Bloomberg BNA

Daily Report for Executives™

Financial Institutions

New Consumer Technologies Make Banks Magnet for Lawsuits From Patent Trolls

Bank of America Corp., Citigroup Inc. and Wells Fargo & Co. were all sued last September by a Florida company claiming the banks infringed its patents enabling customers to use their mobile devices to deposit checks.

The simultaneous lawsuits are just one example of how banks' growing use of new consumer technologies is making them vulnerable to patent infringement suits filed by companies holding little more than caches of patents.

The number of suits against banks by firms known as patent assertion entities or ''patent trolls'' is expected to reach record highs in 2015. And the proportion of patent-infringement lawsuits involving banks could double to as much as 10 percent of all infringement cases, Gary Bender, managing director of the Electronic Payments Zone at San Jose, Calif.-based Unified Patents Inc., told Bloomberg BNA.

''Unfortunately, the problem is not going away and, if anything, it seems to getting worse,'' Daniel Nazer, a staff attorney at the Electronic Frontier Foundation, a nonprofit digital advocacy group, told Bloomberg BNA.

Courts Shape Developments. A material uptick in the number of patent-infringement cases against banks followed a 1998 U.S. Court of Appeals for the Federal Circuit case, *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, Fed. Cir., 96-1327, 7/23/98, in which the court ruled a new and useful business method or process was eligible for a patent.

The decision meant many banking processes, such as electronically scanning checks or the internal workings of an automated teller machine, might be eligible to be patented.

It also opened the door for weak and possibly invalid patents to be issued because the U.S. Patent and Trademark Office lacked experience or institutional knowledge about bank operations and processes. The issue of patent quality is a chief component of the ongoing debate about patent trolls.

In the aftermath of *State Street*, the federal government issued many patents that were ''perhaps not providentially issued,'' Robert Stoll, a Drinker Biddle & Reath LLP partner and former PTO commissioner for patents, told Bloomberg BNA.

Many of those patents, labeled as ''vague'' by several intellectual property lawyers, might be acquired on secondary markets by patent assertion entities, with the sales facilitated by brokers. Those entities might then attempt to sell licensing agreements to banks allegedly infringing the entities' patent portfolios.

Targets face the choice of settling cases quickly and comparatively cheaply or engaging in long litigation battles that may cost millions of dollars—and still risk possibly losing highly technical trials in front of unsympathetic juries.

''It's often just very difficult for a patent defendant to make a good case,'' Boston University law professor and patent specialist James Bessen told Bloomberg BNA. ''It's very easy to put an inventor on the stand and discuss how he put all his hard work into the patent. It makes it difficult for defendants to win.''

Defendants Double. The number of campaigns, or orchestrated litigations by a single patent assertion entity against multiple banks alleging infringement of at least one common patent, increased from eight in 2008 to 14 in 2011 and 19 in 2012, according to data compiled by RPX, a San Francisco-based patent-infringement risk mitigation firm that sells insurance to banks and buys and retires patent portfolios. The number of banks named in the lawsuits between 2008 and 2013 increased nearly 100 percent, to 127 banks, according to RPX.

''What I've seen, both looking at data and also my experience in the last 15 years, has been a dramatic increase in the number of patent cases being filed against banks,'' Jones Day partner and patent litigation specialist Mark Howland told Bloomberg BNA. While the number of cases declined in 2014, Howland and others predicted the number of cases in calendar 2015 will again approach 15-year peak levels.

