July/August 2012 Vol: 2012.4

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 Mark discusses a new tool available from the USPTO useful in: **Challenging the Validity of Business Method Patents**.

In the Q&A Tom discusses what the considerations are in **Deciding on Getting a Patent.**

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.

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

Challenging the Validity of Business Method Patents

By: Mark Nowotarski, Markets, Patents & Alliances LLC – co-editor, Insurance IP Bulletin

There is a new tool available to challenge the validity of business method patents. It's called "Transitional Program for Covered Business Method Patents" (TBM). It is an adversarial procedure at the US Patent and Trademark Office that allows those that have been sued for infringing a business method patent (or under threat of being sued) to challenge the patent's validity in front of a panel of administrative patent judges. The USPTO estimates that the cost of this procedure will be approximately $200,000 for both the petitioner challenging a patent's validity and the patent owner defending its validity. A final decision will be rendered in a year.

Basic Process

The Transitional Program for Covered Business Method Patents went into effect on September 16, 2012. It will last until September 16, 2020. The USPTO has posted background information on the new procedure at their Inter Partes Disputes page. This web page includes additional links to the trial rules, frequently asked questions and other useful information.

TBM will be an "inter partes" procedure in the sense that the petitioner and the patent owner will present their arguments to a panel of judges. Each party will have discovery available as well as the ability to provide expert witnesses. The patent owner will be allowed to amend the patent's claims.

There are many additional caveats as to when a TBM can be filed, what patents it can be filed on, what causes it can be filed for, and what sacrifices you have to make in terms of defending yourself in a US district court. These caveats are presented on the USPTO web site links above.

The critical issue, however, is not so much ***can*** you file TBM, but ***should*** you file a TBM. That decision will depend on the facts and business strategies governing your particular situation. Nonetheless, there are a number of strategic issues everyone should consider.

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Strategic Issues

Lower cost, faster decision, untested process. The promise of a TBM proceedings is that the validity of the challenged patent will be more clearly resolved in a much shorter time (less than a year versus multiyear) and at a much lower cost ($200,000 vs. $1,000,000+ for each party) than full-fledged litigation. The downside risk is that if the petitioner is not satisfied with the results, then said petitioner is barred (i.e. "estopped") from raising the same issues in district court. This risk will be especially acute in the early days of TBM because the process is new and untested. The startup of a new process is always the most dangerous time when things are most likely to go wrong.

You are helping the patent owner as well as yourself. There is an old saying, "What doesn't kill you makes you stronger". Based on my own experience with European patent oppositions (a European inter partes process for challenging patent validity), the inter partes nature of a TBM should result in patents that are much stronger, albeit more narrow, than patents that have not been through the process. The prior art searching will be much more thorough (see our article on Invalidity Searches). The legal arguments will be more fully developed. The opinions of experts will be taken into account. This all helps the patent owner as much as it helps the petitioner. Even if all of the claims are held invalid, the patent owner arrived at this holding at much less cost than if said owner had defended the patent in district court.

Consider relying on an "invalidity opinion" if you are only being threatened with patent infringement. If you are being threatened with patent infringement, it might be tempting to file a TBM. Before you file a TBM, however, you should get an opinion from a patent attorney that the patent is indeed invalid (i.e. an "invalidity opinion"). If you can get that opinion you may not need to file the TBM. An acquaintance of mine who is the former head of a major corporation's licensing division said that in past years, they would do an invalidity search on a threatening patent and if they found solid prior art, they would get an opinion from outside counsel stating that the patent was invalid. If the patent owner ever contacted them, they would inform the patent owner that they had prior art that would invalidate the patent. It was then up to the patent owner to decide whether or not to sue them for infringement without knowing what prior art they had uncovered. It was an effective strategy in the days before TBM when the patent owner had to literally make a million dollar decision on whether or not to sue in district court. Now that TBM is available, it still may make sense depending upon your particular circumstances and how effective the TBM process turns out to be.

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Conclusions

The Transitional Program for Covered Business Method Patents (TBM) is a new procedure at the USPTO for invalidating Business Method patents. Patents that issue in class 705 will generally qualify. This includes insurance patents (class 705/004). The TBM process promises to be significantly faster and less expensive than the alternative of litigation in US district court. You have to be already sued for patent infringement or under threat of suit in order to file a TBM. Important strategic considerations in making a decision on whether or not to file a TBM include:

- Is the lower cost and faster process worth the higher risk right now of an untested process?
- Do I want to help the patent owner as much as I want to help myself by initiating a more thorough examination process?
- If I'm only being threatened with infringement, can I rely on my outside counsel's invalidity opinion and not bother with filing a TBM?

We look forward to following any TBMs that get filed and will report back results to our readers.

Mark Nowotarski is a registered patent agent in addition to being a co-editor. For more information on this subject please contact him at: Mnowotarski@MarketsandPatents.com

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Patent Q & A

Deciding on Getting a Patent

Question: When should getting a patent be part of my business plan?

