



MEETING RECAPITULATION

THE PAULINE NEWMAN IP AMERICAN INN OF COURT

THURSDAY,
OCTOBER 13, 2016

The second Inn meeting of the 2016-2017 year again took place in the auditorium below the atrium in the Madison Building, at the headquarters of the United States Patent & Trademark Office, on Thursday, October 13, 2016.

A reception with hors

d'oeuvres and drinks began at 6:00 p.m., followed by the program at about 7:00 p.m.

The topic of the program was “Patent Valuations and the Impact of Claim Drafting”, presented by Stephen A. Holzen, Certified Licensing Professional, Certified Valuation Analyst, and Director of the Dispute Advisory & Forensic Services Group of Stout Risius Ross, Inc. He is also a Registered Patent Agent and the Chair of AIPLA’s Patent Agent Committee. He has earned a B.S. in Mechanical Engineering from Pennsylvania State University and an M.B.A. from American University. He was a Patent Examiner for seven years.

Claims impact the value of patents. Accountants used to say that they did not look at claims in evaluating patents. It is very difficult to determine what a patent is worth by just looking at the patent itself. Two examples show how patent valuation can widely vary: In June 2012, Intel bought 1,700 patents from Interdigital for \$375,000,000, or \$220,000 per patent. In April 2012, Intel bought 15 patents from Aware for \$75,000,000, or \$5,000,000 per patent. Differences in patent valuation are partly affected by the claims, and partly by the motivation of the parties to a transaction.

In the third quarter of 2012 (before the America Invents Act took effect) IP Offerings determined that the mean price of a patent was \$468,333, while the median was only \$175,379. There is much larger number of patents that have a small value. This only reports patents





whose sale was reported; many patent transactions are not reported, and many patents are worthless. For the full year in 2014 (after the AIA took effect), IP offerings reported the mean patent price as \$251,007, and the median patent price as \$123,144. This was a 40% drop in the mean and a 33% drop in the median.

The actual median price of patents is often less than expected median price based on comparable transactions. Operating companies are willing to pay less for patents than patent assertion entities, because the latter intend to license them to multiple companies, rather than just use the patented inventions themselves (or perhaps buy the patents merely to make threatened litigation go away).

Value is not the same as price or cost; it may be defined as a fair return or equivalent in goods, services or money for something exchanged. Class A patents,

worth more than one million dollars, have broad claims, multiple infringing parties, infringing products that generate millions or billions in sales, infringing parties that include Fortune 500 companies, and a high likelihood of out-of-court settlements. Class B patents, worth from \$500,000 to \$1,000,000, have relatively broad claims, several infringing parties, infringing products that generate millions in sales, and a medium to high likelihood of out-of-court settlements. Class C patents, worth from \$200,000 to \$500,000, have relatively broad claims, suspected infringing parties, and a large target market. Class D patents, worth from \$5,000 to \$200,000, have narrow claims, no known infringers, and a small to medium target market. Patents with broad claims are not necessarily the most valuable; some patents with narrow claims are valuable if they read on a competitor's products.

Patent valuation requires a team of experts in law, technology and the industry/market. Sophisticated technologies require sophisticated valuation techniques, even if the end user does not necessarily use the valuation techniques. Valuation depends on the purpose for which it is sought. Point of interest searching may not require looking at the claims.





