October 15, 2006 **Vol: 2006.5**

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, ***What's "New"?***, co-editors Tom Bakos and Mark Nowotarski have a dialog on just exactly what "new" means in connection with patents. Sometimes finding the "newness" in a patent is not as easy as one might think.

In our **Patent Q/A** section we address the question of ***Going, Going, Gone, What it is like to sell your patent at auction?*** The answer points out the auction may just be the prelude to the real selling that goes on afterwards.

Pay particular attention to the **In The News** section if you think you are personally safe from a patent infringement lawsuit. If you are utilizing an innovative tax strategy to minimize your personal income taxes you may be surprised to find that someone has a patent on it and you are infringing.

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

What's "New"?

A dialog on the patentability of simple inventions

By: ***Tom Bakos, FSA, MAAA and Mark Nowotarski, Patent Agent, MPA LLC***

TOM: Mark, it is an almost automatic response that for something to be patentable it must be new, useful, and not obvious. We have previously discussed in this newsletter the "useful" and "not obvious" requirements and how these terms may be construed by the US Patent and Trademark Office (USPTO). As used in patent regulation "useful" and "not obvious" have somewhat unique or special interpretations not commonly applied in everyday speech. It is important for anyone who thinks they have made an invention to be aware of how these requirements are applied by the patent office.

We have not, however, addressed what, if anything, special is meant by the requirement that an invention be "new". I guess we have assumed (at least, I have) that newness was self evident and needed no interpretation.

But, I am now wondering if I have been too cavalier about this. Here's why.

On the rare occasion that I am willing to plunk down $2.50 or more for a cup of coffee in shops like Starbucks (interesting name given the prices charged, by the way) it comes in a paper cup with a "cup holder" sleeve around it so my fingers won't get too hot. Styrofoam has been ditched for environmental reasons, I guess. And, it is not just in Starbucks that one gets these cup holders but in every coffee shop. Even coffee served in hotel meeting rooms now comes in paper cups with these cup holders.

They all look the same to me until I look more closely and notice that they're not. I have identified, so far, three different U.S. patents that apply to these seemingly simple cardboard cup holders, US 5,205,473 (D. Coffin); US 5,425,497 (J. Sorensen); and US 5,826,786 (J. Dickert).

How can each of these be new?

MARK: You know Tom, great minds think alike. I couldn't believe you could get a patent on cardboard coffee holders either until I started to do a little research in the patents themselves. Remember, when you want to understand how someone got a patent, you have to get into the details.

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Let's take a look at them.

Coffin's patent is for your standard Starbucks coffee cup holder. It claims a piece of corrugated cardboard that a paper coffee cup can slip into. The corrugations are vertical flutes that are glued together to backing paper using a recyclable glue. So what's new here? A lot of earlier patents talk about using corrugated cardboard as an insulating sleeve for coffee cups. None of them, however, talk about using recyclable glue. It's the glue that's new, and that alone is enough to make the invention patentably distinct from what had been known before.

As far as Sorensen's patent goes, he uses round dimples instead of flutes to make the cardboard stand off from the hot cup. It's not a dramatic difference, but that's all it takes to make his invention new.

Dickert? Well he used dimples like Sorensen, but he preassembles his sleeve and folds it flat. That makes it easy to ship and equally easy for your friendly Barista to pop it open and slip in that double shot mocha soy venti skim late you love so much.

Dickert, by the way, was by no means the last word on cardboard coffee cup holders. At least two more patents have issued since his and another 10 or so applications are pending.

TOM: OK. I have always thought of an invention as a solution to a problem. I guess the details matter and more than one detailed solution may exist for a particular problem. The solutions don't, necessarily, have to be dramatically better from the end user's perspective. And, from the inventor's perspective, there may be a great deal of motivation to invent around one solution to provide another that is, at least, different if not better. And, by the way, I like my coffee black.

A rough estimate is that there are 100 million coffee drinkers in the U.S. each drinking, on average, three cups a day. Even if only a small percentage of these cups of coffee were served in cardboard cups with cardboard cup holders, an inventor with an exclusive position or who can invent around another inventor's exclusive position stands to make a great deal of money.

I note that one of the cup holders in my collection has an indication of foreign patents – one in Great Britain (#2,382,049) and one in Hong Kong (#1,055,927). It's the one cup holder that appears to be generic with respect to brand – there's no printing on the outside.

