Index

Accountancy 288–307
  amortization and impairment test 304–305
  definition 304
  US GAAP 305
initial measurement of patents 295–301
  business competition 296
  external acquisition 295–297
  ‘Fair Value Measurements’ 297, 301
  technical and commercial feasibility 297
interrelated aspects 288
problems 289–290
  disclosure of patents 289
  initial recognition 289
  measurement of 289
mismatch between economics and accountancy 290
recognition of patents 290–295
  capitalisation of 294–295
  conditions 292
  identifiability 293
  IFRS vs US GAAP 295
  probability, and 293
  reliable measurement 293–294
  US GAAP 294
useful life 301–304
Accounting purposes
see Accountancy

Black-Scholes model 152–153, 155–156

Critical issues in patent valuation 19–21
  contribution to value creation 20
  legal uncertainty 20
  market and technical uncertainty 20–21

Damages analysis 262–284
  definition of 262
  Europe, and the US 262–263
Determinants of patent value 69–77
  different economic approaches 70–71
  geographical extension of 74–75
  national vs foreign entity 75
  industry/technology, impact of 72–73
  appropriability regime 72
  new fields 73
  technological discontinuity 73
lost profits 263–275
  see also Lost Profits
  patent owner’s characteristics 75–77
  Bayh-Dole Act, 1982 75–76
time and cohorts, effects of 73–74
Economic perspectives 56–78
damages analysis 262–284
  reasonable royalty 275–284
  unjust enrichment 284–285
value 57–77
  see also Value
Exploitation strategies 82–100
diffusion of markets for technology 86–88
  supply and demand 87
  transfer of IPRs 87–88
knowledge-based economy 83–86
  anti-Commons tragedy 85
diffusion of technology markets 86
  licensing 88–99
  see also Licensing
Finance 309–332
collateral 310–311
financial growth cycle 312
The economic valuation of patents

 Patent Backed Financial Instruments (PBFI) 322–328
 characteristics of 322–323
 effectiveness of 328–329
 patent and sale and lease back process 325
 patent loan 323
 patent securitization 326–327
 SME, and 324
 valuation of 329–330
 see also Value

 Income approach 125–137
 asset-specific risk 134–135
 conditions 134–135
 idea of 134
 calculating term-equivalent cost of capital 132–134
 asset specific rate of return 134
 cost of equity 133
 Weighted Average Cost of Capital 133
 calculation of discount rate 132
 contribution of patented technologies to income 126–128
 differentiation 127
 free cash flow 126–127
 different variants of 128
 discounted cash flow 125–126
 incremental income analysis 128–129
 ‘indirect techniques’ 129
 cost savings 128–129
 profit-split analysis 131–132
 25% rule 132
 relief-from-royalty method 130–131
 principal conditions of 131
 residual value approach 129–130
 principal requests 129–130
 structure of 130
 taxation issues 136
 importance of 136

 Indicators 169–198
 definition 169
 method of choice, as 170–171
 patent data based valuations 171–182
 see also Patent Data Based Valuations
 legal status 172–173
 patent valuation approaches, comparison of 170

 Infringement 48–50
 costs 48–49
 definition 48

 Intangible nature of patents 19–20
 Intellectual property rights 207–217
 alternatives to patent protection 217
 blocking competition 209
 corporate success 207–209
 cost of patents 214, 216
 costs
 international phase 216
 renewal fees 214, 216
 first filing 212
 identification 210–211
 steps of 211
 invention reports 211–212
 evaluation and selection of 211–212
 maintenance 212–213
 generation of patents 213
 protection by patents 210
 publication 212
 revenues from licensing agreements 210
 scope of application of patents 213–214
 criteria for 213–214
 second filing 212
 secrecy 212
 securing freedom of action 209
 strategic use 207–217

 Legality 25–50
 patent law
 see also Patent Law

 Trade-Related Aspects of Intellectual Property Rights (TRIPs) 25

 Importance of patents 3–6
 development of workers 5
 expanding use of patents 5–6
 growth of patents 5

