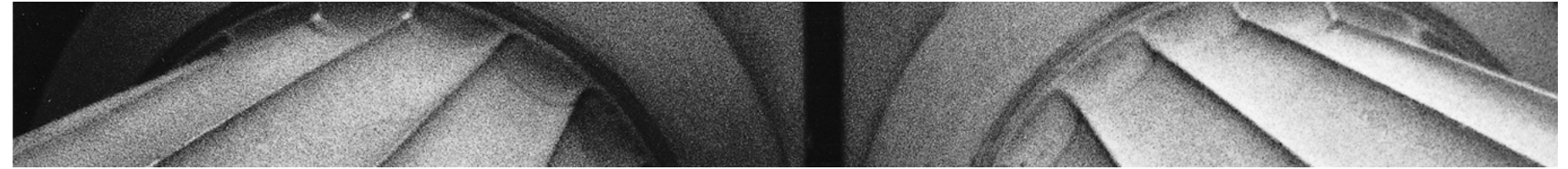


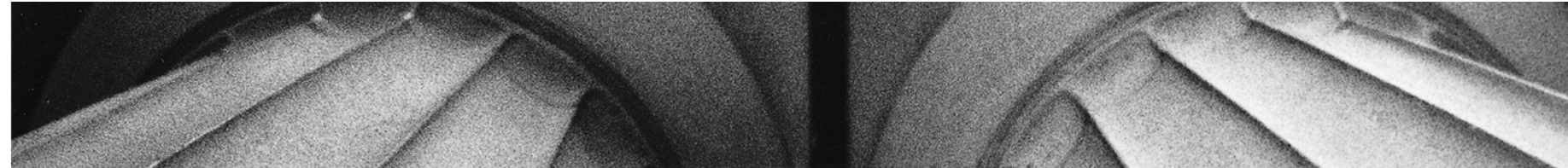


Patenting Business Methods & Potential Damages



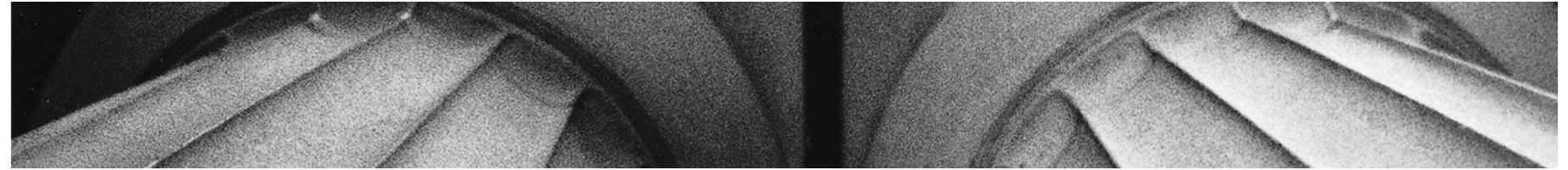
Agenda

- Introduction to Business Method Patents
- Economic Damages:
 - The Entire Market Value Rule
 - Apportionment
 - Life After the eBay Decision



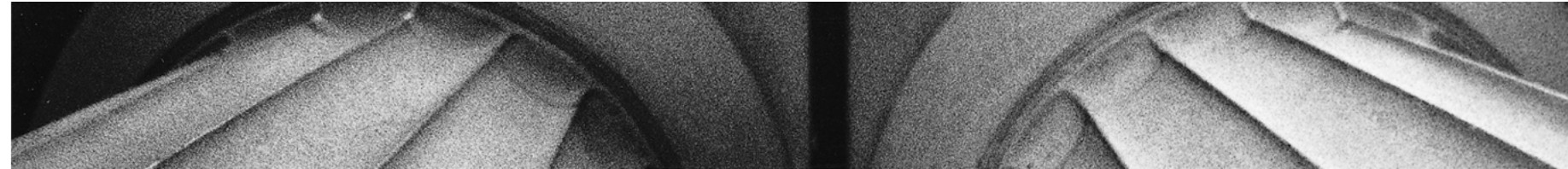
What are Business Method Patents?

- US Patent Class 705
 - “Data processing: financial, business practice, management, or cost/price determination”
- Business purposes such as:
 - Financial
 - Financial Instruments & techniques
 - Optimization
 - Marketing
 - Information acquisition, human resource management, accounting, & inventory monitoring
 - E-Commerce tools & infrastructure
 - Voting systems, games, gambling