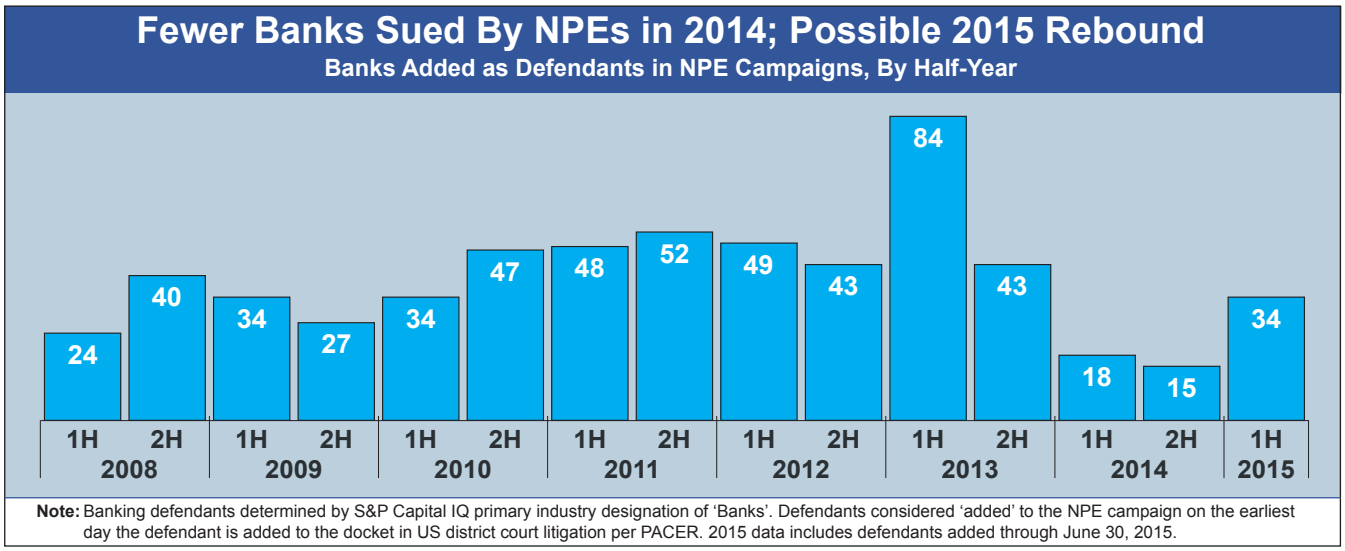
Price of Innovation. The trend in litigation aimed at banks has largely tracked other industries with financial services firms accounting for a steady proportion of cases, according to data compiled by RPX.

In 2012, for instance, a total of 1,655 companies were targeted by patent assertion entities, of which 92 defendants, or about 5.6 percent, were banks. During the first half of 2015, about 5.3 percent of defendants in the cases were banks, the RPX data said.

But banks are expected to account for an increasing proportion of cases filed by patent assertion entities as financial services companies increasingly rely on technological innovation embedded in new products.

Plano, Texas-based Location Services IP, for instance, alleged in March 26 filings that JPMorgan Chase & Co. and Wells Fargo infringed its patent allowing bank customers using mobile devices to locate bank branches or automatic teller machines (*Location Services IP v. JPMorgan Chase & Co.*, E.D. Tex., 15-cv-00435, 3/26/15). In the case involving the Florida com-

 ISSN 0148-8155



Source: RPX Research

A BNA Graphic/bk5178g1

pany, the plaintiff alleged the banks are infringing a patent enabling bank customers to deposit checks electronically (*Rothschild Mobile Imaging Innovations LLC v. Citigroup Inc.*, D. Del., 14-cv-01143, 9/8/14).

Cases Keep Coming. To some intellectual property specialists, patent assertion entities ensure inventors are financially rewarded for their work. Others view the companies as legal extortionists, squeezing settlements from banks seeking to avoid more costly court battles.

The cases, meantime, just keep coming. Longview, Texas-based Ectolink LLC, which may be a reincarnation of an earlier patent assertion entity, sued U.S. Bancorp, Santander Bank NA, Comerica Inc., Bank of Hawaii Corp., SunTrust Banks Inc. and an array of other small and large banks in August in U.S. District Court for the Eastern District of Texas alleging patent infringement.

