MOBILE BANKING AND PATENT INFRINGEMENT

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As online and mobile banking solutions increasingly intersect with the hotly-litigated world of smartphones and smartphone applications, banks continue to be targeted for claims of patent infringement. Within the past month alone, for example, plaintiffs have filed twenty different lawsuits against a variety of financial institutions alleging infringement of patents related to iPhone and Android online and mobile banking applications.
This seminar will identify some of the emerging trends in banking-related patent litigation and provide guidance on how financial institutions can best protect themselves against the threat of litigation.

- Rise in patent litigation directed to financial institutions
- Background on patent litigation
- Recent changes in the law
- Protective measures
Rise In Patent Litigation

Historically, financial institutions were not heavily involved in patent litigation.

- From 1980 to 1999, financial institutions were sued by patent plaintiffs a total of 94 times.
- Average of 4.7 defendants per year.
- Highest totals were 1992 and 1997, with 10 each.
Rise In Patent Litigation (cont’d)

Suits Against Individual Financial Institutions (Through 2011)
Rise In Patent Litigation (cont’d)

Small increases from 2000 to 2005:

- Jumped from 12 defendants in 2000 to 20 in 2005
- Then a large spike in 2006 that continues to present.
- 2006 spike due to DataTreasury litigation.
Impact of Mobile Banking

- From 1995 to 2011, the financial institution sector ranks 16\textsuperscript{th} overall in patent litigation by total number of cases.

- Mobile banking creates crossover with computer hardware/electronics (5\textsuperscript{th}), software (7\textsuperscript{th}), and telecommunications (10\textsuperscript{th}).
Who Are the Plaintiffs?

- Increasingly, the plaintiffs are patent holding companies, known as “non-practicing entities” or “patent trolls.”

Of 144 cases filed in 2012, 126 (87.5%) were filed by NPEs.
Banking Patent Cases Filed In 2012

NPEs in 2012

- NPEs
- Others
Most Active NPEs in 2012

- Maxim Integrated Products (22 cases)
- Leon Stambler (20 cases)
- Unified Messaging (16 cases)
- Pi-Net (12 cases)
- Phoenix Licensing (10 cases)
Who Are the Defendants?

- Financial institutions, large and small.

Bank of America          HSBC          Aurora Bank          Focus Business Bank          Presidio Bank
Capital One          Mission National          Bridge Bank          First National of California          Ally
Citibank          Community National          Northfield Savings Bank          Mascoma Savings Bank
BMO          Regions          E*Trade          Comerica          Viewpoint Bank          TD Bank
First National Bank of Omaha          Bank of New York          Mellon Bank          Rabobank
First Citizens Bank & Trust          Frost National Bank          Bridgehampton National Bank
Fifth Third          BB&T          ING          Union Bank          Bank of the West          First United
Barclays          Keybank          New York Community Bank          Unicredit          Trustco Bank
Ameriprise          One West Bank          M&T          PNC          SunTrust          Ledyard National
Deutsche Bank          Randolph National          Connecticut River Bank          Centrix Bank & Trust
Compass          Community Guaranty Savings Bank          Landmark Bank          West Suburban
Amegy          Northshore Community Bank & Trust          Northbrook Bank & Trust          Hinsdale
Wells Fargo          Inland          Bridgeview          MetroBank US          Coppermark Bank
US Bank          Woodforest National          Texas Capital Bank          Meridian Bank          Inwood
JP Morgan Chase          Bank of the Ozarks          First Tennessee

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What Technologies Are Accused?

- Check imaging technology (DataTreasury, LML)
- Automated call processing (Katz)
- Secure online transactions (Maxim, Stambler, Joao Bock, TQP, Wolf Run Hollow)
- Marketing of financial products (Phoenix)
Mobile Banking

- Account access via mobile browsers
- Smartphone apps
- SMS/text banking
- Emerging technologies:
  - mobile wallet (NFC, QR code, pay by name)
  - cloud computing
The Basics of Patent Litigation

- A patent infringement action can be brought only by the owner of the patent or by an exclusive licensee holding all substantial rights to the patent. 35 USC § 281.

- Patent infringement action must be for an issued U.S. patent – cannot bring an action for infringement of a pending patent application.
The Basics of Patent Litigation

- Each patent includes a disclosure consisting of a written description and drawings, followed by claims.

- Each claim includes a set of requirements called limitations.