Do foreign patent offices treat "new" any differently than the U.S.?

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MARK: Absolutely Tom, but it isn't so much a question of "*What* is new?" as it is a question of "*When* is something new and to *Whom*?". I'll talk about the US first because that's the most complicated situation. Then I'll touch on the rest of the world.

The *When* in "When is something new?", refers to when is an invention first conceived. The *Whom* in "To *Whom* is something new", refers to the *US* public. So, for example, if you have an idea for an invention that is new to you, but is "known or used by ***others in this country***" (35 USC 102a) then can't get a patent on it. If it was known or used by others in another country, however, that alone doesn't prevent you from getting a patent (although other things might).

If that seems unfair, you are right. It is unfair. But US patent law isn't meant to be fair. US patent law is meant to promote the general welfare of the US public. If an invention isn't known or used by persons in the US, it doesn't do the US much good. Hence one of the functions of US patents is to encourage the disclosure of information into the US.

This very issue has arisen with regards to the telematic auto insurance patents that Progressive has. The folks at Progressive weren't the first ones to come up with the idea of telematic auto insurance. A Spanish inventor named Salvador Miñon Perez is. He has the European patent to prove it, EP0700009B1: *Method and system for individual evaluation of motor vehicle risk*. That was filed back in August of 1995. Progressive's patents weren't first filed until January of '96. How could Progressive get a patent? Well Salvador's invention wasn't known in the US until his European patent application was published in March of '96, too late to act as a bar in the US.

(You pros out there will say "Hey, what about 35 USC 102g!?". Alas for Mr. Perez, although his application was published in English, he did not file in the US. Tough break!)

For all of the rest of the countries in the world (as far as I know), the situation is much simpler. If an invention is known to the public before an application is ***filed*** (as opposed to when the invention is conceived), then you are barred from getting a patent in that country.

TOM: I see. In the US the "newness" of an invention that is the subject of a patent application is determined as of the date an invention is conceived. In most foreign countries the "newness" of an invention is determined as of the date the patent application is filed.

I also note that one of the patents indicated on one of the cup holders (US 6,863,644) is not really claiming any rights to a beverage container holder although that is what the patent is titled. It is a patent on a method for manufacturing cup holders. I guess that means one can't jump to any conclusion when one sees a patent notification on a consumer product?

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MARK: Absolutely. In fact, you can't jump to conclusions about any patent matter. The details always count. You've got to read the patent to understand what the invention is.

TOM: When delving into this further and actually looking at some of these patents one can find in the patent disclosure of a long listing of references citing prior patents in the general area of these cup holder inventions dating back as far as 1927. Cardboard cup holders may seem like a trivialization of the invention process on the one hand but whenever I have tried to hold a hot cup of coffee without one I realize their great value.

In addition to their actual value, cup holders also have value in making, at least, two other important points about patents:

- not all of the simple stuff has been invented yet; and
- the patent process has worked to stimulate inventors by providing limited exclusivity to practical solutions they have found to a problem.

One last question. Can you put "new" solutions, that is, "inventions" into context with new problems? That is, if a problem hasn't been solved yet because it hasn't existed, does that context place any patent limitations on what is "new"?

In our cup holder example, cardboard cup holders were unnecessary before cardboard coffee cups. Prior to cardboard cups, Styrofoam cups and china cups with handles, for example, served the obvious need to protect the fingers from the heat of the coffee.

In what sense are cup holders wrapped around cardboard coffee cups "new" when they really apply the same principle that the older methods employed to keep finger tips away from hot coffee – insulation?

MARK: Well first off, Tom, let me say that I love that quote, "Not all the simple stuff has been invented yet". Truer words were never spoken. The Court of Appeals for the Federal Circuit put it this way in Demaco v. Von Langsdorff:

> Though technology has burgeoned, the patent system is not limited to sophisticated technologies…nowhere in the statue or the constitution is the patent system open only to those who make complex inventions difficult for judges to understand and foreclosed to those who make less mysterious inventions a judge can understand…

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And so to address your question, applying old principles to find new ways to solve a problem **is** the essence of inventiveness. It's the very activity patents were designed to promote.

Patent Q & A

Going Going Gone

Question: What's it like to sell your patent at auction?

