

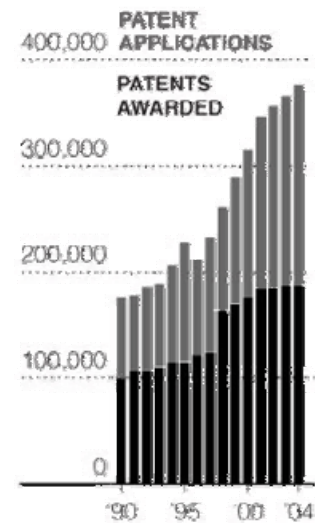
Business Method Patents in Financial Services

A new toll booth on the Remote Deposit Capture superhighway?

The proliferation of business method patents since the [State Street Bank vs. Signature Financial Group ruling in 1998](#) threatens to stifle innovation and competition in the financial services industry. This ruling, which allowed Signature Financial Group to patent an operational processing method, has led to a substantial rise in the number of patents issued, and a substantial rise in lawsuits attempting to enforce these patents. [NetDeposit's](#) recent settlement & license agreement with [DataTreasury](#) ([read the article](#)) is a significant event for the Remote Deposit Capture Industry.

[DataTreasury](#) claims they had patented the overall [Remote Deposit Capture process](#) and have begun to take legal action against many RDC technology providers. The basic process which they claim to have patented is the remote capture of check images, transmission to and storage at a central image archive. Many of those with whom we've discussed this issue think these claims more fantasy than something which will stand up in the courts.

If these types of Patent disputes sound new or unfamiliar to you, there may be a good reason. As [Peter Zura writes in his Patent Blog](#), "*This type of litigation is unusual for financial services, which have taken for granted that there are certain basic ways to process payments. Although banks did not bother to patent these systems, others did, especially after a 1998 court ruling broadened the definition of a patent to include business methods and processes. At the time, the U.S. Patent and Trademark Office was swamped with technology-related applications, and knew very little about the processing of payments.*"



Sources: Josh Lerner, Harvard Business School; U.S. Patent and Trademark Office

Many with whom we have spoken do not believe DataTreasury's patents apply to Remote Deposit Capture for any number of reasons including obviousness, prior art, overly-general patents, etc. JP Morgan Chase is using this exact approach in their defense against DataTreasury. JMPC, and many others in the financial services industry, has been imaging checks and transmitting them to a central archive for approximately 15 years.

Aside from the issue of the patent-ability of business methods, the patents were issued long before Check 21 was passed, and DataTreasury focused primarily upon BioMetric encryption technologies. "The settlement with DataTreasury allows us to eliminate an element of risk and fully dedicate valuable resources to focusing upon our core business." says Royce Brown, COO of NetDeposit, Inc. NetDeposit claims to have over 1,000 corporate locations actively utilizing the Remote Deposit Capture solution. But has NetDeposit, in their settlement, actually given credibility to the DataTreasury patent claims?

The real question why NetDeposit settled may not even involve the validity of DataTreasury's claims, but rather focus upon the resources required to defend and engage in such a lawsuit. "To fight a lawsuit such as this, legal costs for counsel and other fees begin at about \$1.5 million and go up from there" says Peter Zura, a registered patent attorney based in Chicago, IL.

Often referred to as "Patent Trolls" ([see the NY Times Article](#)) companies similar to DataTreasury use the high costs of defending patent lawsuits to their advantage. The equation is simple: pay millions in legal fees to fight a battle where there is no guarantee of winning and if you lose there is tremendous downside, or settle the dispute and license the patent for (for example) a one-time fee and annual license fee of under \$500,000. This is a well-known mode of operation in the realms of patent litigation. Patent Troll companies often have no real products or services to offer to the marketplace. What they most often

have is a contested business-method patent and a team of lawyers who target companies whose business models are similar to their patent. Generally, the smaller companies who do not have the resources to defend the claims are targeted first as they are most likely to settle and pay a fee. As more smaller companies settle, this in turn gives more resources for the Patent Troll firm to work their way up the food chain to larger settlements and targets.

The DataTreasury lawsuits seem to fit this pattern. Companies such as RDM and NetDeposit have already settled while JPMC, First Data Corporation and EDS continue to fight the lawsuit. If not already in process, many other service providers and banks offering Remote Deposit Capture solutions may be next in line.

So what is the industry to do? While it seems counter-intuitive to many in business litigation, there really is strength in numbers. One option is to follow in the steps of a similar-sounding case settled in 2004. Pangia Intellectual Property, a company which claimed it had patented the process for making purchases online, sued 40 small online companies. Several of these companies settled with the firm for around \$30,000 rather than pay costly legal fees, according to published reports. But 16 defendants pooled their resources, launched a Web site called YouMayBeNext.com and hired patent attorney Jon Hangartner. By working together, these companies were able to diffuse the legal expenses and build a strong case of “prior art” which could possibly invalidate the patent. In 2004, PanIP settled with all 16 defendants, essentially agreeing to drop the lawsuits. [Read an article about this and other Business Method patent cases in MSNBC.com.](#)

In addition, there is apparently new legislation underway to address the issue of patent litigation. “The new legislation will make it more difficult for (Patent Troll) companies to use costly legal fees to essentially force small defendants to settle” says Peter Zura. The new legislation promises to reform the current patent law process, especially for business method patents, by effectively allowing for patents to be contested directly with the U.S. Patent & Trademark Office (USPTO) instead of going through the courts. This arbitration-like process would make it much less costly to defend in a patent infringement case. If passed, one of the main ways a business-method patent could be invalidated is by simply providing the USPTO proof of prior art. The USPTO could then make a decision on whether to uphold or invalidate the patent.

Nonetheless, DataTreasury currently has a patent which appears to relate to Remote Deposit Capture. Several companies have settled with DataTreasury on this issue, and DataTreasury has found a friendly court setting in which to litigate their claims. “The issue of business method patents in financial services is one which has huge implications for the entire industry. Should DataTreasury’s patent claims be upheld by the courts, every corporation & bank who uses images of checks will be impacted” says the CEO of a prominent Remote Deposit Capture solution provider not yet targeted in any of DataTreasury’s lawsuits.

This issue could result in at least some type of toll on the RDC superhighway, or worse. RDM Corporation and NetDeposit have already paid, and others are paying in the form of legal fees. Whichever way the issues are decided, hopefully these patent concerns will not slow the adoption of Remote Deposit Capture.

Editorial Notes:

Special thanks go to [Peter Zura](#) for providing valuable legal insights on this issue, Royce Brown of [NetDeposit](#) for agreeing to speak on the issue, and a “to remain anonymous” CEO for providing an independent perspective.

We found it very interesting that DataTreasury nor any current or former employees of DataTreasury were willing to speak with us nor the American Banker (article published in the AB on Monday, June 20 2005) about this issue.