

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, Mark Nowotarski addresses the cost implications of inefficient patent examination in the U.S. which delays the granting of protections to inventions which have the potential to save American consumers billions of dollars. Mark uses the currently pending *Bilski* patent application as a prime example.

In our **Patent Q/A** we post reasons to have some confidence that patent examination, at least time wise, is becoming more efficient in the business methods Technology Center.

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

Bernard Bilski and the Cost to America of a Failed Patent Examination

By: Mark Nowotarski, Patent Agent
Co-Editor, *Insurance IP Bulletin*

The failure of the examination of Bernard Bilski and Rand Warsaw's patent application, "[Energy Risk Management Method](#)", has cost American consumers billions of dollars in financial stability over the past decade. The examination was a "failure" because it has dragged on since 1997 with no agreement between the applicant and USPTO as to what, if anything is patentable. In the meantime, the development of a very promising new energy billing process, [Fixed Bill pricing](#), has been hampered by the need to keep the underlying financial innovations secret until if, and when, the inventors can get adequate patent protection.

The story of the Bilski/Warsaw invention goes back to the heady days of utility deregulation in the early 90's. Bernard and Rand were employed by the Equitable Gas Company, a regional energy company in the Pittsburg area. Bernard was the head of the Natural Gas Division.¹ Rand was the director of corporate planning.² They had an idea for how to bring stability to the average consumer's energy bill. They called it "Fixed Bill pricing".

Energy consumption goes up and down year to year largely due to variations in weather. If it's a cold winter, both consumption and prices go up. If it's a warm winter, both consumption and prices go down. These fluctuations can cause financial instability in large organizations and genuine hardship among consumers. Bernard and Rand thought they could hedge that risk if they could develop an efficient and reliable way to identify suitable counterparties. These counterparties would be parties willing to bear the burden of consumers' higher energy costs in cold winters in exchange for a payout from those same consumers in warm winters. If Bernard and Rand could find counterparties,

¹ [Joe Mullin, "State AG Attacks Business Method at Center of Key Patent Case", IP Law & Business, April 1, 2008.](#)

² [Rand Warsaw Linked In profile.](#)

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then they could offer consumers a guarantee that their **total costs** for energy (not just price per gallon) would be the same no matter what the weather did and no matter how much gas (or oil or electricity) they used.

They developed their product and evaluated it with a local school district in 1995. They then filed a provisional patent application on April 16, 1996 and a nonprovisional patent application in 1997. That patent application not only described the overall concept, but went into significant detail on how to select suitable counterparties³ (Monte Carlo simulation based on regional weather patterns).

Bernard Bilski and Rand Warsaw then dedicated themselves to bringing their product to market. The left Equitable Gas, formed their own company, WeatherWise USA, and negotiated a license to the patent application⁴ from Equitable. They then designed a variety of Fixed Bill products and licensed them to a number of regional energy companies, such as Nicor, Duke Energy, and Wisconsin Public Service.

It has been a bumpy road and having to keep the details of their invention a secret because they have been unable obtain adequate patent protection has hurt.

When they and their licensees brought the product to market, some regions were hit with a string of unusually warm winters. Consumers were upset because their bills were repeatedly higher than others not on the plan. They complained...loudly... to their State's Attorneys General (AGs). The AGs in turn, demanded to know the details of the invention to make sure WeatherWise was being honest in its calculations. As Minnesota's Attorney General, Lori Swanson, put it⁵:

"The Commission should not permit the underlying mechanisms of these programs to remain shrouded in secrecy. If the programs cannot be operated with transparency, they should not operate at all."

³ Because this patent application was filed in 1997, it wasn't subject to publication in 18 months. The USPTO has had to keep it a secret. We only know about it now since the inventors provided a copy of it in their filings with the Court of Appeals for the Federal Circuit when they appealed their rejection.

⁴ A "license to a patent application", means that when and if a patent issues from a pending patent application, the owner of the patent would not sue the licensee for infringement.

⁵ [Joe Mullin, "Behind Bilski: State A-G says Bilski's Inventions Were a Raw Deal for Consumers", The Prior Art blog, April 1, 2008.](#)

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WeatherWise provided all of the information they could, but when it came to disclosing the core of their proprietary methods, a core that could easily be copied when it was made public, a core which the USPTO and the Courts have been unwilling to grant a patent on because our 19th century vintage patent examination process can't deal with an invention that isn't "tied to a particular machine", they had no choice but to draw the line. As Rand put it in his response to the Minnesota AG⁶:

"To date, we have supplied the OAG with a complete flow chart of our modeling system along with a high level overview of our methodology....Our only concern, which has been stressed from the very beginning of this matter, is that any disclosure of our methods or modeling information to the public could diminish some or all of the value of our intellectual property."

This is exactly the conflict that patents are designed to prevent. Patents allow fledgling companies, like WeatherWise, to provide the disclosure necessary for the success of their inventions in the marketplace, without the fear of instant unauthorized copying by their competitors.

It is sad and frustrating to see that the examination of the Bilski/Warsaw patent application has devolved to an argument of whether or not they should tie their methods to "a particular machine". The particular machine that these calculations are carried out on has little to do with the novelty, non-obviousness and most importantly, the usefulness of their invention. It's a financial product and patent protection for financial products should not be tied to "particular machines"

It remains to be seen how the Supreme Court will decide this case. In the meantime, progress in the financial services industry will remain inhibited by the inability of financial innovators to get the timely and efficient patent protection they need.

