

# INSURANCE IP BULLETIN

*An Information Bulletin on Intellectual Property activities in the insurance industry*

A Publication of - Tom Bakos Consulting, Inc. and Markets, Patents and Alliances, LLC

## **Introduction**

In this issue's feature article, *Reacting to Interest in Your IP*, we give our readers some general advice on how to handle unsolicited interest in their IP. We hope that you, if you are ever in this position, will find this advice useful.

Of course, one issue you will have to address if you are ever asked to license your IP is: *What is a reasonable royalty?* We address this question in our **Patent Q/A**.

In addition, check out the **Updates** and **Patent Watch** on GMWB IP – Lincoln National has won an infringement lawsuit and Hartford Fire has filed some more.

The Statistics section updates the current status of issued US patents and published patent applications in the insurance class (i.e. 705/004). We also provide a link to the **Insurance IP Supplement** with more detailed information on recently published patent applications and issued patents.

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Our mission is to provide our readers with useful information on how intellectual property in the insurance industry can be and is being protected – primarily through the use of patents. We will provide a forum in which insurance IP leaders can share the challenges they have faced and the solutions they have developed for incorporating patents into their corporate culture.

Please use the FEEDBACK link to provide us with your comments or suggestions. Use QUESTIONS for any inquiries. To be added to the Insurance IP Bulletin e-mail distribution list, click on ADD ME. To be removed from our distribution list, click on REMOVE ME.

Thanks,  
Tom Bakos & Mark Nowotarski

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## **Feature Article**

## **Reacting to Interest in Your IP**

**By: Tom Bakos, FSA, MAAA and Mark Nowotarski, Patent Agent**  
Co-Editors, *Insurance IP Bulletin*

You may have filed a patent application for a lot of reasons. Principal among those reasons, of course, is to protect your intellectual property. If you are an independent inventor you will have a personal interest in the successful implementation of your IP. By creating a patent application or getting an issued patent you also advertise your IP and may attract interest in it.

So, what if someone calls? Here are some tips based on our own experience:

- Be prepared
- Listen more than you talk
- Do your homework
- Get help

### ***Be Prepared***

Once your patent application is published or once your patent actually issues, it is out there for anyone to see – interested people or organizations may either stumble upon it or may be actively looking for it. When they call, you should be prepared with a fairly clear idea of what your goals for it are. Clear but flexible goals are a tremendous source of negotiating strength.

Decide in advance if you would be interested in developing or marketing your invention with someone else, licensing your patent to someone else to develop your product, or outright selling your patent (for the sake of simplicity, when we say “patent”, we mean issued patent or pending application). When someone calls, one of the first questions they will ask is: Is it for license or sale.

Some possibilities ...

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You may not want to license or sell your IP to someone else if it is to be an integral part of a business or process you already own. But, what if your IP creates a broader interest and value in your business? Would you consider licensing your invention and, in effect, create a competitor? Only you can know the answer to those questions and what you know will affect how you react to an inquiry.

If you are interested in or expect to need help in development and marketing your invention, than be prepared to address how others might be involved.

- Maybe you are looking for many partners and, therefore, interested only in non-exclusive licensing opportunities?
- You may anticipate that your personal involvement would be necessary to get the most success from your invention. For example, you have some specialized knowledge or the research you have already done on implementation adds value. So, maybe you will need to emphasize that your continued personal involvement is something you desire and think necessary.
- Maybe you've moved on to bigger and better things and have no real interest in pursuing the commercialization of the invention. Then an outright sale may be what you are looking for.

You should also be prepared with a clear idea of what information about your invention's status you are willing to share in an initial conversation with someone you may have never met. The key is to know what information your caller is going to need in order for both of you to take the next step and what information is best left for later when you have a secrecy agreement in place.

Which brings us to the next point:

### ***Listen more than you talk***

Most inventors love to talk about their inventions. This can be especially true when they receive an unsolicited call from someone else expressing interest and even a willingness to pay for rights for the invention. It is far more important to your ultimate success, however, to listen and ask the caller probing questions in order to determine the basis for the caller's interest in your invention and what in it is of value to them. This will help later when talking royalties or price.

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At a minimum, you will want to be sure to get the caller's basic contact information for a follow up. Exactly what sort of rights do they want or need? To what extent do they plan to invest in the further development of the idea? What do they see as the prospects for your invention? All of these will help you get a better idea of how to structure any sort of licensing arrangement or even if they are the sort of organization you want to do business with.

