The rise of patent lawsuits in the mobile payments arena

Companies large and small are rushing to develop new products and technologies to net their share of the $1 trillion of projected value in mobile payments. But this enthusiasm may be dampened by a number of patent infringement lawsuits in the US directed towards the mobile payments industry, which could limit the very innovation that has defined the industry so far. Erin Fonté and Charles Salmon, of Cox Smith Matthews Incorporated, discuss the trends so far and the moves by the big players looking to limit their liability and expand their patent portfolios in what is set to be a highly lucrative market.

Mobile payments technologies using either near-field communication ('NFC') technology or existing technology (bar codes, QR codes, cloud) may be at an adoption tipping point in the U.S. and abroad. A number of mobile payments products, such as Square (for merchant card processing), and the Starbucks app (for POS purchases at Starbucks locations) have launched within the last few years. Mobile wallet offerings that seek to replace the physical wallet and 'revolutionise' mobile payments have been launched by Google (Google Wallet), ISIS (a consortium of U.S. telecoms, card associations and big banks), and PayPal (PayPal Mobile Wallet). U.K. telecoms sought to follow suit with 'Project Oscar,' a proposed joint venture between T-Mobile, Orange, O2 and Vodafone, but launch plans for the London 2012 Olympic Games were put on hold and the project is currently under investigation.

And rumors are currently circulating that Apple's iPhone 5 will include NFC technology. Such an addition to Apple's popular iPhone would be akin to a cannonball in the pool of mobile payments - Apple has northward of 220 million iTunes accounts ready to grow into something more.

And why is all this money and effort being directed toward the mobile payments arena? The prize for owning a widely adopted mobile payments technology is revenue from a large portion of the projected $1 trillion value of m-payments worldwide that should be reached by 2014[1].

New Specter of Patent Infringement Suits

A lot of ink has been spilled with regard to mobile payments and mobile wallets regarding legal and regulatory issues, which company or companies will 'own the customer' and how to get merchant buy-in for use at the POS. In short, there is a lot of focus on the 'payments' aspect over the 'mobile' (i.e. technology) aspect. But like many cutting-edge technologies before it (personal computers, smart phones, tablets, social media), mobile payments are now dealing with the first round of patent infringement lawsuits in U.S. federal courts. As of the time of this writing, at least three different plaintiffs have brought suits asserting at least nine different issued patents.

Maxim Integrated Products, Inc. ('Maxim'), filed suits against a slew of defendants, including Starbucks, Expedia, Inc., Capital One Financial Corp., and Bank of the West. The Maxim litigation involves a collection of four patents, which are relatively aged in comparison to mobile payment technologies, but could be construed as applying to mobile payments (e.g. 'method, apparatus and firmware for secure transactions.') Although the Maxim patents issued more than a decade ago, it does not appear that the company practices in the mobile payments arena. But that fact alone does not render their suit without merit.

Mitek Systems, Inc. ('Mitek Systems') and the United Services Automotive Association ('USAA') sued each other regarding five patents for 'mobile deposit' technology. These suits are particularly interesting as USAA hired Mitek Systems as a third-party vendor, and claims that Mitek Systems actually used confidential information received from USAA in developing Mitek System's technology which is embodied in the patents at issue.

On Track Innovations, Ltd. ('OTI') sued T-Mobile USA, Inc. ('T-Mobile'), regarding its patent that may encompass any and all forms of NFC technology. The OTI patent is for 'contact/contactless data card,' and OTI alleges that T-Mobile devices using NFC infringe this patent. The OTI Litigation may be especially interesting to follow because it appears to be targeted at a patent for what is being pitched as an acceptable and secure mobile payments industry standard. OTI could very well have tons of new plaintiffs to sue if NFC gains widespread deployment and adoption.

