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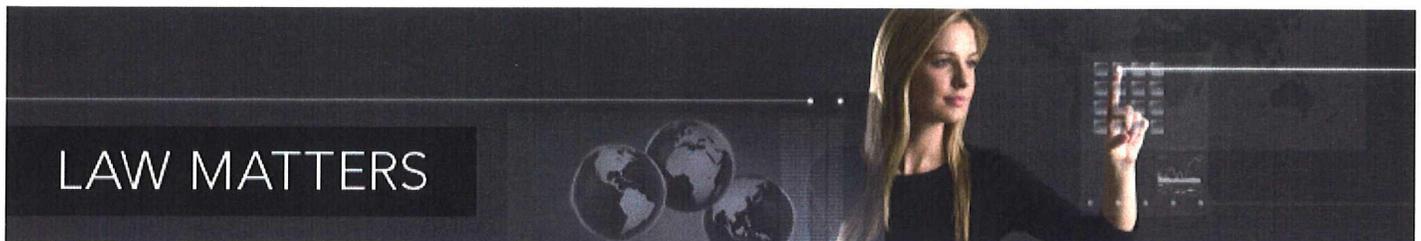
# Patent Valuations – Does Yours Have These Seven Key Elements?

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*A JD Supra Perspective by Paul Haughey, Kilpatrick Townsend partner and patent valuation team leader:*

We've seen many patent valuations that are of little value. Many simply use software that counts things in each patent and assign a score. Typical things counted are the number of forward and reverse citations, the number of drawings, the number of words in the claim, etc.

However, there is simply no substitute for having a patent attorney review several patents in a portfolio. We've seen high values given to patents on obsolete technology, and high estimated royalties based on industry sales totals, where there are many alternatives to the invention.

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*...think about what steps you would take in evaluating whether to buy a portfolio of patents.*

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Citations are usually an indication of a patent description that is robust, not an indication of how good the claims are. Also, while short claims tend to be broad, they are also easier to invalidate. A longer claim that recites many features that competitors would need to include is often just as broad and harder to invalidate.

So what should you look for in a good patent valuation? A good guide is to think about what steps you would take in evaluating whether to buy a portfolio of patents. In addition to the standard steps most valuations check (expiration dates, countries of coverage, etc.), you would likely have the following done:

## **1. Exemplary patents**

Patent brokers usually identify a few key patents they have analyzed. A patent valuation should do the same, with their claims and file history reviewed to determine scope. The file history often reveals a broader claim that had to be narrowed, and prior art that indicates possible non-infringing designs.

Brokers trying to sell a portfolio will pick out the best patents, and often have a claim chart showing what it reads on. You should have something similar in a valuation.

## **2. Apportionment**

A determination should be done of what portion of a product is covered by the claims. Even if it recites the whole product with a particular feature, does it really just cover that feature? Courts apply apportionment to limit the value to which a royalty would be applied, especially for software, electronics, and other products that might be covered by 100s or 1000s of patents.

## **3. Alternatives**

Has the presence or absence of alternatives been investigated? An internet search can reveal whether competitors are using different designs that accomplish the same or similar benefit at similar cost. If alternatives are present, this will limit the amount anyone is willing to pay for the patents.

## **4. Enforcement Cost**

The valuation should offset expected revenue with at least a rough estimate of the expenses needed to obtain that revenue, just as you would analyze any product being considered for development. There will certainly be costs for licensing negotiations, letters, claim chart analysis, etc.

Some level of litigation may be required to convince someone to sign a license, and if the expected amount is significant enough, or many licensees would be pursued, expect an IPR challenge with likely defense costs around \$250-450,000 per challenge.

## **5. Stacking**

Multiple patents on the same product are unlikely to increase a potential royalty much beyond what the first patent would fetch. The main impact is to decrease the invalidation risk, since it is more difficult to invalidate multiple patents. Make sure the valuation isn't double counting.

## **6. Validity**

Has there been at least a minimal level of validity review? A patent attorney with experience in a technology can often do a quick search and find relevant prior art. While a thorough validity review often would simply cost too much, finding out if there is an obvious problem that turns up in a brief search is worth doing.

## 7. Client involvement

While you may prefer to have a 3<sup>rd</sup> party do the valuation without taking your time, the more involved the client is, the better the results are. You know the likely future sales, likely time to obsolescence, competitors and their alternative designs with pluses and minuses, etc. This input will insure a much more accurate valuation.

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