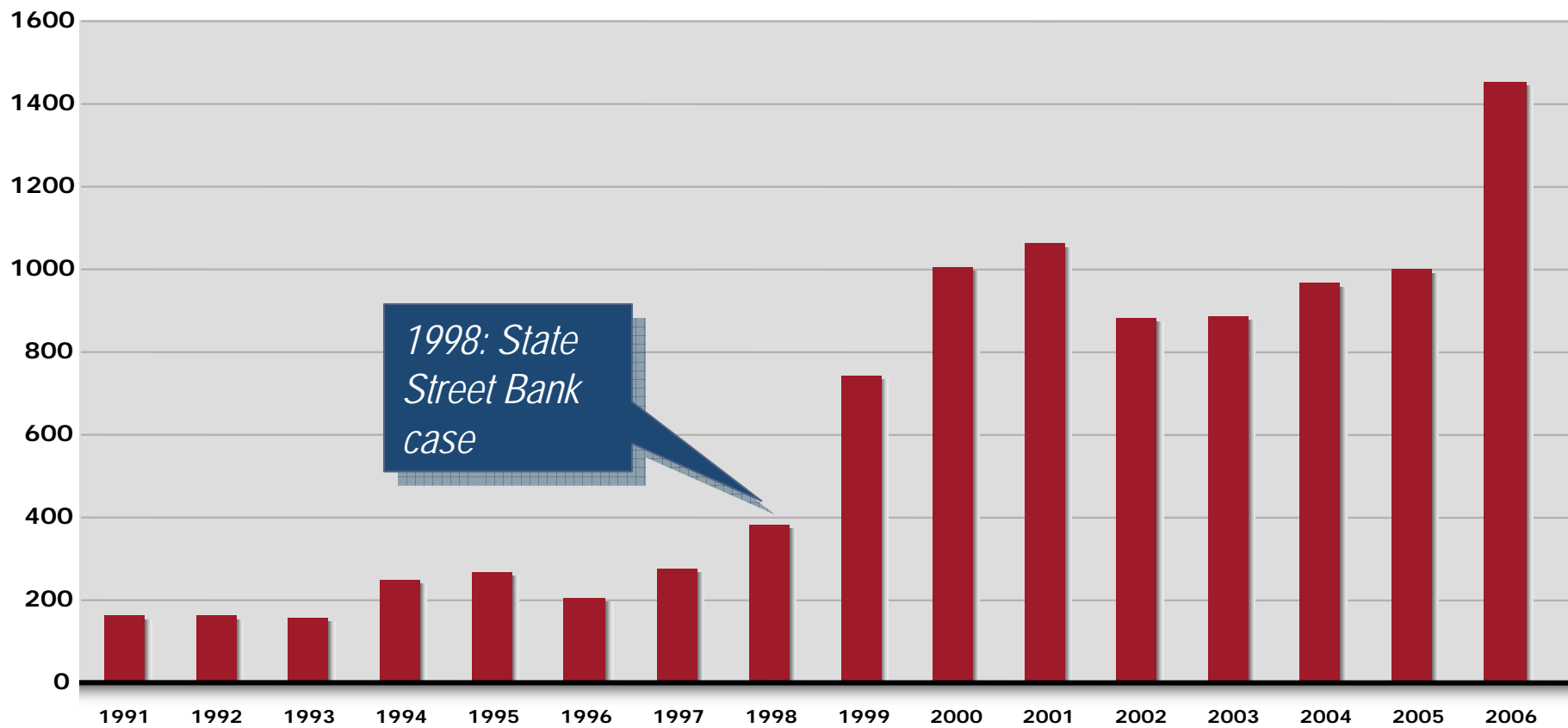


History of Business Method Patents

- In 1998, the U.S. Court of Appeals for the Federal Circuit held in *State Street Bank & Trust Co. v. Signature Financial Group* that business methods could be patented.
- The patentability of business methods was further upheld in *AT&T Corporation v. Excel Communications, Inc.* (1999)



Business Method Patents Granted, 1990-2006



705 = Data processing: Financial, Business Practice, Management, Cost/Price Determination

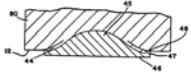
Source: US Patent & Trademark Office

Utility/Process vs. Business Method Patents

How do you measure input/cost?

United States Patent 4,810,220
Mears

ABSTRACT
A method of manufacturing sparkplugs for a spark plug assembly in an engine. The method includes the steps of: (a) providing a sparkplug body having a tapered outer shell and a central electrode; (b) providing a tapered inner shell having a tapered outer surface and a tapered inner surface; (c) fitting the tapered inner shell over the tapered outer shell of the sparkplug body; and (d) sintering the sparkplug body and the tapered inner shell together to form a sparkplug assembly.



Sparkplugs →

United States Patent 4,914,733
Gaskin

ABSTRACT
A method of manufacturing a speedometer for a vehicle. The method includes the steps of: (a) providing a speedometer housing; (b) providing a speedometer dial; (c) fitting the speedometer dial into the speedometer housing; and (d) sintering the speedometer dial and the speedometer housing together to form a speedometer assembly.



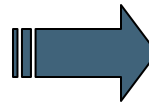
Traffic Controls →

United States Patent 5,963,589
Jewell

ABSTRACT
A method of manufacturing a liquid crystal display (LCD) for a vehicle. The method includes the steps of: (a) providing a LCD panel; (b) providing a LCD driver; (c) fitting the LCD driver into the LCD panel; and (d) sintering the LCD driver and the LCD panel together to form a LCD assembly.

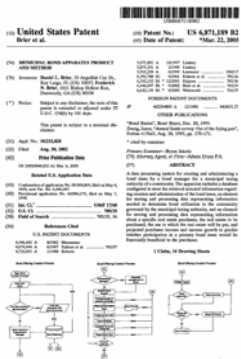
LCD Related →

| |
|-----------------|
| <u>Input</u> |
| Raw Materials |
| Know-how |
| Labor |
| <u>Overhead</u> |
| Cost |



| | |
|---------------|------------|
| <u>Output</u> | |
| — | — |
| — | — |
| — | — |
| — | — |
| # Sold | \$ Revenue |

Utility/Process vs. Business Method Patents (cont'd)



Municipal Bond Apparatus Product and Method



How do you measure input/cost?



Economic Security Planning Method and System



Automated Payment System suited for payments over a Distributed Computer Network



Economic Security Planning Method and System

Economic security and financial planning method to calculate a household's highest sustainable living standard to determine amount of savings and life insurance needed to maintain the same standard.