These cases present several challenges to defendants, and potentially to the development of mobile payments overall. Under U.S. patent law, a successful plaintiff is entitled to recover damages in an amount not less than a 'reasonable royalty' on the infringing use, and perhaps an ongoing royalty for future infringing use throughout the life of the patent. Calculating such royalties is complicated under U.S. law. Calculation of damages is made even more complicated where the patented technologies are not sold directly, but are used in connection with the sale of other products, such as coffee in the Maxim litigation against Starbucks (although damages may be assessed on the products that are sold by the alleged infringer and facilitated by use of the technology).

Plaintiffs actually practicing in the field of a patent may recover 'lost profits' upon a showing of lost or diverted sales or revenue, and may even obtain an injunction against further practice of an invention if they can demonstrate that infringement causes them to suffer an injury that cannot be rectified through payment of money. Success of plaintiffs actually practicing in the mobile payments field may present a special concern to the growth of mobile payment systems. Competitors of these successful plaintiffs may be forced to enter into negotiations with patent holders to continue development and use of technologies in the mobile payment area, or 'design around' asserted patents.

In addition, the high costs of litigating patent suits present significant issues for defendants. According to the 2011 American Intellectual Property Law Association's Report of the Economic Survey, the average cost to litigate a patent infringement suit with between $1 million and $25 million at stake was approximately $3 million[2]. These costs serve as a strong incentive for defendants to settle cases early on, and may impact the business projections of companies seeking to enter the mobile payments field.

Compounding problems associated with the costs of litigation, patent infringement suits remain largely uncertain well into the litigation until a Markman hearing (named for the case that gave rise to the institution of such hearings, Markman v. Westview Instruments, Inc., 517 U.S. 370 (1996)) is held to determine the meaning of the claims of the patent or patents in issue. The Markman hearing can occur potentially years after an action is originally filed.

The Next Area for Patent 'Trolls'?

The patent suits discussed in this article reveal a rather familiar character in U.S. patent litigation: the 'patent troll'. 'Patent troll,' or assertion of a 'submarine patent,' refers to patent plaintiffs who do nothing else with their patent(s) aside from extracting licensing fees and/or filing suit. Patent defense counsel might argue that some of the plaintiffs discussed above are 'patent trolls', especially those not actually practicing in the mobile payments field. 'Patent troll' is normally reserved for entities with no real business model outside of patent assertion, but thus far, the plaintiffs in mobile payments patents have all been entities that practice in at least some technology area.

Though legitimate litigants, 'patent trolls' often rely largely on the high costs of patent-related litigation to 'urge' settlement and licensing fees. The typical patent troll *modus operandi* includes: ownership or exclusive licensing of a portfolio of patents in a given field; sending out demand letters to a large number of potential infringers making a licensing or settlement demand that is at a figure well below the typical costs of litigation; collecting voluntarily from some alleged infringers; and then suing the rest in a single action, in a forum of the patent plaintiff's choosing.

Patent trolls have historically been somewhat attracted to suits concerning emerging technologies, likely due to the number of patents that may be newly infringed whenever large-scale new technology is commercially deployed and adopted. If the currently pending suits achieve any success, it is likely that a host of other patent disputes may arise regarding mobile payments technology. The patents at issue need not directly read on any technology directly related to payments, but may include claims broad enough to conceivably encompass some aspect of mobile payments technology.

A result of patent suits of this nature is that innovation and mass-deployment may be chilled within the U.S. (and even abroad) as companies, including retailers, hesitate to expose themselves to liability in replacing existing systems that do not carry the specter of an infringement claim.

A High-Profile Test of The 'America Invents Act'?

The concern that patent trolls may at times render the patent system somewhat of a hindrance to innovation was the impetus for the recently enacted Leahy-Smith America Invents Act (the 'AIA'). The AIA addresses these concerns in two main ways: first, by making it more difficult to join many defendants in a single action, or consolidate actions against multiple defendants; and second, by mandating that the U.S. Government Accountability Office ('GAO') report to Congress so that Congress may evaluate whether further steps are needed to curb this type of litigation.