- A patentee accuses defendants of infringing claims, not patents.
U.S. Patent 6,237,095

• Asserted by Maxim Integrated Products.

• Titled “Apparatus for Transfer of Secure Information Between a Data Carrying Module and An Electronic Device.”

• Issued on May 22, 2001.

• Claims priority back to September 29, 1995.
An apparatus for receiving and transmitting encrypted data, comprising:

an input/output interface for receiving a challenge number from an electronic device;
a microprocessor circuit connected to said input/output interface;
a coprocessor circuit, connected to said microprocessor circuit;
a timing circuit connected to the microprocessor, the timing circuit for generating a time stamp;

a first memory connected to said microprocessor circuit, said first memory for storing a first data object; and
“a second memory connected to said microprocessor circuit, said second memory including instructions readable by said microprocessor circuit to thereby cause said microprocessor circuit to:

initiate generation of a certificate, said certificate including said challenge number and a second data object; and”
“adjust said first data object according to said second data object responsive to a verification signal from said electronic device;

store a transaction script, the transaction script including at least a representation of the time stamp generated by the timing circuit.”
Maxim has accused several financial institutions of infringing its patents “via direct infringement, joint infringement, contributory infringement, and/or inducement.”

Source: PNC Complaint for Declaratory Judgment, 1/25/2012 at 3.
Direct Infringement

Direct infringement occurs when a single party makes, uses, sells, or offers to sell a product or process that meets every limitation of an asserted claim. There are two types of direct infringement:

- Literal
- Doctrine of Equivalents ("DOE")
Direct Infringement—Literal

- Literal infringement occurs when an accused infringer’s product or process includes an identical correspondence with every element of the asserted claim.
Infringement under the Doctrine of Equivalents occurs when an accused infringer’s product or process meets every element of the asserted claim by using a product or process that performs a “substantially similar function in a substantially similar way to get a substantially similar result.”
Indirect Infringement

Even when a party does not meet all of the limitations, they can be liable if they aid or direct another party to directly infringe. There are two types of direct infringement:

- Contributory infringement
- Inducement
Contributory Infringement

- Contributory infringement occurs when a party aids another party’s direct infringement by providing a service or good that has no substantial non-infringing use.
Induced Infringement

- Induced infringement occurs when one party directs another to directly infringe.
- Requires the inducer to take active steps to encourage the other’s direct infringement.
Joint infringement occurs when two or more parties work together and meet every limitation of an asserted claim.

May be applicable to many mobile banking patent claims that require actions by a financial institution and its customers.
Where Can Suit Be Brought?

- The litigation may occur in any Federal District Court in any State or territory in the U.S. where the Court has personal jurisdiction over the defendant(s) involved.

- Plaintiffs are considered to consent to the jurisdiction of the forum court.
Popular Forums

- NPEs tend to file in patentee-friendly venues with quick times to trial (i.e., “rocket dockets”), such as E.D. Tex. and E.D. Va.

- Places burden on defendants to get up to speed quickly, while plaintiff has prepared for months.
Eastern District of Virginia

- Median time to trial: 0.97 years (ranks 1\textsuperscript{st} in nation)
- Patentee success rate: 34.1\% (ranks 5\textsuperscript{th})
- Median damages award: $36,025,989 (ranks 1\textsuperscript{st})

Source: PwC 2012 Patent Litigation Study at 23.
Eastern District of Texas

- Median time to trial: 2.17 years (ranks 6\textsuperscript{th})
- Patentee success rate: 55.7\% (ranks 2\textsuperscript{nd})
- Median damages award: $8,782,738 (ranks 5\textsuperscript{th})

Source: PwC 2012 Patent Litigation Study at 23.
Settlements

- Time-to-trial data does not include settlements, which resolve most patent cases.
- In the year ending in March 2011, only 3.4% of patent cases reached trial.*
- Of the 96.6% that did not reach trial, most settled.
- Settlement data is usually confidential.

LML Payment Systems

- Owns five different patents on electronic check processing technology.
- Filed suit against 24 different financial institutions in 2008 and 2009.
- All have since settled.
LML Payment Systems

- LML published some settlement data in its SEC filings:
  
  Capital One paid $2.9M.

  Wells Fargo paid $5M.

  HSBC paid $5.5M.
The time to trial varies **widely** by jurisdiction.
Litigation Pressure Points

- Three stages that are the most expensive/burdensome for defendants:
  - Discovery
  - Claim construction/summary judgment
  - Trial
Discovery

- U.S. Discovery rules are very broad and generally allow each party to obtain information from the other party about anything relevant to any claim (cause of action) or defense.

