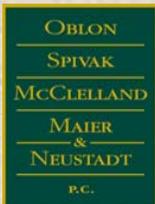


# Finance business method patents in the U.S.

Michael Casey  
Philippe Signore  
Bradley Lytle

Oblon, Spivak, McClelland,  
Maier & Neustadt, P.C.

January 2004



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& Neustadt, P.C., 2004

# Outline

- Michael Casey
  - The power of patents in the U.S.
  - What is a “business method”?
  - Background about U.S. business method patents
- Philippe Signore
  - Statistics
  - Who is obtaining financial business method patents?
  - What is being patented?
  - Enforcement of financial business method patents
- Bradley Lytle
  - IP Risk Management for European Companies Doing Business in US Market

# The power of patents in the U.S.

- Patents provide their owners with exclusive rights for a limited period of time
  - Term: Generally max. of 20 yrs. from filing
    - Some conditions can extend term
  - Exclusive rights
    - Prohibit making, using and selling
    - Prohibit importing of patented goods and even goods made by a patented method

# The power of patents in the U.S.

- Damages and Injunctive Relief
  - Damages for infringement
    - Lost profits if patentee is actually selling a product
    - No less than a reasonable royalty
    - May be tripled if infringer was “willful”
  - Injunctive relief
    - May get permanent injunction
    - No compulsory licenses

# The power of patents in the U.S.

- Barrier to Entry in a Market
  - May make competitors reluctant to enter a market where competing products may infringe one or more patents
  - Venture capital investors may be reluctant to fund companies competing against patent holders
  - Potential patent royalties alters profit outlook

# What is a “business method”?

- No one knows for sure
- No useful statutory definition: “a method of doing or conducting business”
- **CAFC:** who cares! Business methods should be handled like “any other process or method.”

# What is a Business Method?

- Class 705: **apparatus** and corresponding **methods** for performing **data processing** operations ... or for performing **calculation operations** wherein the apparatus or method is uniquely designed for or utilized in the practice, administration, or management of an enterprise, or in the processing of *financial data*.

# Background on U.S. business method patents

- **Pre 1996:** USPTO: there is a business method exception to patentability
  - But business methods/systems were being patented!
- **1998:** *State Street Bank*: *There never was a business method exception to patentability*
  - If the process is directed to a “practical application,” the method is patentable.
- **1999:** *AT&T v. Excel*: addressed method claims & structure
  - Confirms State Street decision
- **1999:** New “First Inventor” defense:
  - Applies only to “methods of doing or conducting business”

# Background

- **1999-2001** – USPTO experiences a surge in filings
- Public criticism of USPTO for poor examination
- Proposed new laws targeting BMPs
- Dot-com bubble bursts
- USPTO establishes new guidelines

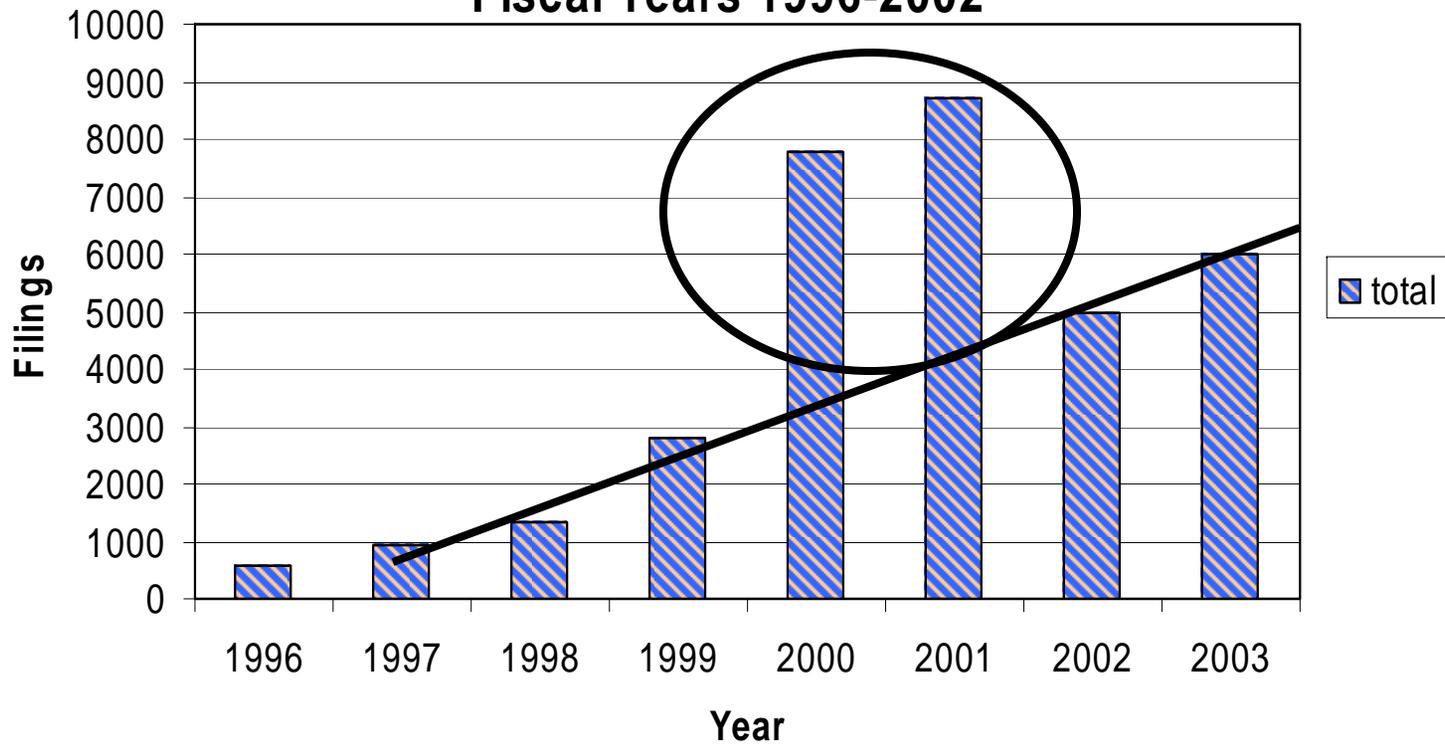
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# Statistics

