Valuation of Intellectual Property (and Beyond)

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VALUATION OF INTELLECTUAL PROPERTY (AND BEYOND)

Valuation Overview

- Discounted cash flows where
  - Cash flow is defined as proceeds minus costs
  - Discount rate determined by risk that cash flows will not materialize due to various risk factors
- Comparables/Relief from Royalties
  - Valuation of intellectual property in established market using royalty rates for similar products
  - Used to assess damages in infringement cases
  - Well-developed case law but requires established market
- Market
  - Assumes willing buyer and willing seller in arms'-length transaction and sufficient exposure
  - Most similar to bankruptcy court approach

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Valuation = Damages

Mandel v. Thrasher (In re Mandel), 2014 U.S. App. LEXIS 15709, at * 31 (5th Cir. 2014)

- "Damages in misappropriation cases can take several forms: the value of plaintiff's lost profits; the defendant's actual profits from the use of the secret, the value that a reasonably prudent investor would have paid for the trade secret; the development costs the defendant avoided incurring through misappropriation; and a reasonable royalty."

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Other Methods

- Market Capitalization Method
  - This approach is used for companies listed in the stock exchanges.
  - From the balance sheet of the company the book value of all the total tangible assets are subtracted from the total liabilities and net tangible assets are calculated.
- Cost Based Approach
  - This approach is based upon on the principle of substitution, *i.e.*, value of an asset is estimated on the basis of cost to construct a similar asset at current prices.
- Real Options Method (ROM)
  - Uses income or DCF method and then applies the Black-Scholes option-pricing model.

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Discounted Cash Flow

- Proceeds are determined by
  - Revenue or income associated with the use of the IP
    - Market size
    - Existence of market
    - Regulatory constraints
  - Expected growth characteristics of the identified revenue or income
  - Expected duration of the revenue or income
  - Risk associated with generating the estimates of revenue or income
  - Proportion of the revenue or income that is attributable to the subject IP (i.e. mixed IP/product/service components).

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Discounted Cash Flow

- Costs are determined by
  - Development costs
  - Marketing costs
  - Manufacturing costs
  - IP costs
  - Other

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Discounted Cash Flow: Discount Rate

- In addition to the usual discount rate risk factors, valuation will also need to include:
  - Regulatory approval
  - Provability of concept
  - Competitive forces that reduce or eliminate available market

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Comparable Market Method

Comparable Valuation Method Or Market Transaction Method

- This method provides an indication by comparing the price at which similar property has exchanged between buyers and sellers. It requires:
  - Active market involving comparable property
  - Past transactions of comparable property
  - Access to transaction price information
  - Arm's-length transactions between unconnected parties
  - In practice, difficult to find sufficiently comparable transactions

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Relief from Royalty

- Relief from royalty is based on deprival value and represents the rental charge that could be paid to the licensor if this hypothetical arrangement were in place. The ability to determine an appropriate royalty rate depends upon the specific circumstances and requires the identification of suitable comparable transactions and prices involving third parties.

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Reasonable Royalty Analysis

35 U.S.C. § 284

- Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but ***in no event less than a reasonable royalty*** for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
- Lost profits are also available for certain cases

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Reasonable Royalty cont.

- Royalty Base
  - Comprised of sales revenue derived from the allegedly infringing activity
- Royalty Rate
  - Can be based on comparable license agreements, industry data and other sources
  - Not limited to % of sales, can be running royalty, lump sum, capped, etc.

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Parties use a "Hypothetical Negotiation"

Real Negotiation	Hypothetical Negotiation
Patent Validity Disputed	Patent Assumed Valid
Patent Infringement Disputed	Patent Assumed Infringed
Limited Knowledge	***Knowledge of Lots of Facts***

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Georgia Pacific Factors

License / Scope

1) Royalties Received By Patentee For Licensing Of The Patent In Suit, Tending To Show An Established Royalty Rate
2) Rates Paid By The Licensee For The Use Of Comparable Patents
3) Nature And Scope Of The License
4) Licensor's Established Policy And Marketing Program To Maintain Patent Monopoly
7) Duration Of The Patent And Term Of License

