

The Financial Services Industry:



"Uphill Patenting"

AIPLA Annual Meeting

**Electronic & Computer Law
Corporate Practice
Joint Session**

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The views expressed in this presentation reflect the speaker's personal views and do not necessarily represent the views of his employer.

Discussion Agenda



- I. What We Patent?**
- II. The “Uphill” Environment**
- III. Moving Forward: The Financial Services Industry’s Perspective (*i.e.*, One Client’s View)**
- IV. ROI: Wealth v. Worry**
- V. Looking into the Future: Some Final Thoughts**

What Do We Patent? Software!



- *In re Lowry*, 32 F.3d 1579 (Fed. Cir. 1994) (data structures in computer memory); and *In re Beauregard*, 53 F.3d 1583 (Fed. Cir. 1995) (code on tangible media)

- **MPEP § 2106** (“Examination Guidelines for Computer-Related Inventions”)

❖ A definition to frame the discussion:

“Software” (or "computer program", "program", "code"): The instructions executed by a computer, as opposed to the physical device on which they run (the "hardware").

-- Free Online Dictionary of Computing

We Also Patent “Business Methods”



- 35 U.S.C. § 101 does not specifically address the notion
- 35 U.S.C. § 273(a)(3) is not helpful: “'method' means a method of doing or conducting business”
- Class 705 (and its subclasses) do not wholly contain it!
- ***State Street Bank & Trust Co. v. Signature Fin. Group***, 149 F.3d 1368 (Fed. Cir. 1998), refused to define it!
 - ❖ A proposed definition to frame the discussion:

Processes (software or manual?) and related systems employed in an entity’s business model in order to perform services related to insurance, securities trading, health care, reservations, electronic shopping, auctions, cataloging, incentive programs, coupon redemption, banking, billing, sales, accounting, data and inventory management and the like.

Uphill Environment: Sample #1

“The technology bubble may be history -- but not at the U.S. Patent and Trademark Office. . . .

[A] U.S. appellate court decision in 1998 upholding Boston-based State Street Corp.'s patent on a price-computation system for mutual funds opened the floodgates -- **the financial industry is at the center of a global controversy over whether patenting has gotten out of hand. . . .** The backlash stems from the fact that U.S. patents have been granted for ideas as simple as cutting hair with scissors and applying makeup to the face -- and as complex as financial derivatives products and online trading networks. Inconsistencies abound: The influential Black-Scholes options pricing model never got patented; Merrill Lynch & Co.'s cash management account did.”



--Jeffrey Kutler, *Patents Rule*,
Institutional Investor Magazine (June 1, 2003)

Uphill Environment: Sample #2



*“In 1998 America introduced so-called ‘business-method’ patents, granting for the first time patent monopolies simply for new ways of doing business, many of which were not so new. **This was a mistake.** It not only ushered in a wave of new applications, but it is probably inhibiting, rather than encouraging commercial innovation, which has never received, or needed, legal protection in the past. **Europe has not, so far, made the same blunder”***

*--Intellectual Property, Monopolies of the Mind,
The Economist (Nov. 11 2004)*

Uphill Environment: Sample #3



“Then there are the "business method" patents -- *essentially, online translations of analog activities*. The most infamous is Amazon.com's "one-click" shopping patent, but there are lots of other egregious examples. *There's plenty of blame to go around on this*. But the chief culprits are the PTO, which by nearly every credible account doesn't sufficiently analyze the applications it gets, and Congress, which allows this to persist.”

--Dan Gillmor, *A Patent Strain on Innovation*,
Computerworld (Oct. 4, 2004)

Frustration in the Environment?



“There is a flawed conventional wisdom among many observers of the U.S. patent system . . . concerning the patenting of emerging technologies, including patents on . . . *Internet business methods*. . . .

[A WSJ article] mentions *Amazon.com's "One-Click" computer-shopping patent as an example of uncontrolled patenting in new technologies*. This patent has probably had more public and judicial scrutiny than any patent granted in the past five years, including a highly publicized \$10,000 bounty for anyone who could find evidence to invalidate it. The bounty went uncollected and *the patent has never been found invalid.*”

-- *No Uncontrolled Patenting of Emerging Technologies*, Letters to the Editor, The Wall Street Journal (July 13, 2004)
(Nicholas P. Godici, Commissioner for Patents)



Uphill Patenting: Waiting Your Turn!