US000822737A

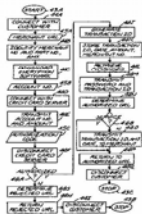
United States Patent [19] [11] **Patent Number:** 5,822,737
Ogram [45] **Date of Patent:** Oct. 13, 1998

[54] **FINANCIAL TRANSACTION SYSTEM**
 [70] **Inventor:** Mark K. Ogram, 780 S. Freeman Rd., Tucson, Ariz. 85748
 [21] **Appl. No.:** 597,817
 [22] **Filed:** Feb. 5, 1996
 [51] **Int. Cl.:** G06F 17/00
 [52] **U.S. Cl.:** 705/26; 235/381; 340/825.35
 [58] **Field of Search:** 235/375, 379, 235/380, 381, 340/825.3, 825.31, 825.34, 825.35; 705/1, 26, 27, 502/2

[56] **References Cited**
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 5,515,307 5/1996 Aheilo et al. 364/717
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 5,627,972 5/1997 Shear 395/200.18
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 "First Data Brings Secure Payment Processing to the Internet with Netscape Communications Software", Netscape press release, Mountain View California, Nov. 1994.
 "Web-Mart to Operate Microsoft Programs for On-Line Sales", Wall Street Journal, No Date.
 Clark, "Oracle to Make 'Net Software With VeriFone", Wall Street Journal, No Date.

26 Claims, 8 Drawing Sheets



- Revenue per policy sold or portion thereof?
- Dollar per query using system?

Automated Payment System Suited for Payments Over a Distributed Computer Network

US00661807B1

(12) **United States Patent**
Bernheim et al.

(10) Patent No.: **US 6,611,807 B1**
(45) Date of Patent: **Aug. 26, 2003**

(54) **ECONOMIC SECURITY PLANNING METHOD AND SYSTEM**

(75) Inventors: **B. Douglas Bernheim, Stanford, CA (US); Jagadeesh Gokhale, Solon, OH (US); Lawrence J. Kotlikoff, Lexington, MA (US); Lowell A. Williams, Nisshua, NH (US)**

(73) Assignee: **Economic Security Planning, Inc., Stanford, CA (US)**

(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 0 days.

(21) Appl. No.: **09/268,441**
(22) Filed: **Mar. 12, 1999**

Related U.S. Application Data

(60) Provisional application No. 60/078,435, filed on Mar. 18, 1998.

(51) Int. Cl.⁷ **G06F 17/60**
(52) U.S. Cl. **705/4, 705/36**
(58) Field of Search **705/4, 35, 36, 705/1**

(50) **References Cited**

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Bell and Raud, A Graphical Approach to Retirement and Estate Planning, Nov. 1998, *Journal of Financial Service Professionals*, pp. 72-81.*

* cited by examiner

Primary Examiner—Joseph Thomas
Assistant Examiner—Christopher L. Gilligan
(74) Attorney, Agent, or Firm—McDermott, Will & Emery

(57) **ABSTRACT**

An economic security and financial planning method and system are disclosed. Their purpose is to calculate a household's highest sustainable living standard and determine the amount of saving and life insurance needed to finance and guarantee that living standard and subject to a) the household's preferences about changes over time in its living standard, b) the household's current and projected future demographic composition, c) the household's current and projected future economic resources, d) the household's borrowing constraints, e) the household's housing plan, and f) the household's need to make special expenditures, including bequests. The method and system are also designed to do contingent planning—to take into account the economic resources and special expenditure needs of survivors.

20 Claims, 1 Drawing Sheet

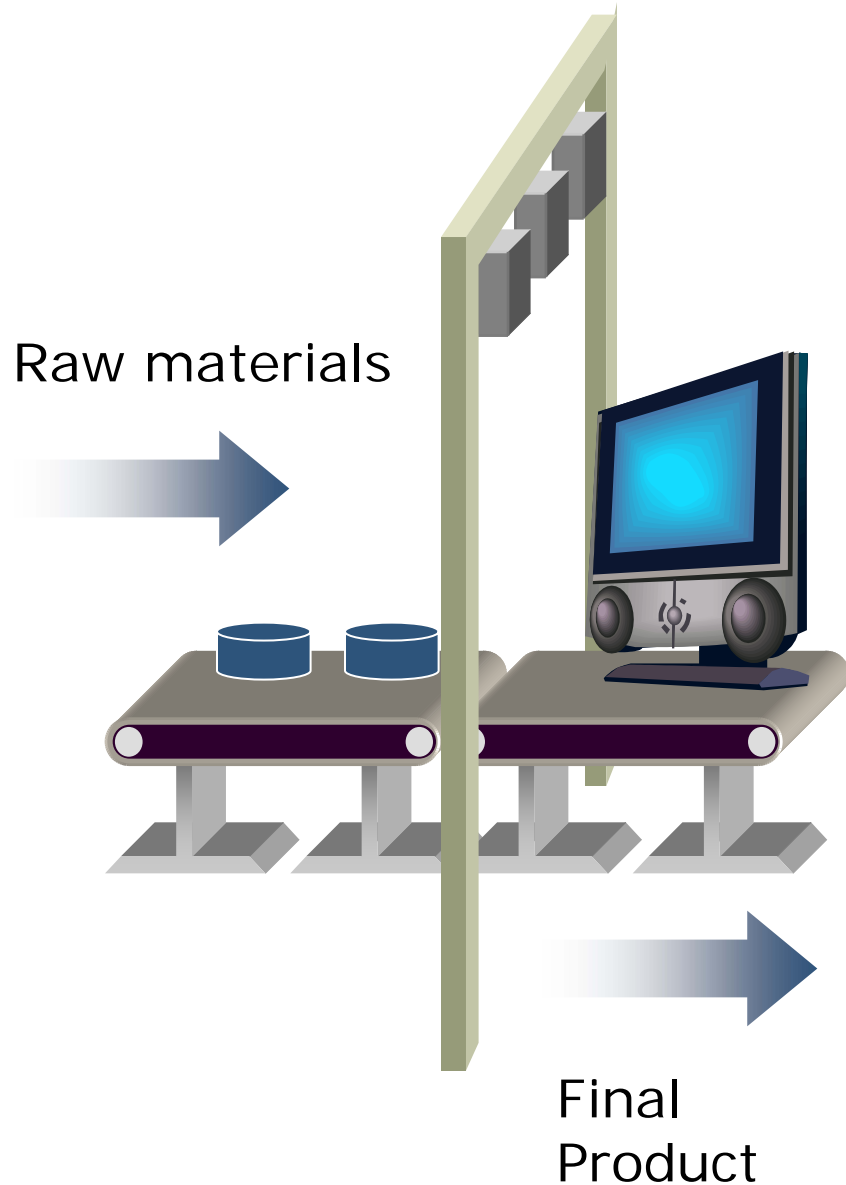


In this system, a merchant or vending computer contains certain promotional information which is communicated to a customer's computer who then decides to purchase based upon promotional information.