Profitability / Business

5) Commercial Relationship Between Licensor And Licensee
6) Effect Or Value As A Generator Of Sales Of Non-Patented Items
8) Profitability, Commercial Success And Popularity Of Products Made Under Patent
12) Portion Of Profit Customary To Allow For Use Of The Patented Invention
13) Portion Of Realizable Profit That Should Be Credited To Patented Invention As Distinguished From Business Risks Or Features Added By Infringer

Technical / Benefits

9) Utility And Advantages Of The Patent Over Old Modes Or Devices
10) Nature, Character, And Benefits Of The Patented Invention To Users
11) Extent Of Use By Infringer And Evidence Probative Of The Value Of That Use

Overall

14) Opinion Testimony Of Qualified Experts
15) Hypothetical Negotiation Between a Willing Licensor And Licensee

Royalty Base: Entire Market Value Rule (EMVR)

- EMVR
  - If the patented feature **drives demand** for the entire product, the EMVR permits the patent owner to use the entire market value of the product as a starting point for the royalty base
- Exception in most cases
  - *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011).
    - Excessively large royalty base cannot be cured by commensurately small royalty rate
  - *Laser Dynamics, Inc. v. Quanta Computer, Inc.*, 694 F. 3d 51 (Fed. Cir. 2012).
    - "Valuable, important, or even essential" is not enough

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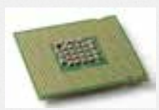
Royalty Base: Smallest Saleable Patent Practicing Unit

- Patent directed to Instruction Reorder Buffer (IRB)
- SSPPU was CPU
- IRB was only a feature of the CPU


CPU


CPU Brick


Cell Board


Server

Cornell v. Hewlett-Packard, 609 F. Supp. 2d 279 (N.D.N.Y. 2009)

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Royalty Rate: Apportionment Methods

- Apportion value of the SSPPU: Some Methods
  - Apportion profits among profit centers (patents, trade secrets, goodwill, brand)
  - Real estate approach (divide total number of features or other tangible item)
  - Number of patents within the SSPPU
  - Isolate value using market research, surveys
  - Value use of feature through surveys or other research (usage data)
  - . . .

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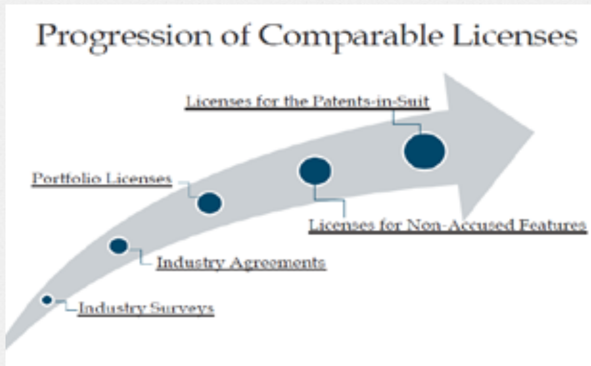
Royalty Rate: Comparable Licenses



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Royalty Rate: Comparable Licenses

- Tie the "comparable" license to the hypothetical negotiation
  - "[T]here must be a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in the case." *Uniloc*, 632 F.3d at 1317 (2011); *see also Lucent*, 580 F.3 at 1325 (2009) ("sufficiently comparable")
- Tie the "comparable" license to the claimed invention
  - "Any evidence unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statute." *ResQNet*, 594 F.3d at 869 (2010)

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Standard Essential Patents (SEPs)

- SEP damages relate to FRAND (Fair Reasonable Non Discriminatory)
  - ETSI, MPEG, Bluetooth, WiFi (802.11), H.264, etc.
- What is a FRAND rate?
  - SSPPU?
  - Determine rate before patent declared essential or after?
  - Next best alternative
  - *Microsoft v. Motorola, In re Innovation IP Ventures*
- Bottom line: SEP patent may be treated different by Courts

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Comparables

Potential Issues in Assessing Comparables

- Portfolio vs. single patent license
- Settlement/third party/related party licenses
- Status of validity and infringement
- License date vs. hypothetical negotiation date
- Standard essential patent vs. patent pool
- Technologically/economically comparable
- Non-practicing entity vs. practicing entity
- Rights conveyed: patent vs. non-patent

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Lubrizol: Defining Rejection

- In *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.),* 756 F.2d 1043 (4th Cir. 1985). Court allowed the debtor to reject the license and thereby strip the non-debtor licensee of all of its rights to use the patented technology.