An Applicant's View of Class 705

Fiscal Year	Number Allowed	Percent Allowed	Disposed (Abandoned or allowed)	New Filings	Cumulative Backlog
2001	433	45%	962	8,700	7,738
2002	492	26%	1,892	6,700	12,546
2003	495	16%	3,093	6,000	15,453
2004	283	11%	2,572	6,300	19,181

*Source: John J. Love, Director of USPTO Tech Center 3600,
May 4, 2005 Presentation (as summarized by D. Crouch)*

Avg. Time to 1st Office Action \approx 36 Months!!!

Moving Beyond State Street: Uphill!



"LAW OF THE LAND?" ...

- ***State Street Bank v. Signature Fin.***, 149 F.3d 1368 (Fed. Cir. 1998)
 - If the method produces "a *useful, concrete and tangible [i.e., 'real-world'] result*," it is eligible for patent protection.
- ***AT&T Corp. v. Excel Comm.***, 172 F.3d 1352 (Fed. Cir. 1999)
 - "[T]he judicially-defined proscription against patenting of a mathematical algorithm, to the extent such a proscription still exist, is *narrowly limited to mathematical algorithms in the abstract.*"

... THE USPTO VIEW

- ***Ex Parte Bowman***, 61 USPQ2d 1669 (BPAI 2001) (Unpublished)
 - "[T]he invention before us is nothing more than an abstract idea which is not tied to any *technological art*, environment, or machine. ... We sustain the Examiner's rejection ... under 35 U.S.C. § 101."

Have We Reached The Crest of the Hill?



... THE MORE RECENT USPTO VIEW

- ***Ex Parte Lundgren***, 2004 WL 3561262, Appeal No. 2003-2088 (BPAI 2005) (*per curiam*):
 - "Our determination is that there is currently no judicially recognized separate "**technological arts**" test to determine patent eligible subject matter under § 101. We decline to create one. Therefore, it is apparent that the examiner's rejection can not be sustained."

- **What will be the USPTO's Next Move?**

➤ The “Patent Trolls” are Lurking:

- ❖ *Aggressive Patent Litigants Pose Growing Threat to Big Business*
Wall Street Journal (Sept. 14, 2005), A1
- ❖ Microsoft Announcement on June 23, 2005 – It will indemnify all software and hardware partners!

➤ First Inventor Defense Act -- 35 U.S.C. § 273(b)

- ❖ Defense to infringement of method claims if the Δ (i) actually reduced the subject matter to practice at least 1 year before the effective filing date of the patent, *and* (ii) commercially used the subject matter before the effective filing date of the patent.
- ❖ Still No Decisions!

An Uphill Fight Against the Trolls



ON THE HORIZON

- ***MercExchange v. eBay***, 401 F.3d 1323 (Fed. Cir. March 16, 2005),
petition for *certiorari* filed (Jul 25, 2005)

- **Issue: Why permanently enjoin when monetary damages will make a patentee whole!?**
 - ❖ “We therefore see no reason to depart from the general rule that courts will issue permanent injunctions against patent infringement absent *exceptional circumstances*.”

 - ❖ “To be sure, ‘courts have in rare instances exercised their discretion to deny injunctive relief in order *to protect the public interest* [e.g., public health].”

 - ❖ “A ***general concern regarding business-method patents***, however, is not the type of important public need that justifies the unusual step of denying injunctive relief.”

- A 2003 economic study of Software-based BMPs concluded that they *may* discourage innovation in the software industry.

[17 Int'l Rev. of Law, Computers & Tech. 127-62 (July 2003)]

... So, What About "Shareholder Value"?

- "As much as **three-quarters of the value** of publicly traded companies in America comes from **intangible assets**."

[The Economist (Oct. 22, 2005)]

- "[C]ompanies who spend money in pursuit of patents may be making a sound investment, if not directly for the rights that the patent guarantees, then for the portfolio of patents that the investors appear to desire. Conversely, **companies who do not pursue BMPs** may be putting themselves at a **competitive disadvantage** in the equity market."