How do you measure output here?

- Number of times queried?
- Percent of incremental sales as a result of promotion?

Utility/Process Patents vs. Business Method Patents, cont'd



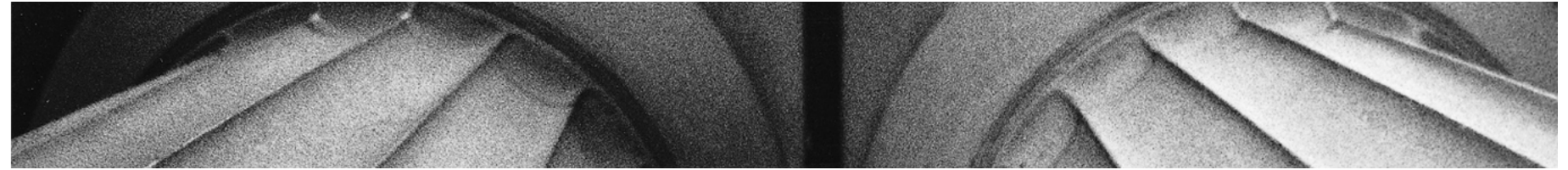
How do you determine value if technology is interwoven into the fabric of the system?



Patented component



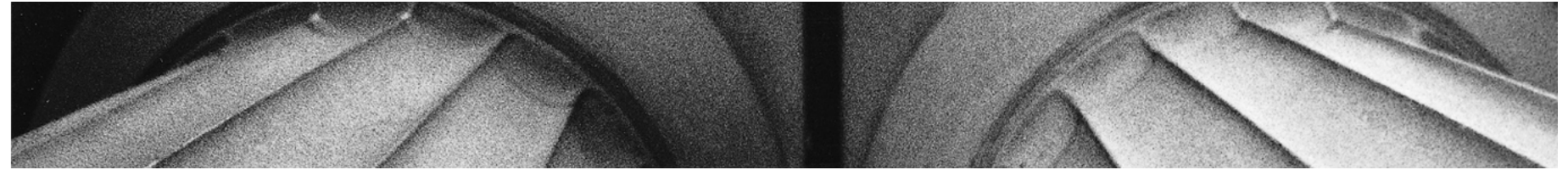
Economic Damages



Measures of Damages

Economic Damages

- Entire Market Value Rule
- Apportionment
- Life After the eBay Decision

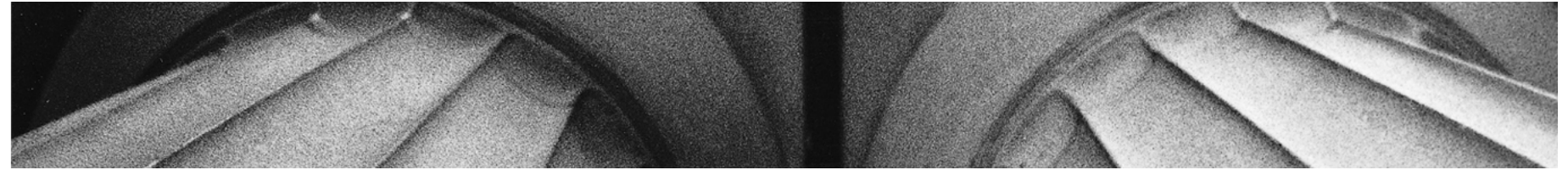


What is the Entire Market Value Rule?

The entire market value rule permits recovery of damages based on the value of a patentee's **entire apparatus** containing both the patented and non-patented features.

The 'rule' allows **inclusion of physically separate unpatented components** normally sold with the patented components.

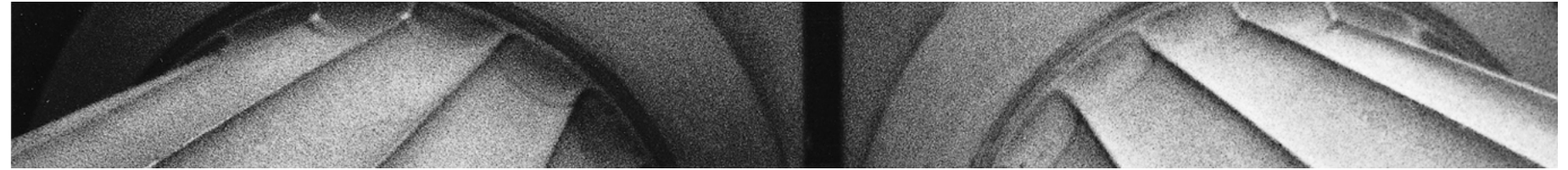
In such cases, the unpatented and patented components together are considered to be components of a single assembly or parts of a complete machine, or they together constitute a **functional unit**.



Entire Market Value Rule - Elements

Elements Required to Establish Entire Market Value Rule Damages:

- Demand for Patented Technology
 - Is the patented feature(s) the “**basis for demand**” of the entire product?
- Functionality
 - Does the product **function with the other features** of the product?
 - Does the product **function the same without** the patented feature?
- Foreseeable / Anticipation
 - Is the **sale of the unpatented product anticipated** for sale with the patented products?