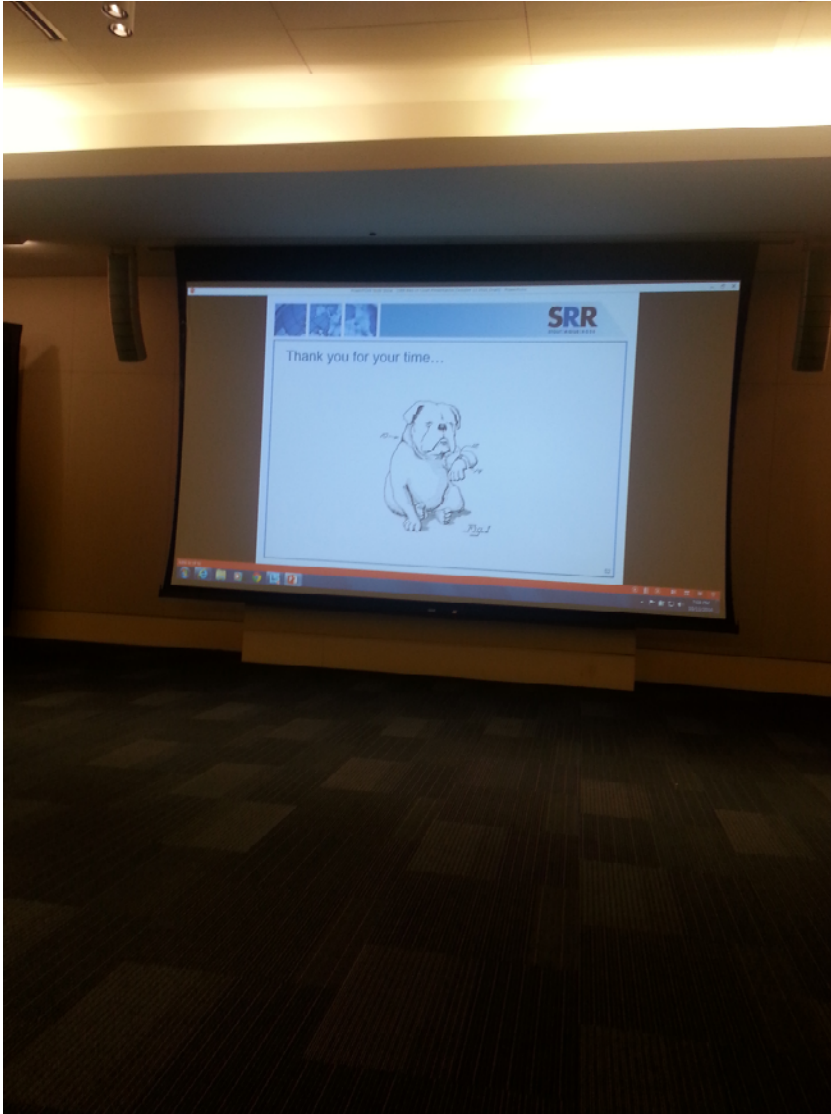
Common intellectual property valuation approaches are cost, market, and income. (The same three approaches can be used in other areas, such as real estate.) In the cost approach, value equals the cost to replace or recreate the IP asset with one of equal effectiveness, assuming immediate loss of that asset. It assumes that no party involved in an arm's length transaction would be willing to pay more to use the property than the cost to replace the property. The cost approach is suitable for embryonic technology for which market applications cannot yet be defined, and for claims that are narrow in scope and easy to design around. A shortcoming of the cost approach is that it does not consider future income and risk. A levitationarium for air flotation of humans was patented (and a noisy video of an advertisement for it was played at this point in the program). Another shortcoming is that it does not consider market conditions. On the other hand, a low-cost patent may be highly valuable.

In the market approach, value equals arm's length price paid in comparable transactions. An assumption is that no party involved in an arm's length transaction would be willing to pay more than others have paid for similar IP. Advantages of the market approach are that it can be very useful if exact comparables are available, it can be used to establish "ballpark" values for royalty rates, and it is favored by tax authorities for deals with affiliates. Drawbacks of the market approach are that by definition, IP is unique, it is difficult to compare deals with multiple forms of compensation, and there are many hidden deal factors.

In the income approach, value equals the present value of the expected future income stream. It assumes that a buyer in an arm's length transaction would be willing to pay some portion of its expected economic gain from using the IP. It may require an income stream to be projected for the lifetime of the patent. The various *Georgia Pacific* factors correspond to these three approaches. In evaluating patents, I always look at the prosecution history.

In answer to questions from the audience:
We need to know the purpose of the evaluation to





do it. The average value of patents has gone down after the AIA took effect. We have more confidence in the validity of a patent, once it has gone through the Inter Parties Review process.

The meeting ended at about 8:00 p.m.

Respectfully submitted,

Stephen Christopher Swift
Secretary