## Filing Trends for Class 705 Fiscal Years 1996-2002





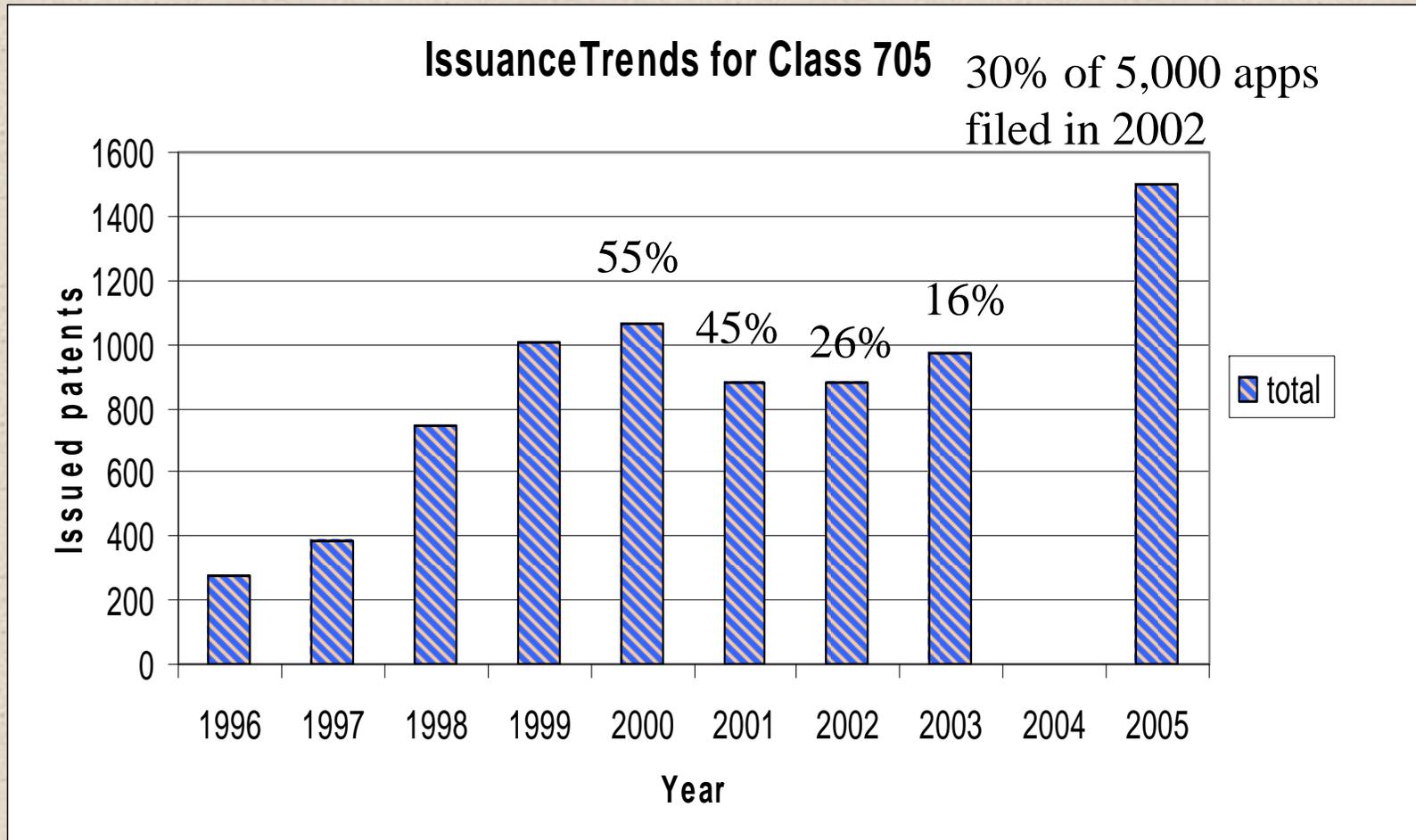
# Statistics

Year	FY '99	FY '00	FY '01	FY '02	FY '03
#Examiners in class 705	17	33	77	125	120
Allowance Rate	*	55%	45%	<b>26%</b>	<b>16%</b>

