

and 7,986,426. Project Paperless also owned U.S. Patent Application No. 13/182,857, which later issued as U.S. Patent No. 8,488,173. I will collectively refer to these patents and applications as the Klein Patents.

2. I make this declaration on my own information, knowledge and belief. I have personal knowledge of the following facts and, if called upon to do so, I could testify completely thereto.

3. Project Paperless, in consultation with industry source materials, experts and counsel, obtained information to determine the reasonable royalty that would be appropriate to seek for infringement of the Klein Patents. It then reviewed that evidence in the context of the law regarding reasonable royalty, including the well-known *Georgia-Pacific* factors, and the relevance to the reasonable royalty determination of the savings that may be achieved by an entity using the system claimed by the Klein Patents.

4. Among the factors that were taken into account to reach this conclusion were that systems that infringed the Klein Patents are expected to provide the following efficiencies and cost-savings benefits:

a. Permit existing Multifunction Printers (MFPs) to scan and process paper and electronic documents seamlessly across an enterprise.

b. Permit capture of paper documents using existing scanning devices, and the indexing and storing of them in common formats for easy retrieval. A common example included systems that otherwise satisfy the claim requirements and permit the use of a scanning device to transmit documents seamlessly to devices capable of receiving email attachments.

c. Permit the reduction of required physical storage space because documents could more easily be stored digitally in a central repository.

d. Permit improved efficiency and streamlining of intra-office and inter-office communications by permitting scanning once and sending to multiple employees with minimal physical effort or time consumption.

e. Permit improved productivity by automating workflows.

f. Permit improved efficiencies in retrieval of electronic documents rather than paper documents by making it easier and more efficient to scan and electronically store imaged documents.

5. Project Paperless, in consultation with its counsel, also conducted a review of usage of the foregoing systems in the public and private sectors to determine the value of achieving the benefits listed above when using systems that infringe the Klein Patents. These benefits included at least the following:

a. The savings attributable to reducing the need to install, fill, and maintain filing cabinets for physical paper documents.

b. The comparative cost savings associated with processing and storing for retrieval an electronically imaged and filed document in contrast to the processing and storing cost associated with processing and storing a physical paper document.

c. The labor cost associated with the time savings achieved by each employee in an organization involved in the transmission, filing, or retrieval of documents in using a system covered by the Klein Patents to engage in electronic storage and transmission compared to the labor costs associated with managing those same documents in a physical paper system. In addition to the direct labor savings and

efficiencies achieved by using a system infringing the Klein Patents, use of such a system also permits savings with respect to less need for paper, less copier-related product consumption, fewer file cabinets and the like.

d. In business environments including the 54 SIC Codes identified by MPHJ as including likely infringers, the savings achieved by use of a system that infringes the Klein Patents can be even more substantial than for businesses having less heavy reliance on office functions. As noted, these savings could include the elimination of substantial costs associated with storing, maintaining and retrieving paper documents, and the labor costs associated with operating such a system.

6. Studies have also shown that use of the technology covered by the Klein Patents had produced company cost savings by substantial percentages of the total document storage and delivery expenditures of a company.

7. The analysis that we conducted on behalf of Project Paperless concluded that the savings attributable to the use of a system infringed by the Klein Patents were defensibly in the range of thousands of dollars *per year* per employee, if not more.

8. I am familiar with MPHJ's own review that considered factors similar to those of Project Paperless, and am aware that MPHJ's own review relying upon additional facts reached a similar conclusion, also concluding that the savings attributable to the use of a system infringed by the Klein Patents could be in the range of at least \$7,000 per year per employee, if not more.

9. I am aware of law which permits a reasonable royalty based upon the cost savings to be achieved by using the invention, and that that law permits as much as 33% of the cost savings generated by the practice of the invention should go back to the patent owner.

10. Thus, based upon these facts and law, both Project Paperless and MPHJ could have reasonably concluded that a reasonable royalty for the use of a system that infringed the Klein Patents could be as high as approximately \$2,000 *per year* per employee.

11. However, Project Paperless did not choose to seek nearly as high a royalty as the law might allow for those entities who were contacted and were interested in entering into a license without the need for litigation. Instead, Project Paperless elected to seek a paid-up royalty for an early voluntary license in the range of \$1,000 - \$1,050 per employee. Given the patent laws, it should be noted that such a license, which provided for a release for past infringement, and a license for future infringement until the expiration of the patents, usually spanned a period of approximately 10 years. Thus, the heavily discounted royalty offer by Project Paperless usually worked out to approximately \$100 per employee per year for use of the system, or something in the order of 1/70 (1.4%) of the likely savings achieved from use of such a system.

12. I am aware that MPHJ similarly sought a paid-up royalty for an early voluntary license in the range of \$900 - \$1,200 per employee. This also worked out generally to a heavily discounted royalty offer approximately in the range of \$100 - \$120 per employee per year.

13. It should be noted that MPHJ would be entitled under the law to seek a substantially higher royalty in litigation with any infringers, and that its offer to settle with an infringer for an early paid-up license at a heavily discounted royalty of \$900 - \$1,200 per employee is consistent with the facts and the law available to Project Paperless (and presumably to MPHJ as well).

14. I am aware that Project Paperless, in its licensing effort, entered into a number of licenses where the actual royalty agreed upon resulted in payments of over \$800 per employee.

In my experience, a licensing negotiation that results in licenses being taken at such a discount from the patent owner's opening proposal represents a customary compromise between an infringer and a patent owner. Often time in my experience the patent owner's discount from its original proposal will exceed 25% and even 40%, depending upon factors including the strength of the patent, its importance to the licensing party's operations and the reasonableness of the opening proposal.

15. I advised MPHJ of the facts and law available to Project Paperless relevant to calculating a reasonable royalty under the law, and a reasonable asking price for an early settlement with an infringer prior to litigation. It is my understanding that MPHJ reasonably acted upon this information in calculating its proposed early settlement licensing offer, and that MPHJ additionally had conducted further review of its own to support the reasonableness of its offers to license.

16. I have also been asked to provide information regarding communications made by Project Paperless during its licensing campaign that it had received a "positive response" from the business community with respect to entities entering into a license agreement with respect to the Klein Patents.

17. This reference to receiving a "positive response" was not made by Project Paperless in its initial letters to potential infringers. However, for additional potential infringers that were later contacted by Project Paperless, the statement was included at my instance. This statement was well-grounded. The basis for this statement included the fact that out of the initial ten or eleven companies which I contacted in November 2011 on behalf of Project Paperless, we had conducted intelligent discussions with 8 of them and/or their counsel. Of those eight, we concluded that two were not in need of a license based upon additional information we received.

Five of the remaining six companies negotiated license agreements to the Project Paperless patents without any resort to litigation, after conducting their own review of issues relating to patent validity and infringement. In my experience, this is more than an adequate basis for stating that we were “heartened by the positive response” we received from the business community.

18. For at least the foregoing reasons, I informed MPHJ that Project Paperless had received a “positive response” from the business community, and I would expect, at a minimum, that MPHJ understood that information to be correct in its own licensing letters based upon my representations to MPHJ relating to the licensing activities of Project Paperless.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on: November 19, 2013



Steven G. Hill