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Section 365(n)

- In response to *Lubrizol,* Congress enacted section 365(n) of the Bankruptcy Code, "to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license pursuant to section 365 in the event of the licensor's bankruptcy." S. Rep. No. 100-505 at 1 (1988), *reprinted in* 1988 U.S.C.C.A.N. at 3204

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Section 365(n)

(B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for—

(i) the duration of such contract; and

(ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

11 U.S.C. § 365(n)(1)(B)

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Bankruptcy Risk Issues

- However, trademarks are ***not*** included in the Bankruptcy Code's definition of intellectual property. 11 U.S.C. § 101(35a).
- *See In re Old Carco LLC,* 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) (finding that the argument "that [section] 365(n) entitles the [non-debtor parties] to retain their rights with respect to the Chrysler trademarks and continue using them post-rejection [is] without merit. Section 365(n) only allows such retention of rights and continued usage if the executory contract is one under which 'the debtor is a licensor of a right to intellectual property.' Trademarks are not 'intellectual property' under the Bankruptcy Code.")

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Section 365(n): Legislative History

[T]he bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor–licensors. While such rejection is of concern because of the interpretation of section 365 by the *Lubrizol* court and others, such contracts raise issues beyond the scope of this legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts.

(quoting S. Rep. No. 100-505, at 5, *reprinted in* 1988 U.S.C.C.A.N. at 3204)

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In Re: Sunbeam Prods., Inc. (7th Cir. 2012),

- Court relied on § 365(g): "Except as provided in subsections (h)(2) and (i)(2) of this section, the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease …"
- Citing a long line of cases to the effect that "rejection does not equal termination," held that notwithstanding omission of trademarks from § 101(35A), licensee could retain use of trademarks.
- "[R]ejection is not 'the functional equivalent of a rescission, rendering void the contract and requiring that the parties be put back in the positions they occupied before the contract was formed.'" *citing Thompkins v. Lil' Joe Records, Inc.*, 476 F.3d 1294, 1306 (11th Cir. 2007).

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Other Exceptions

- *In re Interstate Bakeries Corp.*, 751 F.3d 955 (8th Cir. 2014) (trademark license integrated into asset purchase agreement was not "executory");
- In *In re Matusalem*, 158 B.R. 514, 521-22 (Bankr. S.D. Fla. 1993) (section 365(n) did not terminate trademark license where trademark was integrally linked to other intellectual property).

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No New Rights

- Section 365(n) protects a licensee's rights to intellectual property "as such rights *existed immediately before the case commenced . . . .*" 11 U.S.C. § 365(n)(1)(B) (emphasis added); *accord Biosafe Int'l, Inc. v. Controlled Shredders, Inc. (In re Szombathy),* Nos. 94 B 15536, 95 A 01035, 1996 WL 417121, at * 11 (Bankr. N.D. Ill. July 9, 1996), *rev'd in part on other grounds sub nom, Szombathy v. Controlled Shredders, Inc.,* No. 97 C 481, 1997 WL 189314 (N.D. Ill. Apr. 14, 1997) (licensee not entitled to any modifications or improvements in debtor's patented tire shredders created after date of debtor's bankruptcy petition).

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Exclusive = Not Executory

- *In re Exide Technologies,* 607 F.3d 957 (3d Cir. 2010), the Third Circuit addressed whether an agreement that included "a perpetual, exclusive, royalty-free" trademark license, granted by the debtor, to a licensee. The majority resolved the dispute based on a factual determined that the Agreement was not an executory contract.