The U.S. Court of Appeals for the Federal Circuit (the highest federal court specialising in patent issues) recently stated in *dicta in Opinion on Writ of Mandamus*, In re EMC Corp., 10-CV-435 (Fed. Cir. May 4, 2012), that although patent infringement suits may not be joined as specifically prohibited in the AIA, very little actually precludes district courts from consolidating separately-filed suits if they desire to do so. So it remains to be seen whether the most critical provisions of the AIA will actually survive judicial scrutiny and practice.

Protecting Mobile Payments Through IP Purchases

Recently, a number of large technology, cloud and social media companies have made large Intellectual Property (IP) purchases both to enhance their own portfolios and to avoid being sued as they roll out new technologies. Google recently went on a patent spending spree, highlighted by the $12.5 billion acquisition of Motorola Mobility, Inc., which was in part to obtain ownership of Motorola's sizeable mobile patents portfolio. Google has also recently added more than 1,000 patents formerly held by IBM. A group led by Apple (and including Microsoft, Research In Motion, Ericsson, and Sony) recently purchased bankrupt Nortel Network's mobile-heavy patent portfolio in a transaction for over $4 billion. Even the non-tech players in the payments sector are undertaking patent-driven acquisitions. Greendot Corporation (the largest distributor of prepaid cards in the U.S.) recently purchased Loopt, Inc. for nearly $45 million, in large part to obtain Loopt's mobile payments patent portfolio, including patents related to geo-location advertising.

Although it remains difficult (if not impossible) to predict the number and nature of patents that might be asserted in the field of mobile payments, these mass purchases may allow the largest players to avoid suits not only from a patent troll, but also each other. And they can now enter into

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patent cross-licenses to ensure the uninterrupted development and deployment of their inventions. Long term, large tech firms may find that their patent portfolios function as a shield, as well as a sword. In particular, holding large patent portfolios may prevent the smaller entities from bringing patent suits against the portfolio holders.

Taking a Lesson From Data Treasury

Currently, mobile payments are expanding at a great rate both within the U.S. and internationally, but such rapid expansion could be slowed by one or more patent-related actions. If the lawsuits discussed in this article prove successful, it may be worthwhile as a long term solution (or at least partial solution) for companies entering the mobile payments space to aggressively seek IP protection for their inventions and purchase available IP to avoid ending up as a patent defendant.

IP issues in the banking / payments world is not new. Bankers reading this article may shudder as they remember the series of demands, lawsuits and settlements involving a U.S. company called DataTreasury who asserted patent rights with regard to electronic imaging of paper checks. Data Treasury owns patents for secure paper check image capture and storage. The company has a patent portfolio relating to these technologies which it is has been enforcing since 2002 through several patent infringement lawsuits and demands directed at numerous banks it alleges infringed its patents. Some banks fought back, but many more settled. At the heart of Data Treasury's patent claims is check image-capture and sharing technology that manages hundreds of billions of paper checks written each year. As of June 14, 2011, Data Treasury had earned over $400 million in settlements, jury verdicts and royalties from its aggressive patent suit strategy[3].

Conclusion

Mobile payments and mobile wallets represent the giant leap in P2P, P2B and B2B transactions. However, as this area continues to evolve, companies should, in addition to legal and regulatory issues from the payments/banking side, also take heed of the patent and IP issues from the technology side. Although patent infringement litigation is not a new growing pain for emerging technologies, it is one that the mobile payments sector may soon face, and crafting appropriate strategies to address these issues may be vital to the efficient roll-out, adoption and success of these systems.

Erin Fonté Shareholder and Payments Lawyer
Charles Salmon Associate and IP Lawyer
Cox Smith Matthews Incorporated
efonte@coxsmith.com
csalmon@coxsmith.com

1. Juniper Research.
2. See "2011 AIPLA Economic Survey," American Intellectual Property Law Association, available at: http://www.aipla.org/learningcenter/library/books/econsurvey/Pages/default.aspx
3. See Edward Wyatt, "Banks Turn To Schumer on Patents," New York Times, June 14, 2011, available at: http://www.nytimes.com/2011/06/15/business/15schumer.html?pagewanted=all