Overall U.S. allowance rate is 65-70%



# Statistics



# Who is obtaining business method patents?

Company	Estimated number of Class 705 patents issued
IBM	360
Pitney-Bowes	300
Hitachi	150
Fujitsu	150
NCR	130
AT&T	80
Microsoft	75
Matsushita Electric	70
Walker Digital	60
Citibank	50

# Patent portfolios of **banks**

	total # of patents	# of 705 patents
Citibank	81	54
Chase Man.	23	12
First USA	16	6
First Union/ Wachovia	5	4
Capital One	4	3
Mellon Bank	3	3
Bank One	4	2
Bank of Ameri.	25	1
Wells Fargo	15	1

# Patent portfolios of financial services companies

	total # of patents	# of 705 patents
Visa	57	26
Merrill Lynch	34	24
Amer. Express	39	11
Mastercard	15	12
Reuters	26	9
Cantor Fitzg.	4	4
Freddie Mac	4	4
MetLife	16	3
Morgan Stanley	5	3
Hartford Ins.	3	2
Nasdaq	3	2

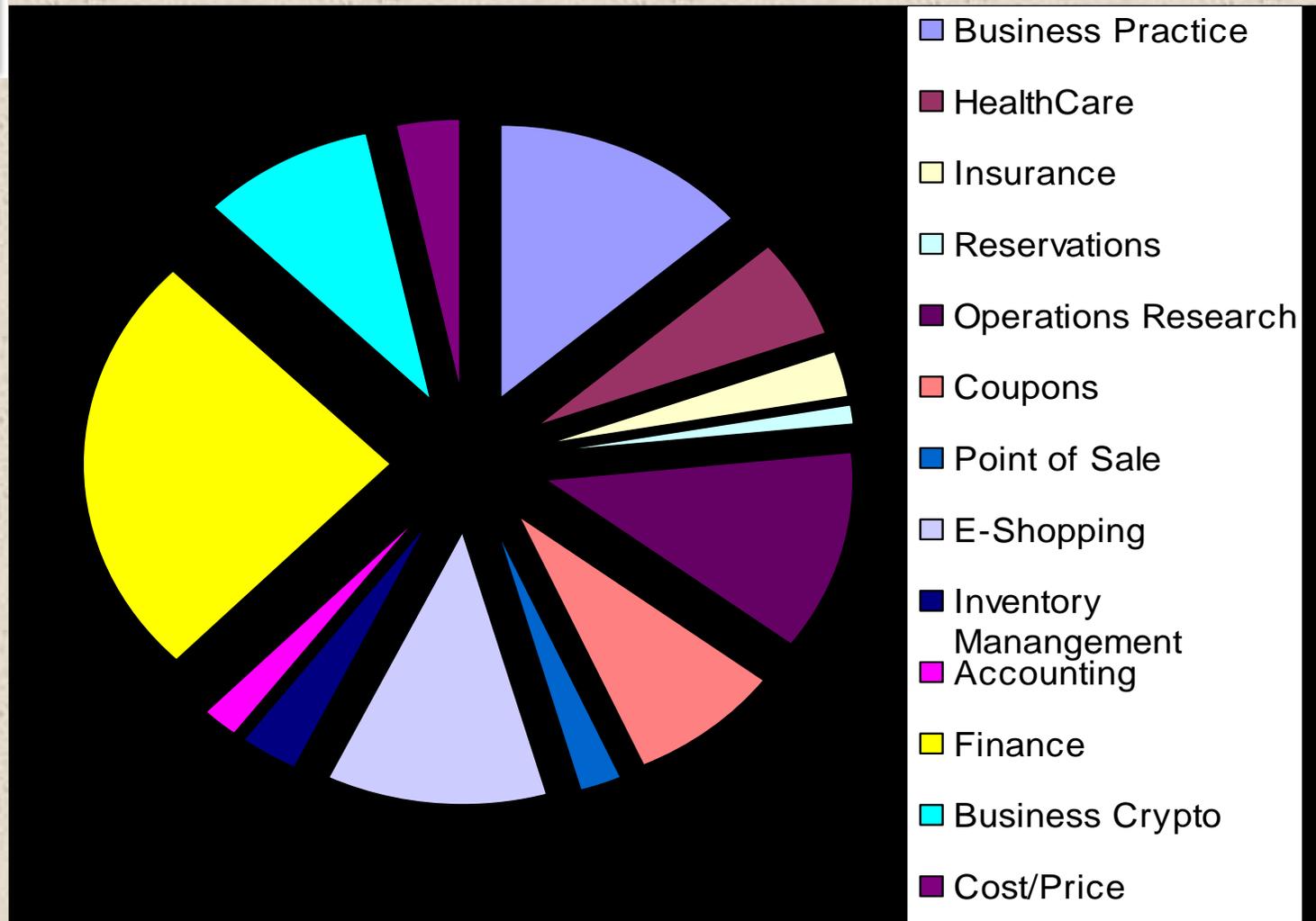
## Patent portfolios of **financial technology firms**