## ***Do your homework***

If the first call goes well and a follow up call is planned, then it is time to "hit the books". As Gary Karrass explained in his influential book "[Negotiate to Close](#)", your goal is to "build a profitable deal that sticks". In order to do that, you need to know as much as possible about the interested party and what value your invention will bring to them. You need to know what their agenda is as well as you know your own. You can then structure the deal that will be profitable for both. You need to have answers to the questions:

- How large is their organization?
- How does your invention fit into their strategic goals?
- Are they under any time pressure?
- Do they have the capability to actually bring your product to market?

All of these questions can be addressed through diligent research and consultation with experts in the field.

Which brings us to our last point:

## ***Get help***

Inventors tend to be innovative, do-it-yourselfers. But don't try to re-invent the wheel! Unless you are a seasoned negotiator your chances of success are greatly diminished if you try to go it alone. An inventor's great strength in inventing is their personal commitment to the invention. "Personal commitment", however, can be a significant liability in negotiation. In business negotiation you always have to remember that "it's nothing personal, just business". This is where a negotiator / broker/ consultant can be so valuable. It may be your first patent negotiation, but it's not theirs. They know how the game is played.

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Together we have experience providing services in connection with patent licensing for clients on both the buy side and the sell side. We would be honored by any of our reader's inquiries to help with their particular situations. Other organizations that can be of help include the [Licensing Executive Society](#), and [SCORE](#). SCORE, in particular, is very helpful for those on a very tight budget. It provides retired executives as business counselors to small companies at no charge. They have local chapters around the country. If you are limited in funds, it's a good place to start.

It's very exciting when an unsolicited call is received by a party looking to potentially license or outright purchase your patent. Once your patent is out there, you should be prepared with an idea of how you would respond to such a call. When the call comes, you should strive to listen more than you talk. If it looks like a follow up call is in order, you need to do your homework on the other party. And, as negotiations progress, you should seek out professional help to keep the focus on what is good business for both of you and your potential licensee.

## Patent Q & A

### Royalties?

**Question:** What is a "reasonable royalty"?

**Disclaimer:** *The answer below is a discussion of typical practices and is not to be construed as legal advice of any kind. Readers are encouraged to consult with qualified counsel to answer their personal legal questions.*

**Answer:** A reasonable royalty is whatever the market says it is.

**Details:** When a US patent is infringed, the patent owner is entitled to at least a "reasonable royalty" as compensation for the infringement ([35 USC 284](#)). What exactly "reasonable" means is determined by a court with the help of expert witnesses. As you can imagine, this can be a difficult (read "expensive") determination since it varies by industry, technology and the specific circumstances of a given case. It's particularly challenging in financial services since, unlike the pharmaceuticals, electronics or chemicals industries, there are very few examples to go on.

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In the Lincoln case posted below, a jury found that 10 b.p. of the assets under management (AOM) was a reasonable royalty for a process for administering variable annuities with guaranteed minimum withdrawal benefits.

Do you agree? For those that want to comment, we've created an instant poll. (What fun!) Just click on [this link](#) and vote. We will share the results in our next bulletin. **The poll closes on May 1, 2009.**

## Follow-up Q&A

In the [December 2008 issue of the IIPB](#) our Q&A asked the question "Are patents Art?" and Crystal Megaridis responded "absolutely" with respect to the first patent her great, great grandfather, [Nicolas Clute](#), filed in 1857 - # 17,555, "[Harvester](#)".

At the time we did not have a picture to illustrate this work of art. We now do. [See it here.](#)

## Update

### **Lincoln National Wins Jury Verdict in Patent Infringement Lawsuit**

On February 13, 2009 Lincoln National Life Insurance Company won a jury verdict in their patent infringement lawsuit against Transamerica Life Insurance Company, Western Reserve Life Assurance Company of Ohio, and Transamerica Financial Life Insurance Company.

The jury found that Transamerica infringed claims 35 – 39 and 42 of patent US 7,089,201 and further rejected Transamerica's argument that one or more of the claims were invalid. The jury awarded \$13,098,349 as reasonable royalty for infringement that began on August 8, 2006 (which is the date of issue of the '201 patent). The award was calculated using a royalty basis of 11 b.p. multiplied by an asset base of \$11,907,589,871.

This decision was unusual since only about 1% of patent infringement lawsuit go to a jury. The rest are usually settled before they get that far.