[9 Comp. L. Rev. & Tech. J. 279, 28-88 (2005)]

The Industry's Perspective: Moving Forward

- "For the first time since the industrial revolution, fewer than 10% of American workers are now employed in manufacturing."
- In 2004, \$4.8 Trillion of the \$8.2 Trillion in Personal Consumption Expenditures of the U.S. GDP were for Services, not Goods.
- The 2nd mover in a market will always have an advantage over the 1st mover -- they can sit back, wait, and fix what the 1st mover did wrong.
- Thus, as a result of the above three observations, business method patents will continue to proliferate!
- In financial services industry, back office people look for COTS software to do X and it's not on the market. So, they design and develop it themselves! This is a great source of innovation that results in software/business method patents.
- The number of patents granted to financial institutions has increased ten-fold from 1996 to 2002.

Industry Perspective: Payment Evolution = Innovation



Charge
Cards

Buy now



*Pay within
30 days*



Credit
Cards

Buy now



Pay over time



Debit
Cards

Buy now



*Pay
Instantaneously*



Prepaid
Cards

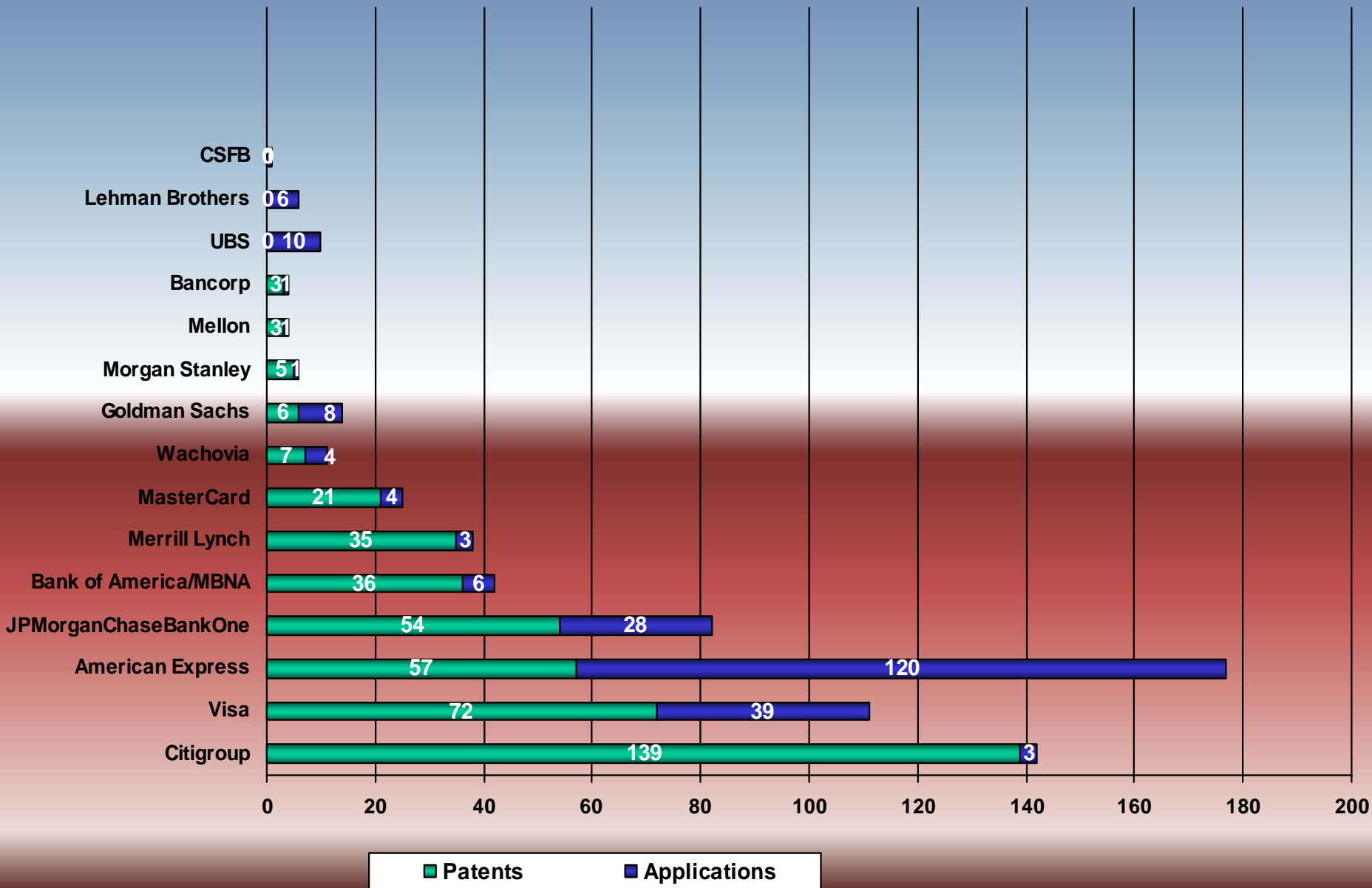
Pay first



Buy later



Patents and Published Applications Assigned to Major Financial Institutions (As of September 22, 2005)



Moving Beyond Worry ... to Wealth

A Wealth v. Worry 3-Stage Approach

1. Rush to Build an IP Portfolio

- Defensive patenting is still, by far, the *status quo*
- But, many of the “Patent Trolls” make no products nor offer services



2. Build an IP Portfolio to Protect Advantages

- The few clients “who get it” will start to make the “*cost center to profit center*” transition, and be interested in pursuing strategic patents that have offensive value

3. ROI: Leveraging IP to Positively Impact Deals and Generate Revenue (*i.e.*, + **Wealth**) and Deter 3rd-Party Challenges (*i.e.*, - **Worry**)

Industry Perspective: The ROI Claim Game

Try #1



A method for making a telephone call, comprising the steps of:

- (1) picking up the receiver of a first telephone;
- (2) dialing a number on said first telephone;
- (3) transmitting a signal to a second telephone, said second telephone being identified by said number;
- (4) causing said second telephone to ring;
- (5) picking up the receiver of said second telephone; and