	total # of patents	# of 705 patents
Diebold	164	19
First Data	54	16
Propri. Finan.	8	8
Finan. Engines	5	5
Finan. Serv.		
Tech Consort.	4	4
NextCard	3	3



# What is being patented?

Distribution of Business Applications (FY 2002 data)



# What is being patented in the financial sector?

- “Anything under the sun” performed by:
  - Banks
  - Credit card companies
  - Brokerage firms
  - Insurance companies
  - Any other financial service company

## Examples of financial business method patents

- Method of detecting counterfeit notes
- 5,025,372: System and method for administering an incentive award program through use of credit (filed in 1987)
- 5,963,917: An automated payment system for purchases over the Internet (filed in 1996)

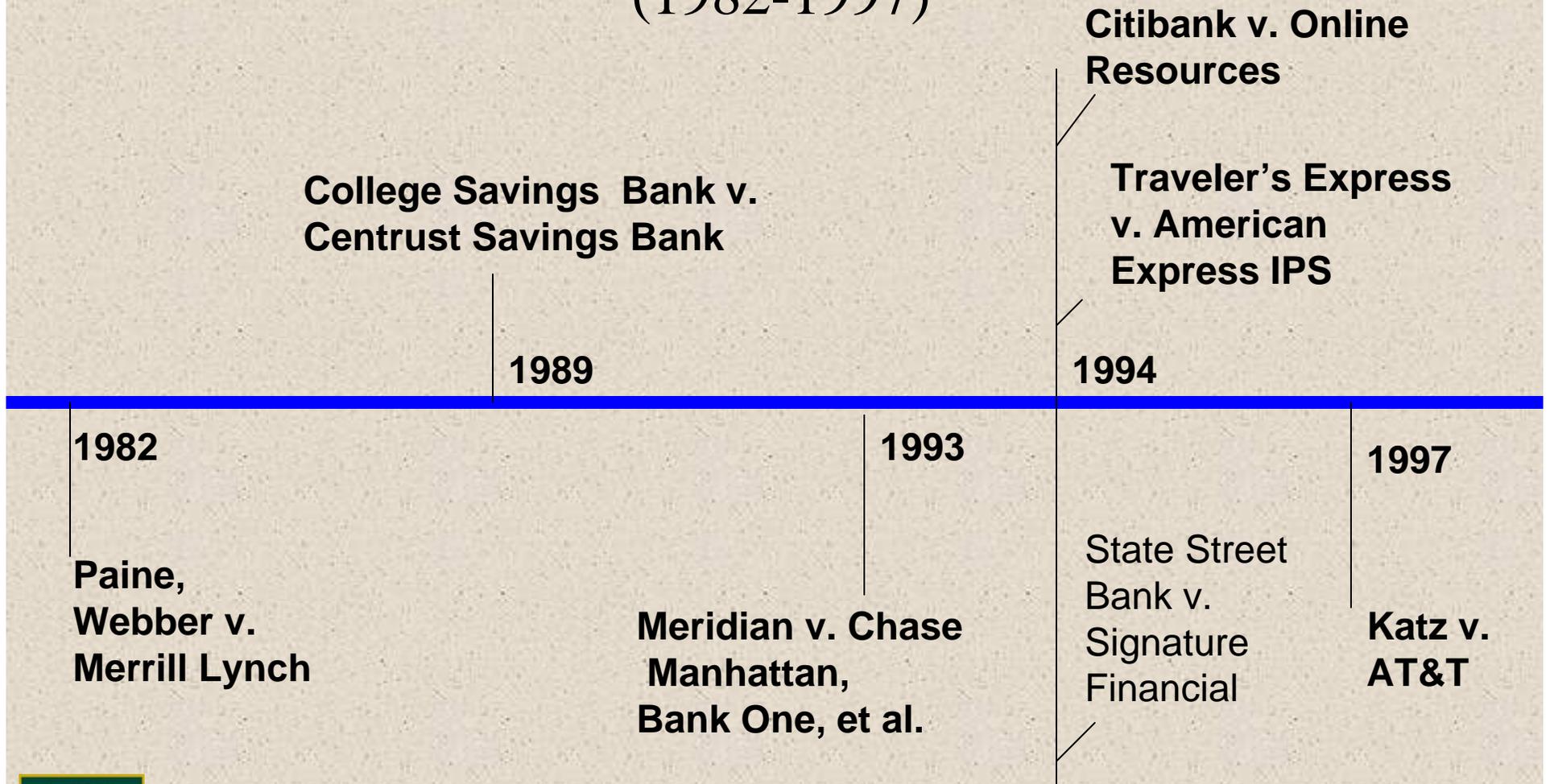
## Examples of financial business method patents