⁶ [Rand Warsaw, letter to Minnesota Public Utilities Commission, July 11, 2007.](#)

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Patent Q & A

Pendency Rates in Class 705 – Business methods

Question: How long is it going to take to get through the examination process in class 705?

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: Probably longer than you might hope but not as long as last year.

Details: The USPTO has seen improvements in pendency in class 705 applications in a number of areas. As reported at the 7/15/2009 Business Methods Partnership Meeting, the USPTO has reported a Pendency to First Action of 31.6 months in early 2009. This is a significant reduction (i.e. an improvement) from mid-year 2008 when this pendency was 41.4 months.

As of mid-year 2009 Pendency to Issue/Abandonment is 46.1 months down from 56.3 months as of mid-year 2008.

There are a number of reasons for these improvements per Wynn Coggins, Director, Technology Center 3600:

- Hiring and improved examiner retention in the patent office has resulted in an increase in examiners in Technology Center 3600 – 328 in Fiscal Year 2009 vs. 300 in 2008 and 260 in 2007.
- Examiners are, therefore, focused more on new applications than with assisting with inherited dockets.
- It also appears the examination has been streamlined due to fewer claims per application.
- Also, an emphasis over the past few years on interviews and telephone conferences has resulted in a quicker identification of allowable subject matter.

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Announcement

The Next Two Installments of PCT'S Complementary Webinar Series

Register here: <http://www.pctcompanies.com/events.html>

Title: State of the IP Marketplace: An Executive Briefing

Date and Time: Thursday, September 24th, 2009

2:00–2:45 p.m. EDT / 1:00–1:45 p.m. CDT / 11:00–11:45 a.m. PDT

Description:

In the past few years, the emerging IP Marketplace has undergone significant changes, including the emergence of IP as a business asset, shifting demands in IP monetization, and evolving metrics and tools for measuring value and managing IP. More recently, the tough economic conditions have instilled tight budgets and increased interest in monetizing IP, as IP buyers take a “flight to quality”. Raymond Millien, Founder and CEO of PCT Companies, and Ron Epstein, Founder and CEO of IPotential – both recently named to IAM’s inaugural list of the world’s top IP strategists – will share their views on the IP marketplace, including:

- * What are the driving trends in buying, selling and licensing IP?
- * What IP business models are getting traction?
- * How can IP owners maximize value?
- * How are deals getting done?
- * What industries/technologies are hot?
- * What is the outlook for the near- and long-term future of the marketplace?

About the Speakers:

Raymond Millien is the Founder and Chairman of The PCT[®] Companies – the nation’s only integrated provider of Intellectual Property-based public policy, strategic management and monetization advisory services. Prior to PCT, Mr. Millien was General Counsel of Ocean Tomo, VP and Group IP Counsel at American Express Company, and practiced law at DLA Piper LLP and Sterne, Kessler, Goldstein & Fox PLLC. Mr. Millien is a national lecturer for the BAR/BRI[®] Patent Bar Review course, and has served as an adjunct professor at the George Washington University Law School and as a professorial lecturer of IP Law at the George Washington University School of Engineering.

Ron Epstein is Founder and CEO of IPotential. With more than 20 years of experience in

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developing, optimizing, and transacting Intellectual Property (IP) asset portfolios, Ron is recognized as a global leader in helping patent owners maximize the value of their IP. As a market-maker, Ron has been instrumental in defining the category of patent brokers in the emerging patent marketplace, delivering over \$1 billion of value from the sale or licensing of patents in over 150 transactions.

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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.

Issued Patents as of 8/25/2009		
	Class 705	Subclass 4
YEAR	#	#
2009	1,792	45
2008	2,673	89
2007	2,065	43
2006	2,224	44
2005	1,453	30
2004	998	23
2003	969	21
2002	887	15
2001	880	19
2000	1,062	29
1999	1,006	36
1998	744	20
1978-1997	2,778	47
1976-1977	80	0
TOTAL	19,611	461

Published Patent Applications as of 8/27/2009		
	Class 705	Subclass 4
YEAR	#	#
2009	5,647	191
2008	8,708	199
2007	6,990	183
2006	6,119	169
2005	6,305	148
2004	5,597	156
2003	6,010	129
2002	6,140	164
2001 *	1,327	30
TOTAL	52,843	1,369

* Patent applications were first published 18 months after filing beginning with filings dated March 15, 2001.

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.).

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Issued Patents

In class 705/4, 12 new patents have been issued since 6/23/2009 for a total of 45 in 2009 through 8/25/2009. Patents are issued on Tuesdays each week.

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

In class 705/4, 59 new patent applications have been published since 6/25/2009 for a total of 191 so far in 2009. Patent applications are published on Thursdays each week.

The [Resources](#) section provides a link to a detailed list of these newly published patent applications.

A Continuing reminder -

Patent applications have been published 18 months after their filing date only since March 15, 2001. Therefore, the year 2001 numbers in the table above for patent applications are not complete and do not reflect patent application activity in the year 2001. A conservative estimate would be that there are, currently, close to 250 new patent applications filed every 18 months in class 705/4. Therefore, there is approximately that number of pending applications not yet published.

The published patent applications included in the table above are not reduced when applications are either issued as patents or abandoned. Therefore, the table only gives an indication of the number of patent applications currently pending.

Resources

[Recently published U.S. Patents and U.S. Patent Applications](#) with claims in class 705/4.

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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/>

Provides free patent searching, with pdf downloading, search management functions, collaborative document folders, etc.

US Patent Search - <http://www.us-patent-search.com/>

Offers downloads of full pdf and tiff patents and patent applications free

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 Inventors 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>