- (6) talking.

Try #2

A method for facilitating a telephone call between a first user and a second user, comprising the steps of:

- (1) **causing** a dial tone to be heard through the receiver of a first telephone used by the first user;
- (2) **receiving** an input from said first telephone, said input indicative of a number for a second telephone;
- (3) **transmitting** a signal to said second telephone causing said second telephone to ring; and
- (4) **facilitating** communications between the second user on said second telephone and the first user on said first telephone.

More Worries?: Outsourcing & Offshoring



NTP, Inc. v. Research-in-Motion, 418 F.3d 1282 (Fed. Cir. Aug. 2, 2005)

- “We therefore hold that **a process** cannot be used ‘within’ the United States as required by section 271(a) unless **each of the steps is performed within this country**. In the present case, each of the asserted method claims ... recites a step that utilizes an ‘interface’ or ‘interface switch,’ which is only satisfied by the use of RIM's Relay located in Canada. Therefore, as a matter of law, these claimed methods could not be infringed by use of RIM's system.”

VS.

- “The use of a **claimed system** under section 271(a) is the place at which the system as a whole is put into service, i.e., **the place where control of the system is exercised and beneficial use of the system obtained**. ... [C]ustomers located within the United States controlled the transmission of the originated information and also benefited from such an exchange of information. Thus, the location of the Relay in Canada did not, as a matter of law, preclude infringement of the asserted system claims in this case.”

For "Software" and "Business Method" Patent Applications:

- Think of the Doctrine of Patent Exhaustion (i.e., Claim Perspective and the "Deep Pocket" Infringer?)
- Any Fallout from *In re Lundgren*?
- What is the *In re Beauregard Claim* for the Business Method (e.g., Financial Services Firm) world!?
- Will the Dec. 2004 Fee Increases – esp. claim fees – improve quality and/or slow down filings?
- What will be the (intended or unintended) effects of the Patent Act of 2005?



The Financial Services Industry:



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Thank You!!!

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