 Yale University, and 327–328
 uncertainty 310
Index

Licensing 88–99
licensing in, reasons for 95–99
access to essential patents 97–98
achievements of others 97
aims 96
empirical results of licensing in 98–99
reasons for 95–96
technological diversification 96–97
licensing out, reasons for 89–95
‘grant-backs’ 95
main reasons 90
monetary 90
opportunity to diversify 91
patent pool 93–94
‘protective’ versus ‘open-orientated’ 94–95
small firms 91
telecommunications and semiconductor industries 92–93
London Stock Exchange 89
Licensing agreements 233–257
evaluation of 242–257
law and economics 234–239
definition of 234–236
exclusivity 235
fundamental coordinates of 234–235
last resort, as 237–238
minimum royalty payments 237
payment structure 239
payment terms 236–239
principal/agent situation 233–26
termination of license 238
variable fees 236–237
method of 242–257
negotiation 239–242
controversial aspects 242
disclosure of details 239–240
licensing contracts 233–258
Licensing Executive Society 240
main objectives of 241
statements of 242–243
Lost profits 263–275
before-and-after approach 273–274
predictions based on 274
but-for costs 267–268
but-for sales 264–266
additional sales 266
cross-price elasticity 265
infringement 264–265
monopoly of 267
plaintiff’s manufacturing capacity 266
substitutability between products 265
but-for world 264
components of a lost profits claim 268–269
costs damages 268–269
customer surveys 271
financial documents or historical data 271–273
categories of cost 271
cost structure 272–273
costs and sales, analysis of 272
make-whole standard of damages and the but-for world 264
market-share approach 269–270
conditions of 269–270
elasticity of demand 270
merger simulation techniques 274–275
Panduit Corp vs Stahlin Brosi 263–264
parameters of model 274–275
Methods of evaluation 242–257
determinants 69–77
see also Determinants
discounted cash flows 248–250
assumptions in 250
conditions of 248–250
steps of 248
industry standards 245–248
comparable transactions 245
identification of comparable licenses 245
limitations 247–248
real option 250–251
see Real Options
rules of thumb 243–245
25% per cent rule 243–245
example of 244
steps of 244
Option pricing formulas 152–159
  binomial option-pricing model 154–159
  option value 157, 158
  parameters 158–159
  periods of 154, 157
  continuous or discrete option valuation model 159
  valuation in continuous time 153–154
  parameters of 153–154

Patent data based valuations 171–197
  accuracy 190–191
  acceptance of 190
  empirical results 191
  measurements of 190–191
  adjusting the indicators 185–186
  methods of 186
  origins of 186
  applications 192–197
  governments 193
  knowledge, necessity of 197
  investors 192
  law firms 192–193
  strategic management 193, 197
  citations 174–176
    backward citations 176
    indicators of value 174–175
    limitations of 177
    number of 175
    opposition and litigation 176–177
  claims 179–180
    empirical evidence for 179–180
    combining several indicators 187–189
    drawbacks of 187–188
    factors and analysis 189
    implementation of 183–189
    challenges of 184
    corporate portfolios, data of 184
    international scope 173–174
    arguments 173–174
    inventors 181
    number of inventors 181
    legal status 172–173
    periodical renewal fees 172–173
    overview of 181–182
    table of 182
    patent filing strategy 180
  technological scope 178–179
  theoretical foundations of 178
  worldwide patent database, need for 184–185
  time-dependence of citations costs 185

Patent law 27–39
  definition of 27–30
  business models 29
  discoveries 30
  European Patent Convention 31
  exclusionary power 29
  inventions 29–30
  ex post justifications 26–27
  inventions not patentable 33–34
  procedure, prosecution, and grant 34–37
  accessibility 35
  application of 34
  European Patent Convention 2000 36–37
  Paris Convention for the Protection of Industrial Property 35
  Patent Cooperation Treaty 35
  search report 36
  protection defined 37–39
  compulsory licensing 39
  exhaustion doctrine 38
  infringements 37
  physical item, differences of 37–38
  TRIPs 38–39
  protection, requirements of 31
  novelty of invention 31–32
  person skilled in the art (PSA) 33
  state of the art 32

Portfolio management 205–231
  factual and legal protection strategies 206
  intellectual property rights 207–217
  see also Intellectual Property Rights
  legal and factual protection strategies 205–206
  temporary competitive advantages 205–206