- 6,227,447: Method for completing a credit card transaction without the need for the physical presence of the credit card
- 6,349,290: A system and method for presenting customized advice for a customer by a financial institution
- 6,064,970: Motor vehicle monitoring system for determining a cost of insurance

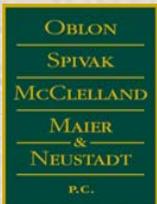
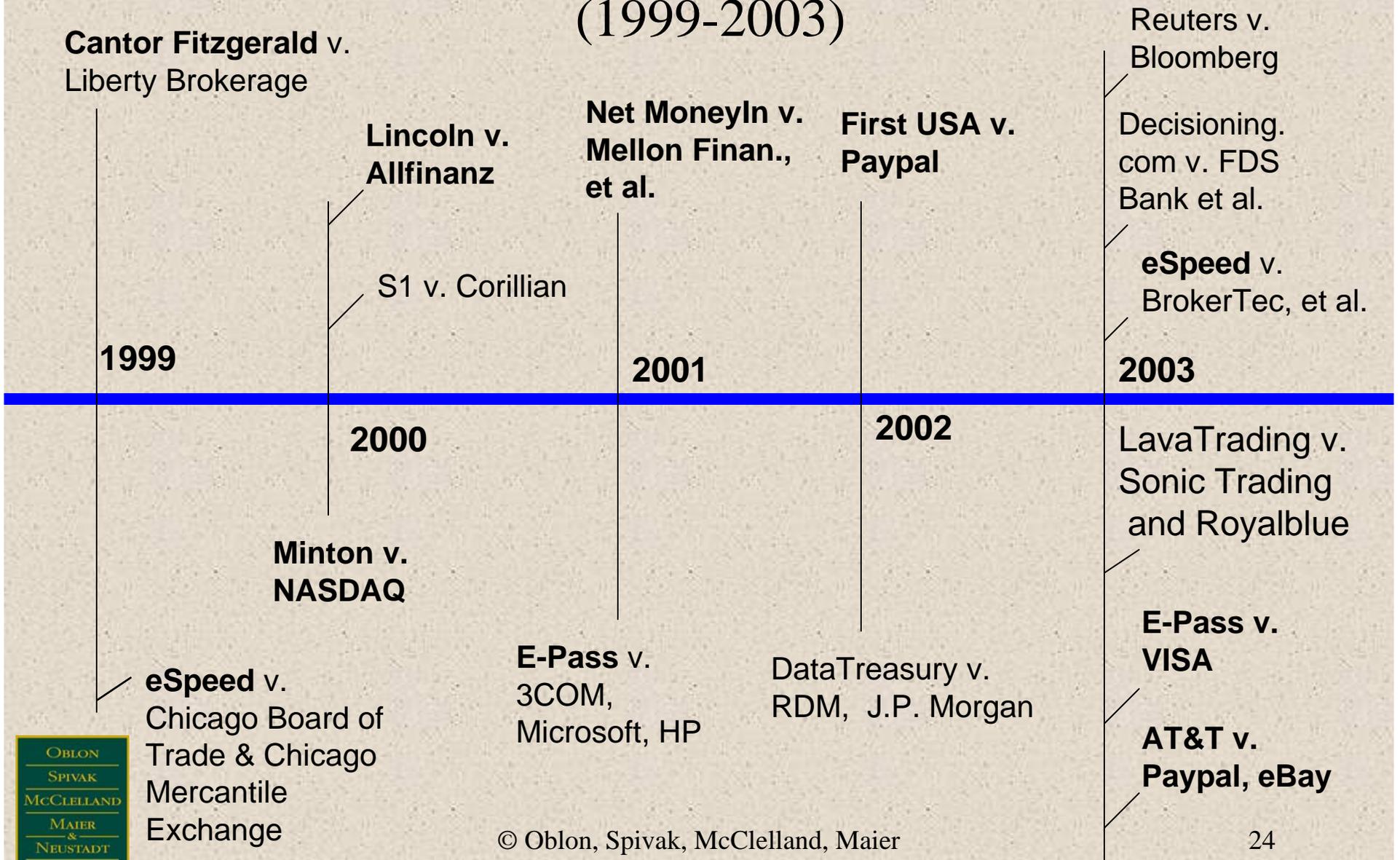
# Enforcement

