April 15, 2006 **Vol: 2006.2**

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's feature article, Tom Bakos addresses a general question asked by many considering the value of patents in the insurance industry. ***Ka-Ching!*** provides a number of arguments used to justify the expense and effort involved in protecting intellectual property with patents.

A brief report on Ocean Tomo's successful patent auction earlier this month is provided and their plans for a second auction expected to include patents in the financial services industry is noted.

It's not over until it's over. Patent reexamination is explained as a relatively low cost way for the public to challenge the validity of a patent that has already issued. Surprisingly, inventors often ask for reexaminations of their own patents, just to be sure that their patents are valid before they enforce them.

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

Ka-Ching!

By: Tom Bakos, FSA, MAAA
Tom Bakos Consulting, Inc.

That's "ka-ching", the sound you hear when you think you have just invented the next best thing since sliced bread. Individual inventors in the financial services industry have recognized early on that their innovations may be valuable and need protection. But, it is becoming more apparent that they are not the only ones who have caught on.

We have noticed, not through any scientific study but through careful observation, that many more insurance patents are being sought by companies. This is made evident by the fact that a larger percentage of newly issued patents are being assigned to companies. For example, in March all four patents issued in class 705/4 had assignments recorded with the USPTO.

Well, if you work for a company and do not already recognize the value a patent can add to a successful innovation – read on. Even if you remain a skeptic, you will, at least, understand what your competitors are doing.

Patents Add Value

It is accurate to say that a patent can add value to an invention. It may not, but it can. What a patent cannot do, generally, is create value. This, of course, implies that if the invention itself has no value, then patenting it could be considered pointless. The value a patent can add to an invention may be best expressed as a proportion to the inherent value of the invention itself.

The value a patent adds to an invention lies in the right it gives the inventor (or assignee or owner) to exclude others from making, using, or selling the invention. The right to exclude implies a right to allow others to use the invention. Presumably the inventor would charge a fee or royalty for this right. The royalty income is additional profit the inventor might not be able to get because it could not otherwise address the entire market demand for the invention. Ka-ching!

In some cases, the invention might be in a market the inventor does not want to be in or is not able to address. Perhaps the invention was designed to solve a problem in the inventor's or assignee's primary market but also has significant additional and non-competing applications in other markets. Therefore, the invention would not be used and would not realize its value potential in these other markets unless it was licensed out to others. Ka-ching!

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The inventor or assignee may enforce the right to exclude in order to retain 100% access to the market created by the patented invention. This may be because the market is small or because the inventor is big and capable of addressing 100% of the market demand for the product or products enabled by the patented invention. In this case, a patent allows the inventor (through excluding competitors) to achieve higher profits by not sharing the marketing opportunities with competitors. Ka-ching!

The bottom line is that a valuable invention that the inventor does not protect with a patent may lose its value to the inventor as others utilize it for their own benefit.

Implicit Value of a Patent

The value of a patent may also be derived just from the fact that a patent implies an innovative spirit which may convey value in a marketplace, that is, a value associated with being a market leader who is aware of and addressing market needs. The ability to say one has a number of patents may convey a positive image in advertising and make the advertising more effective.

Put it in the Bank

Presumably, invention that results in a patent comes after research & development, or problem solving efforts that cost money. The resulting innovative product may not be able to be sold at a premium or charge high enough to recover the R&D costs (and be as profitable as desired) unless one were able to control competition. Historically, the insurance business has tended to be "follow the leader". That is, someone innovates and all the rest follow - copying the successes (and piggybacking on their R&D). A patent cuts this off by giving the innovator the right to exclude. This has value because it allows the inventor to recover R&D costs either through higher prices or through license fees charged to the followers.

Also, while corporate sponsors of innovation can use patents to protect their R&D dollars, individual inventors will be better able to attract investor dollars in any company or enterprise they start aimed at capitalizing on the invention. Investor dollars are more likely to be attracted to an enterprise in which the intellectual property is protected from competitors or copycats.

If you are a follower, contributing nothing to problem solving innovations, then you can justify your royalty payments or the infringement judgments against you as your R&D cost.

For Use in Trade

In a competitive environment in which your competitors have patents, your own patents can also be valuable for use in trade. The innovation even in issued patents, as we all should know from recent stories on patent infringement lawsuits and settlements (e.g. NTP vs. RIM's recent $612 million settlement), is often difficult to pin down.

