

Different Values

Over the last year or so I have written about several studies of patent valuation. While each of these studies had strengths and weaknesses, one common weakness they shared was that these studies were so general that they provided little practical guidance about the nuts and bolts of evaluating a specific patent.

Fortunately, in 2013 Larry Goldstein published a more practical view of patent valuation titled *True Patent Value: Defining Quality in Patents and Patent Portfolios*.

In *True Patent Value*, Goldstein starts with a basic premise: a patent will have no value until the patent is infringed. While this is obvious for patent awards derived from infringement lawsuits, the statement is equally true for licensing fees and the sales of patents. The reason is that people will not license or purchase the patent rights for technology unless they intend to use the technology and wish to avoid infringement. Alternately, they may purchase the patent rights to pursue somebody else who may be infringing. In either case, the patent doesn't generate revenue until the technology is infringed.

Most of the rest of the book is dedicated to the observation that a patent can only have value if it is enforceable. And, unfortunately, in Goldstein's model the only way to determine enforceability is to actually read, understand, and evaluate the patent in question. Goldstein defines three evaluation criteria for enforceability: the validity of the claims, the scope of the claims, and the discoverability of the infringement of the claims.

Validity: While the presumption should be that the claims are valid, in truth courts often find that claims that the USPTO should not have allowed. There are many reasons that claims may be held invalid. There may be prior art that wasn't discovered in the patent search. There may be a change in the patent law that impacts the claim. Or a flawed claim may have been approved in error.

When evaluating a claim for flaws one should look for clear terminology, support in the specification, and unusual usage of a key term in the claim. By clear terminology is meant that terminology should be used consistently throughout the claim or claims. Two terms should not be applied to describe the same item or concept nor should a single term be used to describe two different items or concepts. By support in the specification is meant that the terms used to describe the boundaries of the invention within the claim should be the same terms that were used to describe the invention. In addition, all the key terms used in a claim should be described or defined in the specification. By unusual usage is meant the use of a well known term in a non-standard way. While the rule is that "an applicant may be their own lexicographer," it then is incumbent on the applicant to clearly define how they are using their terms within a specification. Unless the specification clearly states otherwise, the plain meaning of a term will be used when interpreting a specification.

Scope: The specific question that scope answers is: how easy is it to design around a patent claim? In general, the more detailed the claim, the easier it will be to design around. However, broader (less detailed) claims will often run into conflict with prior art.

Discoverability: If a patent's value derives from infringement, then it follows that the infringement has to be detectable. Generally, features of a claim that are related to the final product, and even better are visible, will be more readily discovered than claims involving manufacturing procedures and methods.

Once the scope, validity and discoverability of a patent have been determined, Goldstein's experience (which is considerable) is that a good financial analyst familiar with the market the patent is in should be able to build a reliable financial model that estimates the market segments the patent is being infringed in as well as an estimated cash flow from those segments.

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