- Financial business method patents are enforced for the same reasons traditional patents are enforced:
  - stop competing activity
  - obtain damages
  - obtain royalties from licenses
  - maintain an activity via a cross license
  - defend against another patentee

# Enforcement of Financial Business Method Patents (1982-1997)



# Enforcement of Financial Business Method Patents (1999-2003)



# Hands-On Experience

A workshop on “Software and Business Methods Patents in the Financial Services Industry,” organized by Swiss Re and UBS drew legal executives from some of the world’s leading financial services companies to explore the ways in which their companies could become more IP savvy. Participants included:

<b>Eric Baudry</b>	Société Générale	Legal advisor, legal department	<b>Peter Kurer</b>	UBS AG	Group general counsel
<b>Michael Bednarek</b>	Shaw Pittman LLP	Partner	<b>Josh Lerner</b>	Harvard Business School	Professor
<b>Donat Bischof</b>	Swiss Re	Manager, intellectual property	<b>John Love</b>	U.S. Patent and Trademark Office	Group director
<b>Fritz Blumer</b>	Homburger	Attorney-at-law	<b>Daniel McCurdy</b>	ThinkFire	CEO
<b>Hans Peter Boller</b>	Converium AG	Chief actuarial officer	<b>Gerald J. Mossinghoff</b>	Oblon, Spivak, McClelland, Maier & Neustadt	Senior counsel
<b>Marianne Bolliger</b>	Swiss Life	Corporate legal services	<b>Nicole Patsch</b>	Credit Suisse	Vice president and legal counsel
<b>Samantha Bruyn-Boel</b>	ING Group	Senior legal counsel	<b>Marshall Phelps</b>	Microsoft	Corporate vice president and deputy GC for IP
<b>John Cafiero</b>	American International Group Inc.	Assistant general counsel	<b>Anne Phillips</b>	HSBC Holdings PLC	Legal advisor
<b>Mark Clare</b>	Allstate Insurance Company	Director, enterprise knowledge management	<b>Thomas Pletscher</b>	economiesuisse	Member of the board of directors
<b>Jacques Combeau</b>	LES France	Consultant	<b>Claire Poll</b>	Barclays Bank PLC	Legal advisor and intellectual property manager
<b>Frank Cuypers</b>	Swiss Re	Head, intellectual property	<b>Beatrice Renggli</b>	UBS AG	Head, patent group
<b>Peter Forstmoser</b>	Swiss Re	Chairman of the board of directors	<b>Michael Ritscher</b>	INGRES	Executive secretary
<b>Henry Fradkin</b>	Value Extraction LLC	Principal/IP consultant	<b>Günther Sattelhak</b>	Deutsche Bank AG	General counsel
<b>Massimo Fuchs</b>	WorldPoint Interactive Inc.	President and CEO	<b>Manuella Seiler</b>	Swiss Re	Manager, intellectual property
<b>Henry Garrana</b>	Dell Inc.	Vice president, legal	<b>Erik Sevaldsen</b>	Danske Bank	Executive vice president and general counsel
<b>Sandra Gick</b>	Swiss Federal Institute of Intellectual Property	Editorial manager	<b>John Squires</b>	Goldman, Sachs & Co.	Chief patent counsel, associate general counsel
<b>Christophe Habluetzel</b>	Merrill Lynch International Inc.	Vice president, administrative manager	<b>Dieter Stauder</b>	CEIPI, Université Robert Schuman	Associate professor
<b>Harald Hagedorn</b>	SAP AG	Patent attorney	<b>Dr. Stefan Steinbrener</b>	EPO Boards of Appeal	Chairman, technical board of appeal
<b>J.D. Harriman</b>	Coudert Brothers	Patent attorney	<b>Fritz Teufel</b>	IBM Germany	Manager, intellectual property department
<b>Peter Hayward</b>	U.K. Patent Office	Divisional director	<b>Martin Toletti</b>	IBM	Senior patent attorney
<b>Daniel W. Huber</b>	UBS AG	Head, patent group	<b>Beat Weibel</b>	ABB Ltd.	Group intellectual property counsel
<b>Lloyd Johnson</b>	Chief Legal Executive LLC	Publisher	<b>Barbara White</b>	GeneralCologne Re	Vice president and assistant general counsel
			<b>Tim Wilson</b>	SAS Institute Inc.	Senior corporate counsel

# Conclusions

- “Business method patents are here to stay”
- Widespread recognition *in the U.S.* that business method patents are important
- Finance-related companies are obtaining and enforcing patents
- Non-US finance-related companies are starting to recognize the importance of business method patents

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# Overview

- Different IP Laws in US Create Risk for European Companies
- Risk Factors in US
- Risk Assessments
  - Business Exposure
  - Technology Exposure
- How US Patent Holders are Using Patents Strategically
- Suggestions for Mitigating Patent Risks When Doing Business In US