- Can be very burdensome for defendants; expensive and disruptive.

- Less burdensome for NPEs—fewer documents and employees.
Defendants are often required to produce hundreds of thousands of pages of documents to the plaintiff.

Sales information/revenue
Technical documents
Research and development documents
Customer identifications
Includes emails and other electronic documents
Defendants may be required to produce several witnesses for deposition:

- Individual witnesses with specific relevant knowledge
- Corporate witnesses who are required to be educated on relevant subjects
Summary Judgment/Claim Construction

- At this stage the Court looks for disputes that it can resolve before trial.

- Summary judgment (FRCP 56) is the most common device for deciding claims pre-trial.

- Typically the most disputed topic in patent litigation is the definition of a word or phrase in patent claims ("Claim Construction").

- The Claim Construction phase is unique to patent litigation. It frequently controls summary judgment motions.
Claim Construction

- Generally involves the submission of papers, charts, or briefs to the Court regarding the disputed claim terms and each party’s proposed definitions.

- The Court may hold an oral hearing.

- The Court then issues an opinion which states the definitions the Court has chosen for any disputed claim terms.
Any party may submit a motion asking the court to grant or deny a claim where there is “no genuine issue of material fact.”

Summary Judgment is appropriate only where there is no real factual dispute on the claim and therefore no need for a trial of facts on the claim. Issue is one of law.
Each party has the option to demand a jury trial.

Juries typically consists of six (6) randomly selected local citizens with no prior knowledge of the case or the parties.

Juries resolve all disputed facts on jury issues.

If a jury trial is not demanded, the same District Court Judge will resolve all disputes of fact and law.
If the defendant is found to infringe, the patentee may seek damages, which may take the form of:

- Lost profits (less likely in cases involving NPEs)
- Reasonable royalty
Damages (cont’d)

- Damages period runs from 6 years prior to the filing of the complaint to the patent’s expiration date.

- Damages may be trebled for willful infringement.

- Court may award attorneys’ fees and costs in exceptional cases.
Cost of Litigation

- General guidelines:

  $250,000 to $750,000 to get through claim construction/summary judgment.

  $1,000,000 or more to get through trial.

- Most NPEs rely on those numbers to push for “nuisance value” settlements.
Important Recent Developments

- The America Invents Act became law on September 16, 2011.

- Several parts of this legislation affect patent litigation. These include:
  - Joinder of accused infringers – 35 USC § 299
  - Advice of counsel – 35 USC § 298
  - Standard for granting *inter partes* reexamination
  - Elimination of failure to disclose the best mode as a defense.
Akamai Technologies, Inc. v. Limelight, Inc. (Fed. Cir. 2012) (en banc)

Full court decided question of joint infringement.

Easier for patentees to prove infringement when it requires actions by multiple parties.

Applicable to many mobile technology patents, which may require actions by businesses and their customers.
Protective Measures

- Have a policy in place in to evaluate possible issues.

  Be prepared to respond quickly to demand letters or complaints.

  Obtain Freedom to Operate opinions for new offerings.
Protective Measures (cont’d)

- Strong indemnification clauses place burden of defense on providers.

  Particularly applicable to mobile applications, which most financial institutions acquire from third-party vendors.

  Vendors must have ability to pay.
Litigation insurance can minimize financial risk.

One company recently offered a $2.5M policy for NPE litigation.
Responses

- Consider filing a declaratory judgment action in response to a demand letter.

- With multiple defendants, joint defense groups can share costs.
Responses (cont’d)

- Challenge the patent through the USPTO:
  - *Ex partes* reexamination
  - *Inter partes* review
  - Post-grant review

- All provide separate track from federal courts, who may stay their own proceedings.
Decision should be made on a case-by-case basis, considering all factors:

- Strength of invalidity/non-infringement arguments
- Cost of litigation
- Disruption to business
- Amount demanded by plaintiff
Litigation Strategies

- Consider pushing for early summary judgment on key issues (non-infringement, invalidity).

- Look for countersuit possibilities:
  
  Good reason to develop own IP portfolio.

  Works best against competitors; less effective against NPEs.
Settlement Strategies

- Lump-sum v. running royalty.

- Get broad license.
  cover all products and services, past, present, and future.
  Include license to all patents and applications, past, present, and future.

- Protect customers with release or broad covenant not to sue.