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Exclusive = Not Executory

- *In re Golden Books Family Entm't, Inc.*, 269 B.R. 311, 314 (Bankr. D. Del. 2001) (distinguishing exclusive from non-exclusive copyright licenses, and holding that, unlike non-exclusive licensees, "an exclusive licensee does acquire property rights and 'may freely transfer his rights, and moreover, the licensor cannot transfer the same rights to anyone else'") (quoting *In re Patient Educ. Media, Inc.*, 210 B.R. 237, 242-43 (Bankr. S.D.N.Y. 1997)); *In re Yalley Media, Inc.*, 279 B.R. 105, 135 (Bankr. D. Del. 2002) ("Exclusive licenses grant the licensee a property right in the copyright that is freely transferable . . . .");

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Exclusive = Not Executory

- *In re GT Brands Holding, LLC*, No. 05-15167, 2005 Bankr. LEXIS 2807, at *3 (Bankr. S.D.N.Y. Sept. 2, 2005) (holding that licenses were exclusive and could be assigned); *Traicoff v. Digital Media, Inc.*, 439 F. Supp. 2d 872, 877 (S.D. Ind. 2006) ("A natural reading of the [Copyright] Act's language leads to the conclusion that exclusive licensees, as copyright owners of their exclusive rights, are free under the Act to transfer those rights to third parties.").

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Assignment: Venue Matters

- The "hypothetical test" states that "a debtor-in-possession may assume an executory contract only if hypothetically it might assign that contract to a third party." This test was adopted by the Third, Fourth, Sixth, Ninth and Eleventh Circuits. *See In re Catapult Entertainment, Inc.,* 165 F.3d 747 (9th Cir. 1999*); In re Sunterra Corp*., 361 F.3d 257 (4th Cir. 2004); *In re James Cable Partners, L. P.*, 27 F.3d 534 (11th Cir. 1994) (per curiam); *In re West Electronics, Inc.*, 852 F.2d 79 (3d Cir. 1988*); In re Magness*, 972 F.2d 689, 695 (6th Cir.1992).

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Assignment: Venue Matters

- The "actual test" means that the debtor may assume a non-assignable contract if it is not actually assigning it to a third-party. This test is adopted by the First and Fifth Circuits and the Southern District of New York. *See Institut Pasteur v. Cambridge Biotech Corp*., 104 F.3d 489, 493 (1st Cir. 1997) (applying the actual test); *In re Mirant Corp.,* 440 F.3d 238, 248, (5th Cir. 2006) (adopting actual test); *In re Adelphia Comms. Corp.*, 359 B.R. 65 (S.D.N.Y. 2007) (adopting actual test).

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Identifying Cash Flow Stream Attributable to IP

Fink v. Edgelink, Inc., 2014 U.S. App. LEXIS 1086, at *15 (3rd Cir. 2014)

In the context of a suit alleging successor liability, the court considered whether there was a transfer of intellectual property to the alleged successor. The court found that there was no value relying in part upon the fact that the Chapter 7 Trustee for the predecessor concluded that the intellectual property in question was highly speculative and worthless to the estate and that the company that allegedly used the intellectual property "boasted a starkly negative cash flow, no apparent income attributable to intellectual property, and minimal corporate assets."

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Identifying Cash Flow Stream Attributable to IP

- *Crestar Bank v. Comband Technologies, Inc. (In re Comband Technologies, Inc.)*, 1995 U.S. App. LEXIS 31064, at *10 (4th Cir. 1995)
- Bank's lien on intellectual property was surcharged pursuant to Section 506(c) for the costs incurred to preserve the operating integrity of the business. "Often buyers can measure the value of intellectual property only be examining what cash flow that property is currently generating for the business. Moreover, the value of intellectual property can evaporate entirely if the business that owns the property stops operation."

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Identifying Cash Flow Stream Attributable to IP

- *Jagow v. GEF Servs., LLC* (*In re Content Distrib., Inc.*), 2011 Bankr. LEXIS 4233. at *19-20 (Bankr. D. Colo. 2011)
- Chapter 7 Trustee attacked pre-petition sale of debtor's assets as a fraudulent conveyance. The Bankruptcy Court denied a request for injunction requiring segregation of revenues from use of sold intellectual property. "However, the evidence that Falan is creating new or improved products, albeit while using some of the Debtor's intellectual property (for which no value has been established) and is selling those products online using new websites, does not support enjoining those activities. Specifically, the evidence does not warrant a finding those activities, as opposed to the sale or disposition of the particular assets transferred by the Debtor, will cause irreparable harm to the estate. [footnote omitted] If anything, should Jagow prevail on her claims that the proceeds from the new or improved products on the new websites constitute property of the estate, Falan's profits from those products could go towards payment of any judgment in favor of the estate."