# Different Rules Demand Different Tactics

- US litigation is **Expensive** and fundamentally different from litigation in Europe
- Rationale for litigation
  - Royalties
  - Monopoly power
- Patents developed under European law alone are inadequate to protect a company doing business in US
  - Financial/Business Methods
  - Software/Internet/Automated Control
  - “Anything” that is new and commercially important

# Different Rules Demand Different Tactics

## (cont.)

- The Best Targets
  - “Deep Pockets”
  - Significant investment in US
  - Unfamiliar with US litigation
  - No ability to counter sue
    - (no patents of their own)
- The Worst Targets
  - Company has reputation for fighting back
  - Can counter sue (has big patent portfolio)
  - Small market presence
  - Sophisticated on patent matters

# Risks Factors in US

- Size of Investment Made in US Market
- Physical Presence in US
- Use Proprietary Technology
  - Bus. Methods
  - Software
- Cross-license agreements with Competitors
- Indemnification agreements from suppliers
- Experience in US patent litigation
  - Procedures in place to minimize “harmful” documents in discovery
- Size of Patent Portfolio
- Reputation
  - “easy target”
  - Fierce fighter

# Risks Factors in US

- Some highly litigated areas in the US
  - Financial
  - Business Models
  - Internet
  - Telecom & Communications
  - Software

# Example: US Patent Risk Assessment

	Traditional Competitor	New Corporate Competitor	"Prospector"
Investment in US Market			
Physical Presence in US			
Proprietary Financial Business Methods			
Proprietary Software			
Cross-License agreements			
Indemnification Agreements			
Experience in Litigation (especially patents)			
Size of patent portfolio			
Reputation as "easy target"			

High Risk

Med. Risk

Low Risk

# Example: Technology Risk Assessment

	Traditional Competitor	Adopt Technology of New Corporate Competitor	“Prospector”
Renewables			
Computer-Based Design			
Internet, & Real-Time Communications			
Metering			
Risk Management			
Databases and Information Management			
GPS/GIS Cartographic Technologies			
Paper Making and Composting			
Instrumentation & Control			

High Risk

Med. Risk

Low Risk

# Strategic Use of Patents in US

- File broad description early
  - Even before idea is tested
  - Speculate on alternative techniques
    - How would competitor adopt the technology?
- Interviews with Examiners
- Add many types of claims
  - Each type of claim increases scope of potential infringers
    - End user, manufacturer, financier, etc.
- File continuation applications
  - Draft new claims once others' products/methods introduced on market

# Interview with Examiner

Interview Summary		Application No.	Applicant(s)
		09/839,220	LOF ET AL
		Examiner	Art Unit
		Ryan A. Jarrett	2125

**All participants** (applicant, applicant's representative, PTO personnel):

(1) Ryan A. Jarrett (3) Bradley Lytle  
 (2) Per-Anders Lof (4) \_\_\_\_\_

Date of Interview: 8/8/02

Type: a)  Telephonic b)  Video Conference  
 c)  Personal [copy given to: 1)  applicant 2)  applicant's representative]

Exhibit shown or demonstration conducted: d)  Yes e)  No  
 If Yes, brief description: \_\_\_\_\_

Claim(s) discussed: 132-141, 147, 149-183

Identification of prior art discussed: Bailey - "Short-Term Wind Forecasting"

Agreement with respect to the claims f)  was reached. g)  was not reached. h)  N/A.

Substance of Interview including description of the general nature of what was agreed to if an agreement was reached, or any other comments: See Continuation Sheet.

(A fuller description, if necessary, and a copy of the amendments which the examiner agreed would render the claims allowable, if available, must be attached. Also, where no copy of the amendments that would render the claims allowable is available, a summary thereof must be attached.)

i)  It is not necessary for applicant to provide a separate record of the substance of the interview (if box is checked).

Unless the paragraph above has been checked, THE FORMAL WRITTEN REPLY TO THE LAST OFFICE ACTION MUST INCLUDE THE SUBSTANCE OF THE INTERVIEW. (See MPEP Section 713.04). If a reply to the last Office action has already been filed, APPLICANT IS GIVEN ONE MONTH FROM THIS INTERVIEW DATE TO FILE A STATEMENT OF THE SUBSTANCE OF THE INTERVIEW. See Summary of Record of Interview requirements on reverse side or on attached sheet.

