals with quantifying lost profits following a finding of infringement. This section traces the antecedents of lost profits back through sales volumes, costs and profit margins. It has good situation-specific detail, including reference to particular cases and trends in the U.S. courts. Its most interesting chapter is on “Trade Secret Damages.” The value of trade secrets has little practical meaning for valuation and licensing—the book’s earlier topics—but comes to life when trade secrets have been misappropriated to the financial detriment of the corporate owner.

Finally, the book is supplemented with several technical appendices, mostly by guest authors, on investment rate of return, appraisal depreciation, financial and business information sources, and sales forecasting models.

The book employs a fluent, intellectual writing style, couching its technical analysis in descriptive examples that constantly display empathy to the owners of the underlying business problems. Its most significant contribution is its well-defended thesis that intellectual property is one of the most important economic forces in business today, which risks being under-appreciated, under-exploited and under-protected without more aggressive measurement.

The book’s most significant limitation is its eclectic organization and inconsistent formatting. For example, while it devotes its last section to a collection of technical appendices, one of the individual chapters on Accounting Issues has appendices and is inconsistent in that respect with every other chapter. The book’s initial introduction to specific forms of Intellectual Property (Section 2.2) devotes sub-sections to Proprietary Technology, Patents, Copyrights, Computer Software, Mask Works, Right of Publicity and Intellectual Capital, and then it gives equal
prominence to a one-paragraph subsection entitled simply, “Comment.” Inexplicably, there is no sub-section on Trademarks, although the reader discovers that there is a subsequent chapter devoted entirely to trademarks. Within that chapter, whose title suggests that it will be devoted to “defining” trademarks, one finds discussions of the valuation methods (cost approach, market approach, income approach) for domain names and naming rights—even though these discussions are not consistent with the apparent purpose of the chapter nor are valuation approaches explained until subsequent chapters. Observations about economic importance of intellectual property to a business enterprise reappear in eclectic fashion in different chapters and sections throughout the book, introducing redundancy and interfering with the logical flow. These and other examples make the book difficult to read as a unified treatise. Both students and practitioners would be hard-pressed to locate complete answers to any given question without jumping to different parts of the book and making liberal use of the index at the back. Notwithstanding the difficulties just enumerated, the book represents an enormous amount of work and expertise in compiling facts, techniques and perspectives.

Distinctly different audiences will find this book to be useful. Corporate Directors will benefit from the identification of all forms of intellectual property assets that expand their risk management obligations. Financial executives will be stimulated to find opportunities for revenue enhancement. Company auditors will be provided with an important reference for balance-sheet reporting to shareholders. Academics will find a good linkage between leading-edge theory and business practice. Lawyers will have a larger window into this world of expert evidence, with a greater vista for seeing what is possible, in support of corporate transactions and dispute resolution.

Coincidentally, the Smith and Parr book has been published in the same year as another book on the same topic published by the American Bar Association, with six expert contributors, entitled, Intellectual Property Valuation: A Primer for Identifying and Determining Value. Based on recognition of the same trend of the growing economic significance of intellectual property, the ABA publication stays true to its goal of being a “primer.” Brief, readable and well-organized, it is a good first stop for those new to the topic or less interested in technical controversies. The Smith and Parr book, however, is for more sophisticated readers, who want a sound and thorough reference text on their library shelves.

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