Entire Market Value Rule - Demand

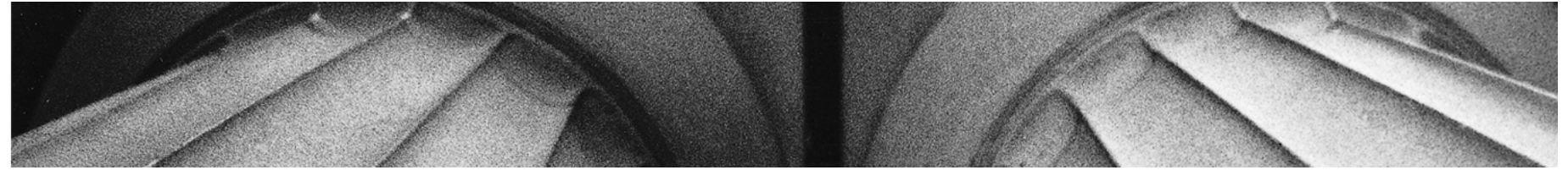
How is demand for a patented feature measured?

“Under the entire market value rule, it was not improper for the jury to base a reasonable royalty on the value of the entire...machine., ...this is permitted when the *patented feature is the basis for customer demand for the entire machine.*”

Fonar Corp. v. General Electric Co. (CAFC – February 1997)

Potential supporting data sources

- Consumer Surveys
- Consumer Requests



Entire Market Value Rule - Functionality

How is the functionality of the products determined?

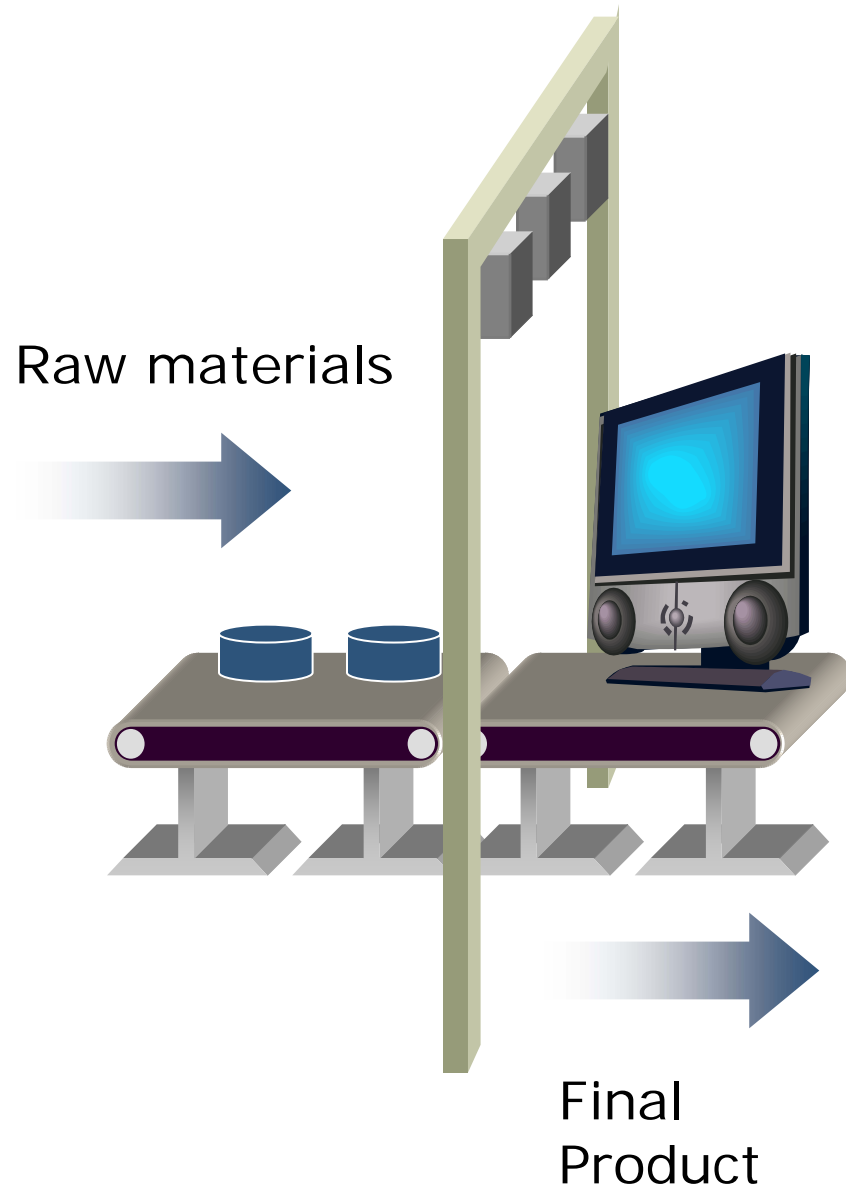
“The entire market value rule is appropriate where both the patented and unpatented components together are ‘analogous to components of a single assembly,’ ‘parts of a complete machine,’ or ‘constitute a functional unit,’ but **NOT where the unpatented components ‘have essentially no functional relationship to the patented invention and ... may have been sold with an infringing device only as a matter of convenience or business advantage.’**”

Tec-Air, Inc. v. Denso Manufacturing Michigan, Inc. (CAFC – Sept. 1999)

Potential supporting data sources

- Operational data – sales comparisons
- Compatibility of components
- Interdependence of components

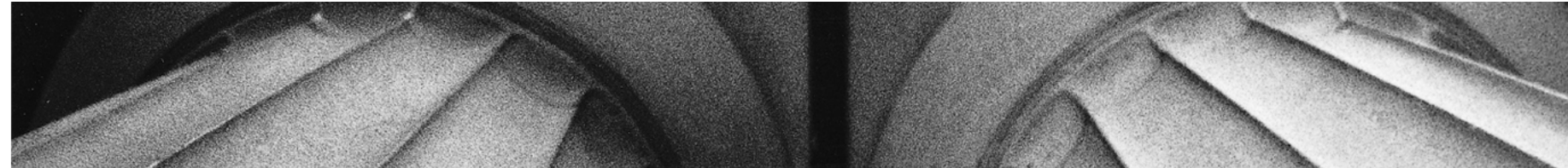
Utility/Process vs. Business Method Patents



How do you determine value if technology is interwoven into the fabric of the system?