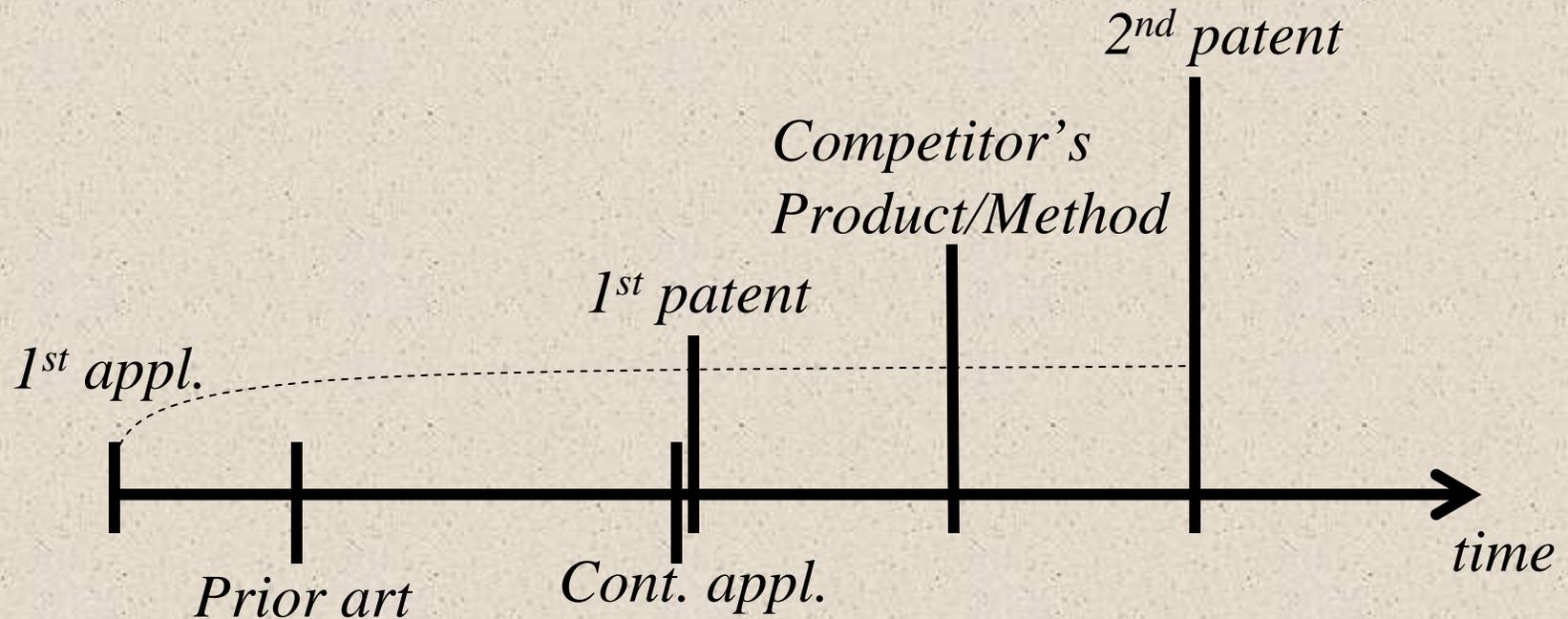
Continuation of Substance of Interview including description of the general nature of what was agreed to if an agreement was reached, or any other comments:

Applicant will ammend claim 132 to include selling premier power on market. Claims 161, 172, and 183 will be ammended to predict energy output as opposed to electrical power output. Applicant will incorporate <sup>features from</sup> ~~claims 132-141~~ into ~~independent~~ claims ~~132-141, 147, 149, 162, and 173~~. Examiner agrees to withdraw Bailey rejection with respect to claims ~~132-141, 147~~.

# Many Different Types of Claims

- Apparatus
- System
  - Careful if use Internet or Computer Networks
- Signal
- Computer Program Product
- Method
- Means plus Function

# Broad Patent Disclosures & Continuation Applications are a Powerful Combination



# Mitigating Patent Risks

- Develop patent position to cover present and future markets
  - Also competitors' markets
- Avoid patents by others
  - Clearance search and evaluation before adopting a new technology
    - Difficult with Bus. Methods due to “hidden prior art”
  - Obtain opinions of US counsel on “problem patents”
    - defense to willful infringement

# Mitigating Patent Risks (cont.)

- Seek indemnification from suppliers
  - Review contracts and purchase orders
- Develop patent portfolio for negotiation leverage
  - Cross-license
  - Counterclaim
  - Threaten suit
- Defensive measures against patent litigation
  - Develop patent portfolio to cover technology and processes used in core businesses

# Mitigating Patent Risks (concluded)

- Perform Internal Risk Assessment
- Address Risk Areas
  - Identify internal IP position
  - Audit existing businesses
    - Services/Product offered in US
    - Advertisement in US
    - Review contracts and Purchase Orders for indemnification language
  - Establish processes for reducing risk due to US “discovery”
    - Internal e-mail is very dangerous
  - Consider extending strategic alliances to cover IP as well



# THANK YOU

Michael Casey  
Philippe Signore  
Bradley Lytle

Oblon, Spivak, McClelland,  
Maier & Neustadt, P.C.

January 2004



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