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Book Review

The Long Journey To Software Valuation: Risks and Rewards Ahead

by Dwight Olson

(San Diego: Truman Enamels, 2020), softcover, 198 pages, ISBN: 978-1-7344129-0-1. Available at Amazon.com

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One of the most difficult challenges for any technology start-up, and for its investors, is how to assess the commercial value of their innovative product or service solution. Much-needed guidance on that challenge has finally arrived. Dwight Olson's *The Long Journey To Software Valuation*, released on March 1st of this year, provides tremendous assistance for both owners of those assets and all potential investors. In fact, the arrival of Mr. Olson's book is a relief. As my law practice has been, and remains, devoted to aggressively commercializing technology (including software) for over 25 years, I personally know how welcome Mr. Olson's well organized and insightful assistance will be across the entire sector.

Mr. Olson is one of the most respected and sought-after experts on the valuation of software in North America, having sold his own ground-breaking software escrow business to Iron Mountain in 1997. Since 1997, Mr. Olson has been the president of both Certified Licensing Professionals Inc. in the U.S., and of the highly prestigious Licensing Executives Society for the U.S. and Canada, where he also chaired the I.P. Valuation Committee.

Readers of Mr. Olson's guidance will be rewarded with exceptionally well researched, comprehensive, and insightful answers to what have been complex software valuation mistakes and impediments. No stone is left unturned. Issues include:

- due diligence assessment essentials (far too often missed or underestimated) such as probative investigations into what possible I.P. ownership threats may exist (from employees, independent contractors, or other possible software authorship contributors);
- the essential relationship between the inherent value of software and the impact that software will have on the nature and scope of the problem that it solves;
- perspectives into why debt investors should regard software as a vital collateral asset;
- the enhanced value of software that can be readily adapted, enhanced, customized and continuously improved; and

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- the need to determine the market value of software as a complete asset, including all essential components such as trade-secrets, know-how, written materials and manuals and knowledge assets related to the ability to further develop the software.

Mr. Olson also tackles commercialization challenges head on. These include:

- the implications of including open-source components;
- the difficulty in creating a competing software product, and other ‘barrier to entry’ benefits inherent in the software’s commercial value;
- the failure of many investors to understand the nature of the problem being solved by the software, and what the commercial market demand is, or may become, for solving that particular problem; and
- how complicated the software is to actually use, including operational risks, lack of access to support and maintenance services, and the ability to configure, customize, enhance and continuously improve the software.

Almost as an admonishment to those who fail to appreciate the true commercial value of software, Mr. Olson poignantly explains that “[a] software product is a complex bundle of assets . . . patents, trademarks, copyrights and industrial designs . . . trade-secrets, know-how and other intangible descriptions of specific knowledge which a software business uses to support commercialization.”

Having delivered a robust blueprint of software valuation methods, criteria, and considerations, Mr. Olson wisely points out that the accounting, business and investment communities may still not fully appreciate the capital, revenue and market value of enterprises software assets. In his words:

By the year 2000 we knew that the information age was here, and we saw an increased number of corporations accumulating wealth based on software. We watched Microsoft’s enterprise value in the year 2000 pass one quarter of a trillion dollars with annual revenues exceeding twenty billion dollars, with much of that due to software licensing. In 2020, Microsoft’s value hit one trillion dollars in corporate value. Yet, even today, how many line items on corporate financials are touting ownership of software assets?

With the benefit of Mr. Olson’s exceptional and breakthrough contribution to this challenging field, that confounding gap in corporate financials should change quickly.