> **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 (*from Tom Bakos*)**:** If your business is based on innovative technology which is patentable, then getting a patent should always be considered.

Details: We'll consider this from the point of view of innovation in the subject matter areas of ***insurance*** and ***broader financial services***. We'll also assume that the invention is indeed patentable because it is new, useful, and not obvious – at least as well as those subjective determinations can be agreed to by you and the patent office.

There are, of course, degrees of newness and usefulness and patents are not free. So, the value a patent might add to the invention must be weighed against the cost of getting it.

First, the cost: A reasonable average cost for getting an insurance or financial services patent in the U.S. is in the range $10,000 – $20,000 depending on how much work you, the inventor, do and how much work your patent agent/attorney does. So, around $15,000 is a reasonable expectation but costs could be driven higher if the invention is complicated or if, as you prosecute the initial application, you add new claims by filing additional applications.

The value of a patent lies in the following: A patent gives its owner the right to exclude others from making, using, or selling a patented invention. The financial value to a patent owner in this derives from, at least, three sources:

(1) By preventing others from marketing a patented invention the owner reserves the right to receive all future profit for himself,

(2) By allowing others to market the invention the owner can receive a royalty payment in lieu of profit the owner might have made from selling the invention himself,

(3) A patent creates an asset that can be sold or assigned for a lump sum fee to someone else who sees value in it or used as collateral to raise investment capital.

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Another element of cost in a patent is that if you as owner choose to enforce your patent against a possible infringer (as described in item #1 above), you will incur legal costs which, if you lose, will not be offset by any award.

So, in deciding to seek a patent you must decide whether or not you believe you will ever find yourself in a position in which you would have to or want to enforce it. That is, is your invention going to be so popular that others would want to use it also and, if they did, would it diminish profit you might otherwise have gotten?

Clearly, if your invention is ground breaking and enables a new insurance product in a newly defined market which effectively addresses a problem hitherto unsolved and for which hundreds of millions in new sales are likely, then seeking a patent to protect that market is a no-brainer. Even if you don't intend to pursue product development yourself, a patent provides value in future royalties or an outright sale – none of which could be realized if you did not have a patent.

However, if your innovative solution addresses needs in a niche market of short duration and which is so low on everyone's radar that it would go unnoticed until it was no longer relevant, then seeking a patent may be an unnecessary expense. Another thing to remember is that patent protection starts when a patent is actually issued. Prosecuting a patent application from filing to issue is, more likely than not, going to be a 3 – 5 year affair.

If your business plan is grander still, you would need to think international. A U. S. patent provides the aforementioned protections only within the U. S. Given that U. S. insurance and financial markets are somewhat unique in their operation, your invention may have no useful application outside the U. S. and seeking foreign patents may be unnecessary. For example, the market value of an invention may, in the U. S., be derived from regulation or law affecting the sale of insurance in the U. S. that is not applicable in other jurisdictions. But, if your invention applies to a broadly applied risk selection process useful throughout the world, then seeking international patents at costs reasonably within the range $100,000 - $200,000 might be a consideration.

Like all things in business it is (or should be) a cost / benefit analysis. If you are a lone inventor with one or two inventions to your name, you will look and evaluate this decision differently than if your business is large and must invent to survive and remain viable.

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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 8/31/2012

YEAR	Class 705 #	Subclass 4 #
2012	4,295	219
2011	5,471	275
2010	5,260	276
2009	2,936	80
2008	2,525	90
2007	1,937	45
2006	2,119	46
2005	1,356	31
2004	900	25
2003	868	21
2002	835	15
2001	818	19
2000	1,020	31
1999	970	36
1998	711	21
1976 - 1997	2,734	47
TOTAL	34,755	1,277

Published Patent *Applications* as of 8/31/2012

YEAR	Class 705 #	Subclass 4 #
2012	6,096	168
2011	7,952	207
2010	8,104	241
2009	8,357	284
2008	8,538	210
2007	6,744	195
2006	5,859	177
2005	6,023	159
2004	5,377	167
2003	5,777	136
2002	5,905	172
2001 *	1,288	31
TOTAL	76,020	2,147

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

NOTE: Patents and Patent Applications may be reclassified by the USPTO between reporting periods. Therefore, numbers from prior years may change.

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

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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.)*.

NOTE: Patent and Patent Application totals may be different than in prior Bulletins due to USPTO reclassification.

Issued Patents

In class 705/4, **72** new patents have been issued between 7/1 and 8/31/2012 for a total of 219 so far in 2012. Patents are issued on Tuesdays each week. There has been an upswing in the number of issued patents because the patent office is making a concerted effort to clear its backlog of pending applications.

Note also, that because the USPTO reclassifies patents and patent applications from time to time, the numbers for prior years or months may change.

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, **38** new patent applications have been published between 7/1 and 8/31/2012 for a total of 168 so far in 2012. Patent applications are published on Thursdays each week.

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.

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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.

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Resources

Recently published U.S. Patents and U.S. Patent Applications with claims in class 705/4.

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

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

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

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