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Frequently patents may not stand up to the court scrutiny they are given in any infringement action and you really can't depend on the patent office not changing its mind in reexamination (see Q&A in this issue) of patents it previously issued. Plus, patent infringement lawsuits cost a lot of money and take a really long time and a lot of effort which, unless you are a lawyer or a patent troll, is not really the business you want to be in.

It is best to avoid infringement or even the question of infringement and that can be done more easily if you have a patent portfolio of your own. Other patent savvy companies in your industry will respect that. Patents grant a right to exclude – not an obligation to exclude others. So, you can use your patent portfolio in trade against potential claims of infringement by others either explicitly or implicitly. If they don't sue you, you won't sue them. It may not even be too important to determine if either has anything to sue about.

Operating in your competitive market without a patent portfolio may be like taking your battle cruiser into Klingon space with your shields down.

Big Picture

In summary, a single invention either has value or it doesn't. Not every innovative approach will achieve commercial success. However, one's R&D efforts ought to be evaluated in their totality. A patent adds value to invention by giving the inventor exclusive access to profits to be derived from the invention. Patents in a corporation allow the corporation the opportunity to recover its R&D costs from failed as well as successful invention.

There are many intelligent people who value intellectual property enough to invest in protecting it and, at least, from their point of view were successful in protecting it. NTP vs. RIM, already mentioned, showed a $612 million dollar value. We have earlier also discussed the Bancorp vs. Hartford settlement in which Hartford agreed to pay Bancorp $80 million.

Some may remain skeptics on the value of patents in the insurance industry. But, be aware of the fact that the USPTO issued patent number 7,000,000 in February. And, be warned that the value of patents, well recognized in other industries, is spreading to the insurance and the broader financial services industries. Ka-ching!

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Patent Q & A

Reexamination – a USPTO Do Over

Question: What can you do if an obviously invalid patent issues?

> **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: File a request for a reexamination[1].

Details: A reexamination is a way to correct patents after they have issued. A request for a reexamination can be filed by anyone at anytime during the period of enforceability of a patent when "a substantial new question of patentability" arises. The NTP patents covering BlackBerry™ technology, for example, are currently undergoing a number of reexaminations because new prior art has been discovered which hadn't been considered by the patent office when the patent applications were first examined. If it turns out that the new prior art anticipates the NTP inventions or makes them obvious, then the claims covering those inventions will either be narrowed or cancelled.

In order to request a reexamination, one needs to submit a "request for reexamination", pay a fee and provide an explanation of the new reasons why the patent is invalid. These reasons must be based on prior art. Copies of the prior art must be provided and the requester has to let the patent owner know that a request has been filed. The patent office will then review the request, and if it does raise a substantial new question of patentability, they will order a reexamination.

Most requests for reexamination are filed by third parties. Most of these parties are already involved in a patent infringement lawsuit. By filing a reexamination request, they can hopefully invalidate the patent while at the same time keeping their legal fees low. If the judge in the lawsuit agrees, then the trial proceedings may be delayed pending the outcome of the reexamination.

Many requests for reexamination are filed by inventors themselves. They might do this before they sue someone for infringing their patent to make sure that their claims are valid in light of any prior art they may have discovered since the patent issued.

[1] There are two types of reexaminations, "ex parte" and "inter partes". This article specifically applies to "ex parte", but most of what is presented applies to "inter partes" as well.

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A small number of reexaminations are initiated by the patent office itself. These are called "director initiated" reexaminations. They might be filed when a patent of questionable validity attains a lot of publicity. The director, for example, ordered several of the reexaminations of the NTP patents.

Once a reexamination is ordered, a special examiner is assigned to the case, and the patent goes through another examination similar to the examination it received the first time around. If any claims are rejected in light of the new questions raised, then the patent owner can narrow or cancel said claims to get around the rejection. The patent owner can also submit new claims, provided they are not any broader than the claims in the original patent. If the patent owner and the examiner cannot come to an agreement, then the patent owner can appeal the examiner's decision to the Board of Appeals and Interferences. If necessary, the patent owner can further appeal to the Court of Appeals for the Federal Circuit, and the even the US Supreme Court if necessary.

Once the reexamination has been concluded, a "Certificate of Reexamination" is issued. The certificate makes any corrections to a patent that were decided in the reexamination. If all of the claims are rejected, for example, then the certificate will indicate that all claims are cancelled and the patent owner will be left with a patent that doesn't cover anything.