In August, the Independent Bankers Association of Texas posted on its website a warning to members about a recent deluge of demand letters, which warn of imminent litigation unless a settlement is reached, typically by paying licensing fees or making royalty arrangements.

''In the last several weeks, there have been dozens and dozens of banks that have received notices from three or four different patent assertion entities relating to several patents on common bank practices,'' Karen Neeley, the association's general counsel, told Bloomberg BNA.

$130 Million Demand Alleged. In one ongoing patent-infringement case, well-known patent assertion entity Intellectual Ventures LLC sued Capital One Financial Corp. in U.S. District Court for the District of Maryland, alleging the bank's websites use technologies that infringe five Intellectual Ventures patents (*Intellectual Ventures I LLC v. Capital One Financial Corp.*, D. Md., 14-cv-00111).

In its March 2014 amended answer, Capital One denied it infringes or has infringed any enforceable Intellectual Ventures patent named in the lawsuit and further claimed some of the patents referenced in the complaint should not have been issued by the patent office in the first place because they're invalid.

In a July 30, 2015, filing, Capital One claimed Bellevue, Wash.-based Intellectual Ventures demanded a $130 million payment to license its financial services patents at the outset of litigation in lieu of proceeding with a court case. Intellectual Ventures agglomerated on secondary markets a ''thicket'' of patents the company claims banks ''can't avoid,'' the filing said.

Intellectual Ventures lawyers Michael McCabe and Bryan Bolton, Funk and Bolton PA, Baltimore, did not immediately respond to a request for comment. A Capital One spokeswoman did not immediately respond to a request for comment.

Smaller Banks Not Immune. Patent assertion entities aren't solely targeting the nation's largest banks. Hanover, N.H.-based Ledyard National Bank, a bank employing approximately 100 workers and managing about $400 million, was sued in U. S. District Court for the District of Vermont in 2011 for allegedly violating patents held by Delaware-registered Automated Transactions LLC involving ''integrated banking and transactions machines'' (*Automated Transactions LLC v. Ledyard National Bank*, D. Vt., 11-cv-00235, 2/27/12).

At a March 2015 House Judiciary Committee hearing on patent abuse, Ledyard National Bank president and chief executive officer Kathryn Underwood said her bank's nine automated teller machines can't even use the technology at issue. A demand letter from Automated Transactions, nevertheless, said the bank was infringing its patents but that a licensing fee could be purchased on ''exceptionally favorable terms,'' Underwood told the committee.

''Our lawyers advised us that defending ourselves in patent litigation could be very costly, in excess of $1 million. We ultimately chose to settle for a significantly smaller amount,'' Underwood said.

''Settling was a painful decision that violated my basic sense of fairness. On the other hand, I had to consider the best interests of my shareholders, employees, customers and the communities we serve,'' she said.

Ledyard paid between $6,000 and $7,000, Underwood told committee members. A Ledyard National Bank spokesman and Automated Transactions lawyer Lisa Wade did not respond to a request for comment on the case.

ISSN 0148-8155

High Court Cases. Several U.S. Supreme Court cases have also helped banks' push to enhance patent quality and combat patent abuses. In one case, the high court essentially held certain concepts are ineligible for patent protection because they are merely abstract ideas (*Alice Corporation Pty. Ltd. v. CLS Bank International*, U.S., 13-298, 6/19/14).

Since Alice, challenges to the validity of financial services patents have succeeded in district court virtually without exception, and the PTO's new Alice-based standards have decreased the likelihood of applicants getting new patents in that technology area.

Two other high court cases, *Octane Fitness LLC v. ICON Health & Fitness Inc.*, U.S., 12-1184, 3/29/15 and a case affirming *Octane Fitness*, *Highmark Inc. v. Allcare Health Management System Inc.*, U.S., 12-1163, 3/25/13, essentially make it easier for banks prevailing in patent infringement litigations to be successful when seeking costs and attorneys' fees from plaintiffs.