Patented component

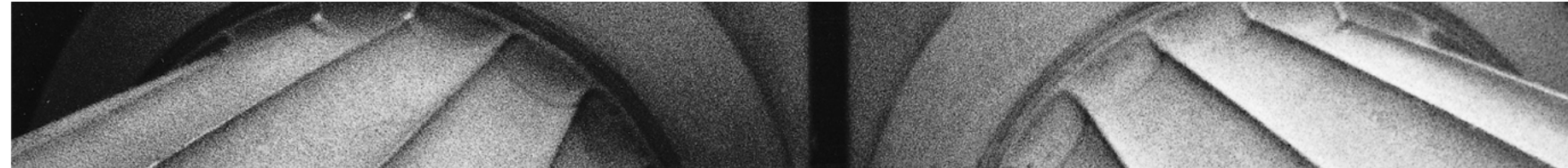


Entire Market Value Rule – Business Method Patents

Does the business method relate...

- To a Product?
 - New product offering?
 - Improved product?
- To a Service?
 - Provide a complete service?
 - Complement existing services?
- To “Back Room” Operations?
 - A System?
 - A Process?
 - A Control?

Is the method visible to the customer?



Entire Market Value Rule – Elements Business Method Patents

How are the EMVR elements determined?

- Functionality?
 - Can the Method be tied to a product or service?
- Demand?
 - Can demand for the business method be correlated with demand for a product? For a service? For a convenience?
- Anticipation?
 - Is there an identifiable link between the business method and other direct relationship?



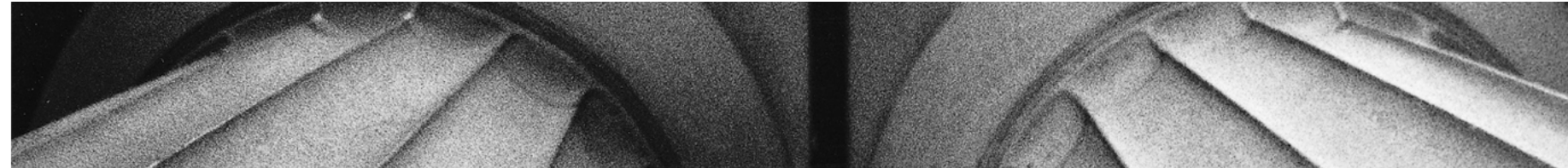
Entire Market Value Rule – Business Method Patents

How Does the Institution Benefit?

- Tangible benefits
 - Increased revenue?
 - Cost Savings?
- Intangible benefits
 - Market expansion?
 - Customer satisfaction?

How are Benefits Measured?

- Increased revenue?
- Cost Savings?
- Customer growth? Retention?



Entire Market Value Rule - Use

“Courts have allowed recovery of **lost profits or a reasonable royalty** based not only on the profits from the patented part, but also non-patented parts”

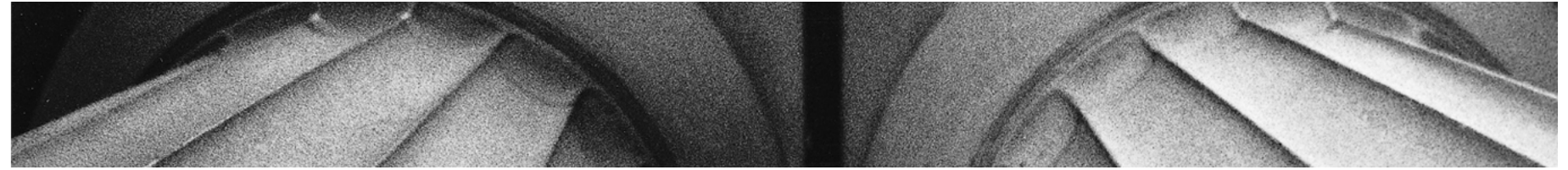
King Instruments Corp. v. Perego (CAFC – September 1995)

“Under the entire market value rule, it was not improper for the jury to base a reasonable royalty on the value of the entire...machine., ...this is permitted when **the patented feature is the basis for customer demand** for the entire machine.”

Fonar Corp. v. General Electric Co. (CAFC February 1997)

“Lost profits may be allocated by **portion of demand** due to non-patented features or components”

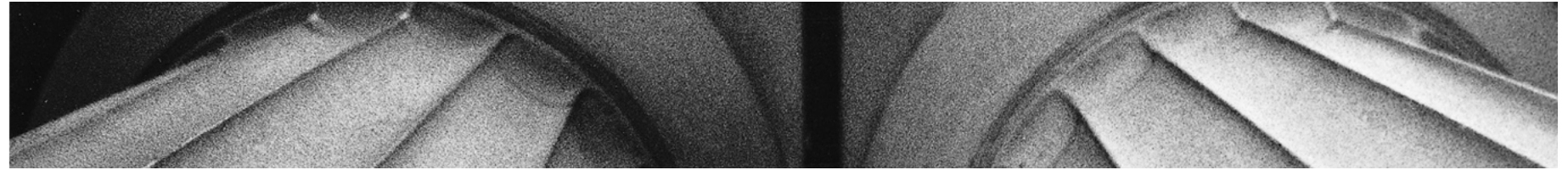
Ferguson Beauregard/Logic Controls v. Mega Systems (Fed. Cir. 2003)