The NTP patents are having a rough time in reexamination. All of the claims have been rejected based on the new prior art citations. Whether or not NTP can narrow their claims to get around the rejections, or succeed in an appeal of the rejections, remains to be seen. In either case, better examined patents will result.

Innovation in Patent Sales

First Live Patent Auction Sales Are $8.5 million

Ocean Tomo held the first ever Live Patent Auction on April 6, 2006 in San Francisco CA. 26 of the 78 patent lots were sold on the floor for $3,026,000 - a success rate of 33%. Nearly 400 people attended the sold out event. Bidding on 52 of the lots on Thursday did not meet the seller's minimum reserve but were offered in anticipated post-auction private trading. A number of such lots reached terms off the bidding floor with additional value of $5,600,000, bringing event sales to more than $8.5 million.

The next Ocean Tomo Auction is set for October 25 and 26, 2006 in New York City. It will feature an expanded lineup of IP asset classes including business method patents for financial services companies and trademarks. For more information about the auction, call (312) 377-4851 or visit http://www.oceantomoauctions.com.

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About Ocean Tomo, LLC:
Ocean Tomo, LLC (www.oceantomo.com) is a merchant banc specializing in understanding and leveraging intellectual property assets. The firm, which was established in 2003, provides advice in IP-related mergers and acquisitions, valuation, expert services and IP analytics. Ocean Tomo works closely with IP owners, advisors and investors. The firm has offices in Chicago, San Francisco, Palm Beach, Greenwich, Orange County and Washington, DC. Ocean Tomo Capital, LLC, a $200 million investment fund, and Ocean Tomo PatentRatings, LLC, which focuses on patent analytics, are subsidiaries of Ocean Tomo, LLC.

Auto Insurance Report National Conference
April 23 – 25, 2006 – Monarch Beach, CA

This annual conference attended by leaders in the auto insurance industry is already sold out. Tom Bakos will provide attendees with insight into current IP activities in the auto insurance industry and how patents are being used to protect innovation.

For additional information see: http://www.riskinformation.com

Patent Troll Session at IP Rights for Financial Services Meeting
April 25 – 26, 2006, New York, NY

The Institute for International Research (IIR) will present a session on ***Patent Troll Strategies for Financial Services Companies'' at Upcoming Institute for International Research Conference*** at the upcoming IP Rights for Financial Services meeting to be held on April 25 – 26, 2006. **The meeting will be held at the Waldorf Astoria, New York, NY.** The speaker will be Mark Nowotarski, patent agent.

For registration and information, go to http://www.iirusa.com/iprights.

Patent Information Sources – Mostly Free

Stephen M. Nippers' Invent Blog

We have listed in our Resources section a few websites in which information about patents and patent applications can be found. However, if you wish to do even more exploring on your own you might check out the list of patent download sources provide at Mr. Nippers' website: http://nip.blogs.com/patent/2004/09/guide_to_downlo.html

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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.

Published Patents as of 4/11/2006		
	Class 705	Subclass 4
YEAR	#	#
2006	563	11
2005	1,453	30
2004	998	23
2003	969	21
2002	886	15
2001	880	19
2000	1,062	29
1999	1,005	36
1998	745	20
1978-1997	2,776	47
1976-1977	80	0
TOTAL	11,417	251

Published Patent *Applications* as of 4/13/2006		
	Class 705	Subclass 4
YEAR	#	#
2006	1,637	37
2005	6,299	148
2004	5,590	156
2003	6,009	128
2002	6,135	164
2001	1,326	30
TOTAL	26,996	663

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

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.).*

Issued Patents

Since our last issue, 6 new patents with claims in class 705/4 have been issued: 2 relate primarily to L&H, 2 relate to P&C insurance in general; and 2 can be applied in all lines. Five of these six newly issued patents have an assignee indicated.

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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

Twenty two (22) new patent applications with claims in class 705/4 have been published since our last issue. They are broken down by product line or type area as follows:

P&C:	8
Life & Health	12
All:	2
Pension:	0
TOTAL:	22

The **Resources** section provides a link to a detailed list of these newly published patent applications.

Again, a reminder -

Patent applications have been published 18 months after their filing date only since March 15, 2001. Therefore, there are many pending applications that are not yet published. A conservative assumption would be that there are, currently, about 200 new patent applications filed every 18 months in class 705/4.

The published patent applications included in the table above are not reduced when applications are issued as patents, rejected, 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/

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 Inventor's 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

Mark Nowotarski - Patent Agent services – http://www.marketsandpatents.com/

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

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