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Identifying Cash Flow Stream Attributable to IP

- *In re Bicoastal Corp.*, 164 B.R. 1009, 1017-18 (Bankr. M.D. Fla. 1993)
- "It should be pointed out at the outset that the real value of intellectual property is its potential to generate income. In the present instance, the income stream to be derived pursuant to the Royalty Agreement is based on the use of the Singer Mark. Currently the Singer Mark is being used by Shinwa or its successors-in-interest in a wide-spread distribution system spread over three continents. In order to maintain the level of income generated by Shinwa, a subsequent purchaser of the Singer Mark would be required to setup and organize a similar marketing system by establishing retail establishments selling marked goods, absent of which the trademark would not produce any income to the purchaser. It is evident in this record that Shinwa has acquired the right to use the additional trademarks, including the PFAFF trademark, a trademark well-known in Europe, and Sansui, a recognized name in the Far East. Should Shinwa be unable to obtain the absolute right to use the Singer Mark, it is not unlikely that it will reduce its use of the Singer Mark and increase its use of these other Marks, which it owns outright. In light of the foregoing, it is difficult to assume that the Debtor would be hard pressed to find a buyer to purchase the right to use the Singer mark."

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Other Indicia of Value of IP: Costs; Infringement Claims

- *BOKF, N.A., v. JPMorgan Chase Bank, N.A.*, (*In re MPM Silicones, LLC*), 518 B.R. 740, 755 (Bankr. S.D.N.Y. 2014)
- Dicta: "if the value of collateral in the form of intellectual property is reduced by infringement, the secured creditor's lien should extend to the debtor's infringement claim, as proceeds."

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Other Indicia of Value of IP: Costs; Infringement Claims

- *Holber v. M&T Bank (In re Scheffler)*, 471 B.R. 464, 481-82 (Bankr. E.D. Pa. 2012)
- Rejecting the cost to develop technology as evidence of its value and asking: "Hypothetically, if PGE had not run into as much trouble with its initial production of the prototype Stacker through a third party and if it had cost PGE only $200,000 more than its sales price to produce, would that mean the value of the identical technology was $200,000? If the cost to produce had been $10,000, what would the technology be worth? What if Debtor, as an employee of PGE had been able to develop the technology at no cost over the price paid for the prototypes? Would the Stacker technology be worthless? It may very well be worthless, but its worthlessness has nothing to do with what it cost to develop it. Using the cost method to develop a unique technology, whether by PGE, Apple, or IBM, is a strikingly inappropriate methodology to determine the market value of technology generally, and of the Stacker technology in particular."

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Other Indicia of Value of IP: Costs; Infringement Claims

- 'The value of intangible personal property comes from the legal rights, the intellectual property content and/or the expected economic benefits that are associated with that intangible asset.' Robert F. Reilly, The Identification of Intangible Assets for Bankruptcy Purposes, AM. BANKR. INST. [*27] J., Sept. 2008, at 40, 42 (in order for intangible personal property to be considered an asset, it must have the ability to be "owned" and it must have value). The actions of, and financial contributions made by, GVFI support the conclusion that the patent applications have considerable value. The applications have the potential to bestow valuable legal rights and future economic benefits upon their owner.
- As Mr. Rui points out, the plan proponents make no attempt whatsoever to value the intellectual property owned by the Debtor. This, combined with GVFI's contradictory actions, leads the Court to conclude that the plan proponents have not met their burden of proving compliance with Section 1129(a)(7)."