Patent portfolio
  elements of 229–230
  St. Gallen approach 217–227
  see also St. Gallen approach
Principles of patent valuation 6–16, 109–125
asset to be valued, patent as 118–120
competitive advantages 119
drivers of 119
products, and 118–119
categories of 110
cost approach 112–113
forms of 112–113
income approach 111
infringement 46
legal protection 120–121
parameters of 120
market approach 111–112
active market 112
patent and the underlying technology, distinction between 123–125
Corresponding consideration 123
patent portfolio 124–125
price limits 123
value of 129
patent due diligence 10–11
patent value, assessment of 6–9
concept of 7
‘what’ 6–8
‘when’ 8
‘who’ 9
‘why’ 8–9
patent value methods classification 9–10
portfolio management decisions 117–118
strategic planning 118
product or process 122–123
legal term of the patent 122–123
value of patent 122
qualitative approaches 10–13
IPscore 12
Rating/Ranking Methods 11, 13
quantitative (monetary) approaches 14–16
costs approach 14
income approach 15
market approach 14–15
real options approach 15–16
review of 16
quantitative (non-monetary) approaches 14
reasons for 116
technologies, benefits of 121–122
transaction-based valuations 116–117
equity and debt financing 116–117
reasons for 117
valuation approaches 110–111
‘hybrid approaches’ 110
traditional valuation approaches 111
valued assets 113–116
cost approach 114–115
fair values 115
individual asset 116
process of 113, 116
Protection
drafting, and 46–47
independent claims, number of 47
Stanford University, and 47
status of procedures 43
type and quality 42
relationship with technology 42–43
Real options 141–165, 250–257
binomial model 160–163
definition of 142–144
analogy of 143–144
real and financial options 144
different options 144–146
economy 250–257
financial call option 255–256
upfront fee 256
evaluation
calculation 256
example of 251–255
general valuation framework 146
extended NPV 146
limitations of models 164–165
patents, and 149–152
growing literature 149–150
option pricing formula 152–159
see also Option Pricing Formula
‘option to expand the geographical extension’ 151
‘option to renew’ 151–152
‘option to sue’ 152
‘options to abandon’ 151
‘options to wait’ 150–151
real options in patent valuation 150
solutions, as 165
real call options 144
uncertainty on patent returns 147–149
real options in pharmaceutical patents 148–149
source of uncertainty 147
upfront fee 250, 255
Reasonable royalty 275–284
approaches to 275–276
definition of 275
Georgia-Pacific 280–284
hypothetical negotiation approach 278–280
rules of thumb 280
use of comparables 276–277
use of established royalty 276
use of industry averages 277
Research and development
complementary assets 87
cost of 99
duplication of 95–96
economy, and 83–85
excessive 27
external partners of 226
fair values 297
information asymmetries 341–342
invention reports 211
inventors 181
investments in 310
market valuation 344–346
patent and market values, results of 345
marketing 197
‘option to sue’ 152
real options 165
sponsors, and 44
stock market, and 66
subsidy 57–58
technology landscapes 192–193
Technology Time Cycle 348–349
time and cohorts 73
US GAAP 299–300

St Gallen approach 217–227
Stock market valuation 337–353
contemporaneous studies 348–349
implications of 352
importance of 337–338
initial public offering 340–343
innovation measures 341–342
long-term unemployment 341
shares 341
‘underpricing’ 340–341
intertemporal studies 349–350
issues of 351–352
marginal information content studies 350–351
stylised model 338–340
patents and market value, relationship between 339
time of 338
valuation of innovation 343–347
disadvantages of 346
empirical tests 344
patents and market value 345
sections of 346–347
studies of 347–348

Technology
barriers to market protection 45
competing products/technologies 41–42
ease of enforcement 44–45
employment 43
licensing
see licenses
maturity of 40–41
definition of 41
obsolescence of 45–46
residual duration of protection 45–46
protection, and 42–43
quality of 39–40
due diligence 40
warranty clauses 40
third parties
see also Third parties
value, and 72
Third parties 43–44
omitted inventors 43–44
owners of dominant patents 44
sponsors 44

Valuation contexts 16–19
choice of methods 18–19
description of 16–18
corporate valuation 17–18
financial reporting 17
internal decisions on the management of patent portfolios 16–17
IP-backed finance 17
IP financial markets and intermediaries 18
patent damages 17
patent licensing 17
stock market investment decisions 18
Valuation methods 109–137
venture capital valuation 68–69
Value 57–77
commercial transactions 61–67
licensing transactions 62–63
public listed companies 62–63
systematic and reliable data 63
definition of 57–59
level of analysis 59
‘patent premium’ 57–58
determinants 69–77
see also Determinants
income approach 125–137
see also Income Approach
investors’ surveys 63–66
measurement 59–69
open innovation model 99–100
indirect function of patents 99
rent-generating potential 99–100
patent backed financial instruments 329–332
future cash flow 330
International Organisation for Standardization 331–332
method of 330–331
patent renewal data 59–61
advantages of 60–61
public-listed companies, stock market valuations of 66–68
advantages of 67–68
work required 78
Venture capital 313–322
cycle of 317–319, 322
deal evaluation and contracts 319, 322
due diligence 318–319
screening phase 318
deal origination 314–315
definition 313
facilitation 315–317
characteristics of patent 316
managerial interviews 320–321
structure 314
value of patents and grants 315