Reasonable Royalty: The *Georgia-Pacific* Factors

- The landmark *Georgia-Pacific* case¹ provides guideline factors to be considered in the determination of a reasonable royalty
- The *Georgia-Pacific* framework includes both financial and technical factors
- The *Georgia-Pacific* case enumerates a number of **factors that address apportionment**
- Apportionment may be of particular importance in the evaluation of business method patent damages

¹ *Georgia-Pacific v. United States Plywood Corp.*, 318 F. Supp. 1116,1121 (S.D.N.Y.), modified and aff'd 446 F. 2d 295 (2d Cir. 1971)

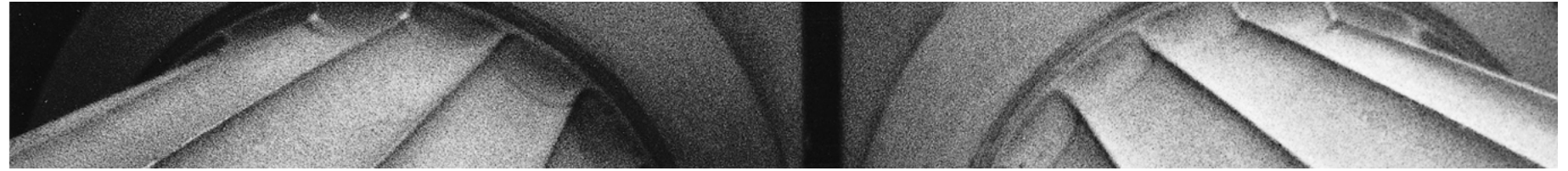


Georgia-Pacific Factors & Apportionment

9. The utility and advantages of the patented property over the old modes or devices, if any, that had been used for working out similar results.

12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.

13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

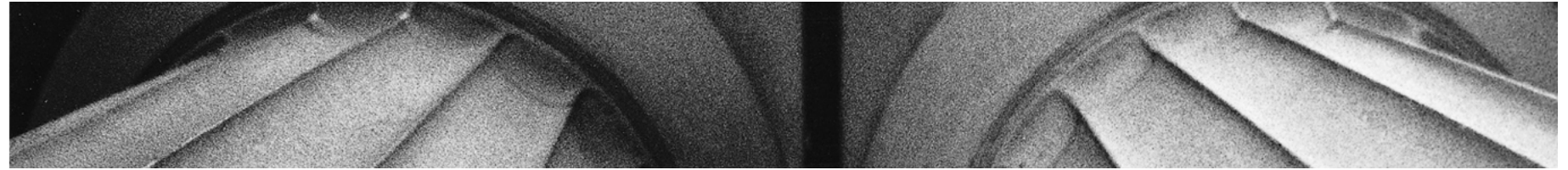


Georgia-Pacific Factors & Apportionment

GP #9. The utility and advantages of the patented property over the old modes or devices, if any, that had been used for working out similar results.

Analytical Approach to Value

- Under this method the pricing and profitability of the product containing the patented features is compared to the pricing and profitability of a product without the patented feature. The difference, if any, may indicate the economic value of the patented invention.

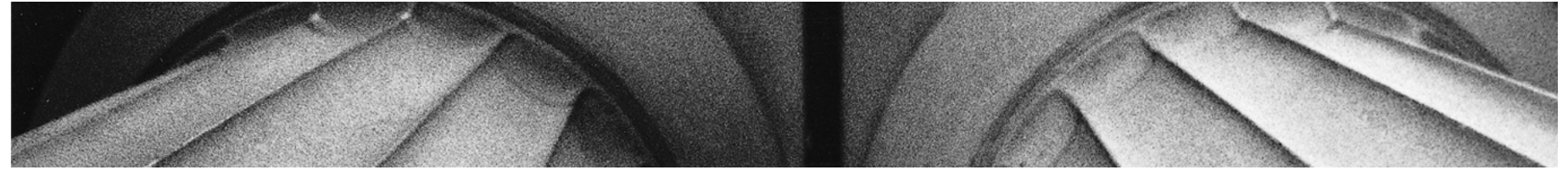


Georgia-Pacific Factors & Apportionment (cont'd)

GP #13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

What Does the Alleged Infringer Contribute?

- The value contributed by the alleged infringer is often overlooked in GP analyses. However, economic reality demands that the litany of **risks** borne by the party bringing the product to market be fully considered. Further, when the patented invention is but **one of many features** of a device a GP analysis should attempt to allocate value.



Life After the eBay Decision

eBay, Inc. v. MercExchange, LLC, 126 S. Ct. 1837 (2006)

“In addition, injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. **The potential vagueness and suspect validity** of some of these patents may affect the calculus under the four-factor test [of patentability].” – *Justice Kennedy's concurrence*

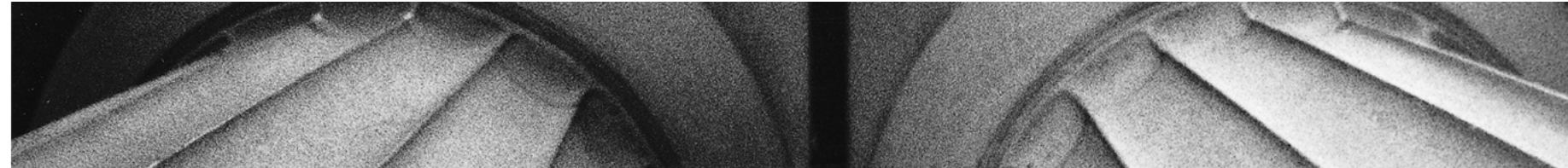
What are the impacts upon damages and business method patents after the eBay decision?