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Other Indicia of Value of IP: Costs; Infringement Claims

- *BNX Sys. Corp. v. Worldwide Investigations & Research, Inc.* (*In re BNX Sys. Corp.*), 2007 Bankr. LEXIS 3295 (Bankr. E.D. Va. 2007)
- In considering damages for interfering with 363 auction, court rejects cost to develop intellectual property as indication of the price that the intellectual property would have sold at auction but for the interference.

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Brand Value v. Enterprise Value

- *In re Eastman Kodak Co.*, 2013 Bankr. LEXIS 3325, at *21-22 (Bankr. S.D.N.Y. 2013)
- In considering testimony regarding the Kodak brand based upon the Relief From Royalty method, the Court stated:
- "[B]rand value is not a separate item of value in excess of the total equity of an enterprise. Kodak has publicly estimated its equity value upon reorganization as between $208 and $658 million -- for an average of $433 million -- or, if implied by the rights offering being conducted in connection with the Debtors' plan, as $498 million. ... Lazard's managing partner, David Kurtz, testified that this valuation was the result of hundreds of hours of work by recognized professionals. Although some shareholders may not accept it, they have not provided any reason to distrust it. They cannot disprove it on the unsupported hypothesis that the Kodak brand might be worth $1 billion, or on the basis that the Kodak brand was worth $1 billion years ago when it was still a leader in the photography business. Whatever value the Kodak brand may have after the sale of its camera business and its bankruptcy, it is imbedded in total equity value, reasonably estimated at less than $500 million and resulting in a wholly insolvent debtor."

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Market Testing

- *In re Websci Techs, Inc.*, 2007 U.S. App. LEXIS 11572, at *13-14 (3rd Cir. 2007)
- In affirming the Bankruptcy Court's finding that for purposes of application of Section 1129 the debtor's intellectual property had no value, the Court reasoned: "With respect to the valuation of the intellectual property, the Bankruptcy Court relied on the expert report of Precision E-Consulting, which Tare cites favorably in his brief. According to the report, WebSci's product would require a significant investment of time and money (between $ 1-2 million) to make it marketable and would require 'at least twice as much to take the product to market.' Because neither Tare nor the Trustee had been able to find a buyer for the software, and because it could not be marketed in its current state, the Liquidation Plan assigned no value to the software."

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Market Testing

- *In re Ontos, Inc.*, 2006 U.S. Dist LEXIS 4198, at *9 (D. Mass. 2006)
- Trustee settled breach of fiduciary duty, alter ego and fraudulent conveyance claims against officers arising out of sale of computer software for $590,000 and the assumption of $13 million in debt. In connection with approving the Trustee's settlement of the claims for $50,000 based upon the Trustee's experience, due diligence and application of "the usual rule that absent anything that raises my eyebrows, my hackles, or disturbs my stomach, I will go with the Trustee's business judgment," the Court stated:
- "I don't know if any of the counsel that are present here today were here on another case I had a couple of years ago, and the question was the value of the intellectual property, and we had two experts in. They were experts, and one said software was worth 200 million dollars, and the other expert said it was worth zero; and they were both right, assuming the assumption on which they based their opinions: It is today's software or yesterday's software?"

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Market Testing

- *Brandt v. nVidia Corp.* (*In re 3DFX Interactive, Inc.*), 389 B.R. 842 (Bankr. N.D. Cal. 2008)
- In the context of considering a chapter 11 trustee's fraudulent conveyance action, the court: (i) rejected the argument that the transaction in question was a sale of a business as opposed to a sale of specific assets; (ii) rejected the chapter 11 trustee's expert's testimony of the value of the business based upon the buyer's analysis of the value of the transaction to the buyer, the decrease in the stock price of the seller after the transaction was announced, and an unsupported value of each engineer hired by the buyer; and (iii) found that the purchase price paid was the best indication of the value of the assets acquired.

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Experts

- *Holber v. M&T Bank* (*In re Scheffler*), 471 B.R. 464, 478-83 (Bankr. E.D. Pa. 2012)
- In considering the value of certain technology, the court contrasted one expert who examined financial and performance history which demonstrated that: "No matter how many Stackers SAS sold, it had historically enjoyed and would in the future enjoy no profit. Payroll, travel, administration, insurance, utilities, and other hard and soft operating costs and expenses could not be paid from the revenue generated by sales.", with another expert who prepared a capitalization of hypothetical income using "economics of a wholly unrelated industry and ignored the actual, terrible absence of profit from selling every one of the Stackers at a huge loss."

