



A Little Homework Could Have Saved Banks a Lot of Patents Grief

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Recent patent-related stories in the news suggest to the inexpert public a disturbing trend that some lucky inventor comes up with a simple concept, receives a valuable patent from a broken patent office and then easily earns hundreds of millions of dollars in licensing fees from industry leaders who cannot afford not to use the new technology themselves. From these stories, the public may start to recognize patents as a threat to industry, as they may force companies hoping to compete to license technologies at exorbitant costs. However, once one investigates the patents more deeply, it is clear that they do not threaten to shut down industries or disrupt the U.S. patent system.

DataTreasury's remote image capture patent is the banking industry's most recent source of frustration. In 1994, an inventor was inspired upon seeing the shoe boxes filled with old receipts where a local pizzeria kept its records. Claudio Ballard developed and patented an invention to help small businesses by remote image capture, using a unique combination of a management system, a visualization system, a data manager and a communication system for verification using encryption. Although it would have been difficult for anyone to predict the invention becoming such a critical idea back in the paper-based world of the mid-1990s, Mr. Ballard nonetheless invented a method for remote image capture, developed a working prototype of the technology at his own expense, created a company called DataTreasury and ultimately tried to market his invention to the world.

In the late 1990s, Mr. Ballard tried to license his remote image capture invention to the major banking institutions. For years, he was unsuccessful in convincing banks to adopt his technology. Then, in 2003, Congress legalized the digital processing of check transactions so that banks no longer needed to return cancelled checks to their signers, saving banks billions of dollars. In response, the banks developed remote image capture technology on their own, but did not acquire a license from DataTreasury.

DataTreasury logically sued for patent infringement. However, after extensive lobbying by the banking industry, Sen. Jeff Sessions (R-AL) added an amendment to the pending Patent Reform Act of 2007 that would allow financial institutions to utilize the check-imaging patent without paying a licensing fee to DataTreasury. However, Sen. Sessions has since dropped that amendment at the urging of the U.S. Patent & Trademark Office over the legality of the amendment.

Regardless of Congressional wrangling on the topic, it appears the banking industry may have been caught off guard by the DataTreasury patent. There are several reasons for this. The first is that banks in the late 1990s typically did not use or understand the value of patents like other industries. Most banking inventions were financial products and services, which weren't considered patentable subject matter until after the State Street Bank decision of 1998 (*State Street Bank v. Signature Financial Group, Inc.*, 149F.3d 1368). The technology that banks used was usually developed by third party vendors, which may or may not have originally patented the technology. Therefore, the banks had little reason to question the legality of the technology they used.

A second reason is that banks weren't in the practice of doing a "Product Clearance" search, as is typically done by IP-sophisticated companies. This is when a company that has created new technology researches the patent database to identify related patents and then legally determines whether it would need to take a license to any patents. If banks had done a Product Clearance search when they were developing the imaging technology, they would have uncovered DataTreasury's original claims and taken appropriate action.

Moreover, when most IP-sophisticated companies come across a patent in the space they are inventing in, they avoid infringing on the patent by either licensing it or "inventing around" it. Inventing around a patent involves developing other ways to achieve the same functions using a different means and not violating the claims of the original patent. Most patents can be invented-around if the right team of technology and IP experts are brought together and led through a facilitated process of targeted invention. However, it doesn't appear that any of the banks had inventing-around capabilities when they were developing their remote imaging technology. Had they brought in those capabilities, we feel that they could likely have created a similar alternative to Mr. Ballard's creation and avoided years of legal wrangling.

Therefore, the reason that the major banking institutions are in this dispute with DataTreasury is because either they weren't expert at the patent business or weren't aware of how to avoid infringing other patents. But is this lack of expertise a sufficient reason for Congress to bail out an entire industry?

If Congress chooses to provide relief to the banks, it could disrupt our whole process of innovation by tipping the system toward large established companies who use inventions from small innovative companies without proper due. Congress' involvement in this issue was based on lobbying by large companies with deep pockets. The DataTreasury case study represents the American spirit of inventing and entrepreneurship, embodying the great qualities of innovation, vision and risk-taking. The U.S. patent system was designed to encourage and reward such behavior.

The lesson learned is this: Every industry should take a strategic look at the IP they have and the IP they need to continue to grow. Respecting the patent system and using the processes available to all is good for individual business growth and good for the American economy.

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