

The Acoustical Impact Method of Patent Valuation

There are many methodologies that can be used to value patents. Whatever methods are selected to value subject patents, the credibility of the valuation report (and thus the extent to which it will be discounted) is a function of the thud (acoustical impact) that the report makes when it hits the desk of the reader.

In fact, one of the world's most successful patent brokers told me that he once hired someone to write a valuation report. When the three page report was presented, the patent broker was too embarrassed to show it to the patent-holder.

Let's put aside the obligatory caveat that this would not be true if a report's girth is only result of it being filled with vacuous or redundant information. Rather, let's suppose the report contains lots of insightful and well researched information. Lots of ideas were considered and many sources were consulted. That is what composes the content of our hypothetical report.

So why is girth better?

Here are some reasons:

- 1) A well-researched report is a proxy for the institutional knowledge that resides in a company. An analyst cannot have been employed with the subject company for 20 years. However, the robustness of the research brought to bear reduces this issue.
- 2) For similar reasons, a well-researched report is (somewhat of) a substitute for not having unlimited access to the company, inventors, management, etc.

Now there is a highly philosophical reason for preparing girthier reports. It is that the research that goes into preparing such a report brings the analyst into the fourth stage of knowing.

Stay with me. Here are the stages of knowing:

Stage 1 – You know what you know. (For example, I know how to drive a car.)

Stage 2 – You know what you don't know. (I know that I don't know how to repair my car's transmission.)

Stage 3 – You don't know what you don't know. (I would never think to check under my car for a bomb.)

Stage 4 – You don't know what you know. (If my child needed to be rushed to the emergency room, I might amaze myself with how adroitly I know how to drive.)

Valuing patents is very difficult. Patent valuation analysts must be able to live with some degree of uncertainty. However, confidence in the number that the analyst produces is bolstered by sheer hard work. With hard work, an analyst can come to understand Plato's wise words, "He who does not know may still have true notions of that which he does not know."

Finally, sometimes when lawyers recommend me to their clients who are seeking to buy or license in a patent, the lawyer suggests that the report be very brief. The reason being is that the seller will often eventually see the report, and a girthy report will impart too much information of value to the seller which can be used against the buyer. This indicates to me, in a very real context, that there is value in the thud that reports make when they hit desks.

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