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Experts

- *In re Bicoastal Corp.*, 164 B.R. 1009, 1017-18 (Bankr. M.D. Fla. 1993)
- "The Objectors' expert placed the value of the Compromise and Sale at $ 400 million. This expert gained his experience in the liquidation of assets in bankruptcy, and did not have any background or any meaningful experience evaluating the value of intellectual property. In reaching the value of the asset, the expert did not take into consideration the risks or costs of litigation in either the appeals or future collection of the royalty payments. Taking those items into consideration, the expert modified his value to at least $ 200 million. This number is totally arbitrary and unsubstantiated by this record.
- In contrast, the experts presented by the Debtor in support of the proposed Compromise and Sale are a nationally recognized organization with extensive background and experience in evaluating intellectual properties, trademarks and licenses and a prominent law firm evaluating the likelihood of success on appeal. Balancing the opposing testimony of the experts, this Court is constrained to reject the testimony of the expert offered by the Objectors and is satisfied that the sum offered for the Compromise and Sale, $ 93.8 million immediate cash payment and waiver of any and all claims of Shinwa against the estate, is a fair and adequate consideration."

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Experts

- *In re Eastman Kodak Co.*, 2013 Bankr. LEXIS 3325, at *14-15 (Bankr. S.D.N.Y. 2013)
- "Shah did not change his prediction of future revenues based on the 2013 sale and other recent developments, of which he was aware. He also admitted that he did not consider whether the Debtors had granted licenses to virtually all their retained patents to the consortium involved in the purchase of their digital imaging patent assets or whether the remaining unlicensed patents may be essential to Reorganized Kodak's core businesses and cannot be licensed or sold. Shah's prediction of future revenues on the basis of obviously overstated income assumptions has no basis in reality. His willingness to state an opinion based on outdated and obviously overstated income figures makes his testimony unreliable."

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Experts

- *In re Surfango, Inc.*,2009 Bankr. LEXIS 4172, at *25-27 (Bankr. D. N.J. 2009)
- In denying plan confirmation for, among other reasons, failure to meet the best interest test, the Court considered the evidence presented as to the value of the debtor's intellectual property.
- "Mr. Volpacchio testified that the patent applications are worthless or cannot be valued at this time because the patent applications are not marketable until the patents are actually issued and only have value to the Debtor in the context of a going concern. His testimony is incredible in light of the following:
- 1. GVFI agreed to pay $ 5 million for 51% of the stock of Surfango, Inc. based upon the potential for its products, not on any track record of profits or sales.
- 2. GVFI has spent hundreds of thousands of dollars for legal fees in the Michigan litigation and this bankruptcy case, trying to wrest ownership of Surfango, Inc. and the inventions from Mike Rui.
- 3. GVFI believes these products have a promising future that will warrant further capital investment by them or others.

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Experts

- *Venango River Corp. v. Nipsco Indus., Inc.,* 1998 U.S. Dist. LEXIS 7151, at *3-4 (N. D. Ill. 1998)
- In granting a motion to bar introduction in to evidence of an expert report, the Court reasoned:
- "Venango's damages expert, Edward Robinson, has applied a discounted cash flow analysis to arrive at his conclusions that Venango's ideas for 26 projects to be implemented by the owners of the South Shore – ideas that were the subject to the allegedly breached Confidentiality Agreement—were worth $ 30 million over a 20-year period. Mr. Robinson acknowledged that an idea has value only in conjunction with the assets, management skills, and strategic plans necessary to implement the idea. Nevertheless, Mr. Robinson's opinion appears to ascribe all of the profitability of the 26 ideas to the ideas themselves, taking no reduction for the assets and skills necessary to implement them. Put another way, Mr. Robinson appears to assume that the owner of assets and management would be willing to pay the originator of an idea the entire amount of revenue that the owner might expect to generate from that idea, taking no reduction for the value of the owner's contribution of assets and management."

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Thank You!

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