> **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: Auctions are a fascinating way to sell patents. I had the pleasure of attending the Ocean Tomo Intellectual Property auction (http://www.oceantomo.com/auctions.html) on Thursday, October 26 in New York City. A great crowd turned out as very reserved floor bidders and very enthusiastic telephone agents snapped up patents at prices ranging from ten thousand to over a million dollars.

I was hoping I could report on the sale of the first insurance patent at auction. AIG was offering to sell their US patent 6,983,238, "Methods and Apparatus for Globalizing Software". Alas it didn't make its reserve, but perhaps we may hear of its sale in the post auction private negotiations.

What I didn't realize before, was that the auction itself is the first step in the overall sales process. A lot more selling is going on this week in the post auction negotiations as buyers and sellers attempt to conclude deals on patents that didn't meet their reserves. The total sales at these negotiations could easily exceed the volume of sales at the auction.

Ocean Tomo's next auction is scheduled for April 18 & 19, 2007 in Chicago. For more information, see www.oceantomo.com/auctions_upcoming.html

In the News

Tax Strategies?

Applying tax strategies to reduce personal income taxes may draw the attention of the IRS but – you may have to watch out for other tax strategists as well.

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Per recent news articles, the IRS has taken a special interest in patents on business methods which apply or utilize in some way tax strategies. Their basic concern is that a patent issued on such an application of a tax strategy may imply that the tax strategy is somehow approved by the government. This, of course, is not true – a patent on a process does not imply legality.

Working with the USPTO, the IRS in an initial search of patents (in 2004 and 2005) sought to determine if patents had been issued on "abusive tax avoidance transactions" or ATATs. They found none. More recently (in 2005 and with periodic updates) the IRS identified 300 patents which included the word "tax" – about 100 of these were business method patents. Of the 100, only 14 were in the area of employee compensation, wealth transfer, and financial products and did not involve a software model. Patents on software models involving the application of tax strategies were considered by the IRS to be prima facie OK. And, of these 14, none were found on closer examination to be abusive.

We hope to address the patenting of tax strategies in more detail in later issues of the Bulletin. Current estimates indicate that there are over 60 patent applications involving tax strategies currently pending in the USPTO.

But, the thing is that it is not only the IRS that should be looking at patents on tax strategies. And, it is not even only insurance companies or other types of companies that depend on tax strategies in their business who ought to be paying attention. Remember, you can infringe a patent by making, selling, or using a patented technology and tax strategies are typically utilized by individual tax payers to reduce their tax burden.

Dr. John W. Rowe, President And CEO Of Aetna U.S. Healthcare, found out in January, 2006 that two trusts his advisors had funded with nonqualified stock options may have infringed on a patent assigned to Wealth Transfer Group, LLC when they sued him for patent infringement because they though he was using their patent without paying royalties.

Wealth Transfer Group alleged that Rowe's trusts used the patented business method, a so-called "Grantor Retained Annuity Trust" (GRAT), that infringed their US Patent 6,567,790, titled *Establishing and managing grantor retained annuity trusts funded by nonqualified stock options.* The patent was filed on December 1, 1999 and granted on May 20, 2003.

One estimate of the value Rowe has in these trusts is in the neighborhood of $28 million which, clearly, makes him an attractive target.

Given the prevalence of the use of tax strategies to minimize taxes and the patent activity in this area, it would be wise to be aware of whether or not the methods you use personally, or that you advise others to use either in the role of tax advisor or insurance company are carefully researched. This research should aimed at not only a desire to avoid tax strategies considered abusive by the IRS but also to avoid methods or processes that use tax strategies which have been patented.

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Either that or your disclaimer ought to be expanded so that you won't be held responsible for advising clients into a patent infringement lawsuit.

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 10/17/2006		
	Class 705	Subclass 4
YEAR	#	#
2006	1,805	37
2005	1,453	30
2004	997	23
2003	969	21
2002	887	15
2001	880	19
2000	1,062	29
1999	1,005	36
1998	745	20
1978-1997	2,778	47
1976-1977	80	0
TOTAL	12,661	277

Published Patent *Applications* as of 10/19/2006		
	Class 705	Subclass 4
YEAR	#	#
2006	4,834	134
2005	6,300	148
2004	5,590	156
2003	6,009	128
2002	6,135	164
2001	1,326	30
TOTAL	30,194	760

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, 7 new patents with claims in class 705/4 have been issued. All 7 of these 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:

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 either issued as patents 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/
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

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