Essentially, the claims identify intellectual property related to the administration of variable annuity benefits that provide what are commonly known as Guaranteed Minimum Withdrawal Benefits (GMWBs). Claim 35 is the independent claim which describes an administrative

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process for continuing to make guaranteed minimum payments from a variable annuity account even if the account value is exhausted before all payments are made.

Lincoln has other patent infringement lawsuits outstanding:

- [v. Transamerica et. al.](#) for infringing Lincoln's patent US 7,376,608 (issued 5/20/2008) – a patent with claims focused on the GMWB feature.
- [v. Jackson National Life Insurance Company](#) for infringing Lincoln's patents US 6,611,815 (issued August 26, 2003) and US 7,089,201 – both of which contain claims focused on GMWB features.
- [v. Sun Life Insurance Company of Canada \(& New York\)](#) for infringing all three Lincoln patents addressing GMWB features – US 6,611,815; US 7,089,201; and US 7,376,608.

Also of interest is the fact that an ex parte reexamination of US 7,089,201 has been granted by the USPTO and is currently in process. As of our date of publication, no office action has been issued.

A [reexamination](#) of an issued patent may be requested at any time by anyone who believes there is prior art relevant to the patent that was not considered when the patent application was originally examined. Simply stated a reexam is a redo of the original patent office examination taking into consideration the new prior art provided.

If the USPTO on reexam should find Lincoln's claims in US 7,089,201 invalid in light of the prior art, then, of course insurance companies that issue variable annuities with GMWB benefits would have less to worry about. But, remember that Lincoln still has two other issued patents covering very similar IP and, as noted above, their most recent lawsuits claim infringement of all three.

## **Patent Watch**

### **More Variable Annuity IP Dealing with Guaranteed Payouts**

A series of patent applications assigned to **Hartford Fire Insurance Company** were published on January 29, 2009 – filed in November/December 2007. These five applications (Pub. Nos. 2009/0030735 – 0030739) all appear to provide alternative methods for withdrawing cash from

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a variable annuity during the accumulation phase, that is, without annuitizing. The description below (taken from the Specification Summary of the Invention for 2009/0030735) generally summarizes the concept being applied (underlining added):

[0014]The present invention provides a data processing method for administering a deferred variable annuity contract during the accumulation phase wherein the annuity contract has a guarantee of lifetime benefit payments ...

Perhaps to distinguish this invention from a typical GMWB or, more particularly, what Lincoln has claimed, the description goes on (underlining & emphasis added):

... and wherein the lifetime benefit payment for each period is the greater of

- (i) (the payment base).times.(the withdrawal percent); and
- (ii) (the contract value).times.(the withdrawal percent).

In prior art annuity products, the amount of the lifetime benefit payments, if any, is determined to be a predetermined percentage of a withdrawal base. This withdrawal base typically is fixed for the remainder of the contract, or alternatively, decreases for the remainder of the term. Further, the withdrawal base in prior art annuity products is typically based on either the payment base or the contract value, but not both.

Clearly, it is very popular, especially today, to provide some guarantees with respect to investment products whose account values depend on the volatile market value of assets. We haven't looked at these applications in great detail but they do appear, on the surface, to be attempting to patent and lock up a version of the very popular GMWB feature. Insurance companies with variable annuity products ought to be paying attention to this activity.

## **Analysis Available**

### **Lincoln National Life Insurance Company Alleges Patent Infringement - GMWB**

**Lincoln National Life Insurance Company** has three patents (US 6,611,815; US 7,089,201; and US 7,376,608) covering the methods and processes used in providing **Guaranteed Minimum Withdrawal Benefits** (GMWBs) for variable annuities. Two additional published patent applications are pending.



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Lincoln is asserting its patent rights (see story above) through patent infringement lawsuits against competitors who offer GMWBs. An ex parte re-examination request has been granted by the USPTO with respect to US 7,089,201.

GMWBs have been credited with saving the variable annuity industry and are commonly offered by many of the 25+ insurers currently selling variable annuity products. Lincoln National's claim of protected patent ownership of the GMWB benefit is a threat to competitors offering GMWBs in the variable annuity market.

**Tom Bakos** (co-editor of the *Insurance IP Bulletin*) has prepared a comprehensive *Intellectual Property Analysis* of the Lincoln National GMWB family of IP. This analysis (over 200 pages of printed detail plus supporting documents on CD) represents well over 200 hours of review, analysis, and dissection of the specifications and claimed inventions. It describes prior art (believed to be relevant) either not disclosed or not considered by the USPTO on examination. It addresses the quality of the claims made.