Questions



**FTI – Chicago
Intellectual Property Team**

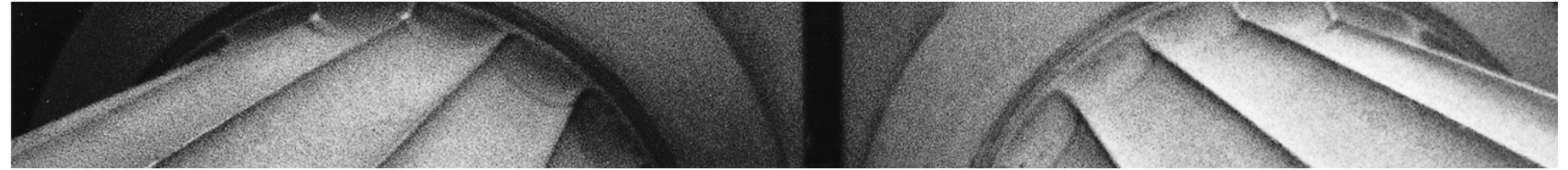


Vince Thomas

Vince Thomas is a Senior Managing Director in FTI's Forensic and Litigation Consulting practice in Chicago and a member of the National Intellectual Property Leadership Team. Prior to joining FTI, Mr. Thomas was a partner with KPMG's National Intellectual Property practice. Mr. Thomas has over 16 years experience in the evaluation and quantification of economic damages arising from patent, copyright and trademark infringement, and trade secret misappropriation disputes and has directed numerous litigation and valuation projects related to patents, copyrights, trademarks and trade secrets. Mr. Thomas has significant experience valuing technology and patents. He has also performed intellectual property audits and consulted with clients on managing their intellectual property assets, including licensing and valuation of such property.

Mr. Thomas has also served as chief financial officer of a high-tech company where, among other things, he developed the strategic focus and direction for all areas of the company, and managed its intellectual property portfolio.

Mr. Thomas' background is in accounting, finance and economics, as he received his M.B.A. with a concentration in finance from Indiana University and a B.A. in economics (cum laude) from DePauw University. He is a certified public accountant (CPA) and a certified valuation analyst (CVA). He is also a member of the Licensing Executives Society, American Institute of Certified Public Accountants, the American Society of Appraisers and the National Association of Certified Valuation Analysts.

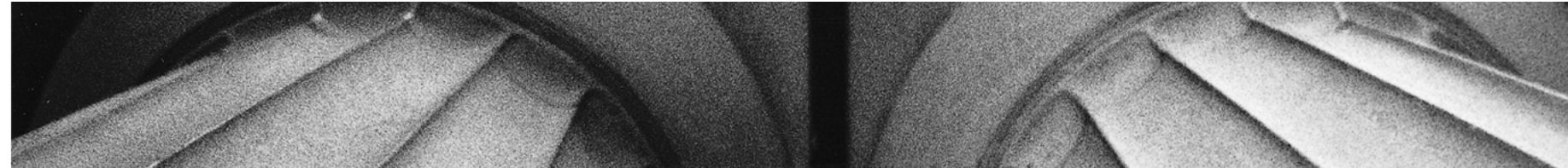


Daria Kim

Daria Kim is a Director in the FTI Forensic and Litigation Consulting practice and is based in Chicago. Ms. Kim specializes in the application of finance, economics and accounting to problems in complex intellectual property litigation. Ms. Kim has managed cases dealing with disputes in patent infringement, trademark infringement, copyright infringement, and misappropriation of trade secrets, among others. In connection with these matters, Ms. Kim has conducted complex damages analysis involving lost sales, lost profits, disgorgement of profits, price erosion, reasonable royalty, and unjust enrichment. She also has reviewed numerous license agreements for reasonable royalty determinations, and is knowledgeable in case law specific to intellectual property litigation.

Prior to joining FTI, Ms. Kim was a senior manager in the intellectual property litigation and law firm management consulting practice at Hoffman Alvary & Company in Boston. In non-litigation matters, Ms. Kim has advised clients on strategy, operations, and organization to increase performance and productivity across various business lines.

Ms. Kim holds a Master of Business Administration degree from the Sloan School of Management at the Massachusetts Institute of Technology, and a Bachelor of Arts degree from the University of Virginia.



Carrie Distler

Carrie Distler is a Director in the FTI Forensic and Litigation Consulting practice and is based in Chicago. Ms. Distler has over six years of professional experience in litigation consulting. Ms. Distler works primarily with the national intellectual property practice of FTI, where she has assisted clients with intellectual property management, valuation, and disputes. She has assisted in the design of a multi-billion dollar corporation's in-licensing program in an effort to create a streamlined process for evaluating and negotiating licensing opportunities. She has valued intangible assets and intellectual property by forecasting future economic benefit streams derived from the use of the asset. In intellectual property disputes, Ms. Distler has performed reasonable royalty analyses via application of the Georgia-Pacific factors and lost profits analyses via evaluation of the Panduit factors. In addition to intellectual property matters, she also manages forensic investigations and other general commercial litigation projects. Ms. Distler's industry experience includes automotive, telecommunications, pharmaceutical, financial, electronic components, consumer products, and tourism.

Ms. Distler earned her Bachelors and Masters degrees in Economics from University of Missouri. Prior to joining FTI, she worked for an economic consulting firm in Colorado where she worked on labor economics projects, state funded research projects, statistical and econometric modeling projects.