''We've already seen [judicial decisions] have some effect,'' Nazer said. ''The Octane case should give courts more power to crack down on really abusive patent trolls,'' said Nazer, whose salary is partially paid for through grant money intended to fight abusive patents given to Nazer's foundation by Mark Cuban, the Dallas Mavericks owner and entrepreneur.

Fighting Back. As the number of patent-infringement cases against banks increased throughout the 2000s, financial institutions started to fight back. Banks targeted for infringing the same patents by the same plaintiff, for instance, sometimes formed groups to share expenses, Jones Day partner and intellectual property specialist Kelsey Nix told Bloomberg BNA.

Banks also began to adopt more effective defense strategies, while those able to afford it hired lawyers specializing in intellectual property in part to combat patent-infringement allegations.

This tougher stance may be illustrated by two separate campaigns. In 2006, DataTreasury Corp. sued Wells Fargo and other banks for using without permission patented ''remote image capture with centralized processing and storage'' technologies (*DataTreasury Corp. v. Wells Fargo & Co*, E.D. Tex., 06-cv-00072, 2/24/06). Within six months of the filing, Bank of America, BB&T Corp., Wachovia Corp. and other banks agreed to settle.

Seven years later, however, Intellectual Ventures asserted infringement claims regarding patents protecting ''systems and methods for authorizing a transaction card'' against Bank of America in the U.S. District Court for the Western District of North Carolina, as well as asserting similar claims in various federal districts against Fifth Third Bancorp, PNC Financial Services Group Inc., HSBC USA Inc. and other banks (*Intellectual Ventures I LLC v. Bank of America Corp.*, W.D.N.C., 13-cv-00358, 6/12/13).

Unlike the DataTreasury cases, however, as of Sept. 15, no banks had consented to a settlement agreement—all are contesting the charges.

''Big banks have become more aggressive in their litigation approach, in their defenses,'' an intellectual property lawyer close to a large U.S. bank told Bloomberg BNA.

Congressional Developments. Complaints about patent quality and incomprehensible demand letters have reached Capitol Hill. Congress in 2011 enacted the America Invents Act, which increased banks' ability to challenge the validity of existing patents through the use of several new tools.

The tools can greatly reduce banks' costs to contest an infringement claim while expediting the resolution process, because the patent office must rule on patent invalidity cases within 18 months.

Federal lawmakers have introduced legislation in the 114th Congress to combat patent abuses. The House Judiciary Committee June 11 voted 24-8 to approve legislation (H.R. 9), which would require plaintiffs alleging patent infringement to include in court pleadings detailed information regarding each claim made.

''It is unacceptable for someone to say, 'You've infringed a patent,' but not list the patent you supposedly infringed and not tell you how you supposedly infringed it,'' Sean Reilly, Clearing House Payments Co. senior vice president and associate general counsel, told Bloomberg BNA.

States have also acted. As of July 31, a total of 26 states had approved laws combating bad faith royalty demand letters. Legislation pending in both houses of Congress would create a single national standard for addressing demand letters rather than have states adopt varying definitions of what constitutes a ''bad faith'' demand letter.

These efforts must be careful not to stifle innovation or inventors' legitimate property rights, lawyers said.

''There are a lot of legitimate, sole inventor or small startup companies that are coming up with great ideas. But when you pass a law that makes it hard for a patent troll to file a lawsuit and to enforce its patent, you're also passing a law that makes it harder for these legitimate small inventors to enforce their patents,'' Stephen Korniczky, Sheppard Mullin Richter & Hampton LLP intellectual property practice group co-chair, told Bloomberg BNA.

Stoll said many patent-infringement cases can be resolved by increasing funds to the PTO so its staff can acquire additional databases and has the needed tools to review patent applications thoroughly and generally become more educated on financial-services patents, which currently number more than 30,000.

BY STEPHEN JOYCE

To contact the reporter on this story: Stephen Joyce in New York at sjoyce@bna.com

To contact the editor responsible for this story: Seth Stern at sstern@bna.com