**For more information regarding this Analysis and how to acquire it, please go to: [Intellectual Property Analysis](http://www.BakosEnterprises.com/IPA)** (<http://www.BakosEnterprises.com/IPA>).

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## Statistics

### An Update on Current Patent Activity

The table below provides the latest statistics in overall class 705 and subclass 4. The data shows issued patents and published patent applications for this class and subclass.

Issued Patents as of 2/24/2009		
	Class 705	Subclass 4
YEAR	#	#
2009	346	8
2008	2673	89
2007	2,065	43
2006	2,224	44
2005	1,453	30
2004	998	23
2003	969	21
2002	887	15
2001	880	19
2000	1,062	29
1999	1,006	36
1998	745	20
1978-1997	2,778	47
1976-1977	80	0

Published Patent Applications as of 2/26/2009		
	Class 705	Subclass 4
YEAR	#	#
2009	1,394	40
2008	8,708	199
2007	6,990	183
2006	6,119	169
2005	6,305	148
2004	5,597	156
2003	6,010	129
2002	6,140	164
2001 *	1,327	30
<b>TOTAL</b>	<b>48,590</b>	<b>1,218</b>

\* Patent applications were first published 18 months after filing beginning with filings dated March 15, 2001.

Class 705 is defined as: DATA PROCESSING: FINANCIAL, BUSINESS PRACTICE, MANAGEMENT, OR COST/PRICE DETERMINATION.

Subclass 4 is used to identify claims in class 705 which are related to: *Insurance (e.g., computer implemented system or method for writing insurance policy, processing insurance claim, etc.)*.

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## Issued Patents

In class 705/4, 12 new patents have been issued since 12/16/2008 – 4 to close out 2008 and 8 in the first two months of 2009. Patents are issued on Tuesdays each week.

Patents are categorized based on their claims. Some of these newly issued patents, therefore, may have only a slight link to insurance based on only one or a small number of the claims therein.

The [Resources](#) section provides a link to a detailed list of these newly issued patents.

## Published Patent Applications

In class 705/4, 43 new patent applications have been published since 12/18/08 – 3 to close out 2008 and 40 in the first two months of 2009. Patent applications are published on Thursdays.

The [Resources](#) section provides a link to a detailed list of these newly published patent applications.

## A Continuing reminder -

Patent applications have been published 18 months after their filing date only since March 15, 2001. Therefore, the year 2001 numbers in the table above for patent applications are not complete and do not reflect patent application activity in the year 2001. A conservative estimate would be that there are, currently, close to 250 new patent applications filed every 18 months in class 705/4. Therefore, there is approximately that number of pending applications not yet published.

The published patent applications included in the table above are not reduced when applications are either issued as patents or abandoned. Therefore, the table only gives an indication of the number of patent applications currently pending.

## Resources

[Recently published U.S. Patents and U.S. Patent Applications](#) with claims in class 705/4.

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**The following are links to web sites which contain information helpful to understanding intellectual property.**

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**United States Patent and Trademark Office (USPTO): *Homepage*** - <http://www.uspto.gov>

**United States Patent and Trademark Office (USPTO): *Patent Application Information Retrieval*** - <http://portal.uspto.gov/external/portal/pair>

**Free Patents Online** - <http://www.freepatentsonline.com/>

Provides free patent searching, with pdf downloading, search management functions, collaborative document folders, etc.

**US Patent Search** - <http://www.us-patent-search.com/>

Offers downloads of full pdf and tiff patents and patent applications free

**World Intellectual Property Organization (WIPO)** - <http://www.wipo.org/pct/en>

**Patent Law and Regulation** - <http://www.uspto.gov/web/patents/legis.htm>

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## **Here is how to call the USPTO Inventors Assistance Center:**

- Dial the USPTO's main number, 1 (800) 786-9199.
- At the first prompt press 2.
- At the second prompt press 4.
- You will then be connected to an operator.
- Ask to be connected to the Inventors Assistance Center.
- You will then listen to a prerecorded message before being connected to a person who can help you.

## **The following links will take you to the authors' websites**

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**Mark Nowotarski - Patent Agent services** – <http://www.marketsandpatents.com/>

**Tom Bakos, FSA, MAAA - Actuarial services** – <http://www.BakosEnterprises.com>